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Address by the Comptroller General of the United States,
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"BUDGET REFORM AND OVERALL EXECUTIVE MANAGEMENT"

About a year ago I appeared before this Institute and discussed
some of the recent developments in program planning and appraisal in
the Federal Government. Since that time the well publicized study of
the President's Commission on Budget Concepts has been completed. I *D 1208*
was privileged to serve as one of the 16 members who constituted the
Commission. Undoubtedly, the recommendations made by the Commission
in its October 1967 report to the President will start in motion changes
in governmental budgetary and accounting concepts and management practices
which will have considerable impact over a period of years.

MILESTONES ALONG THE BUDGET REFORM TRAIL

During the approximate first 150 years following the nation's
founding, financial control procedures in the Federal Government were
simple fund procedures because only very limited expenditures were
required. As the nation grew, budget and revenue problems increased in
number and complexity, especially in time of war. Although World War I
called forth heavy Federal expenditures, in terms of standards of that
day, the financial control problems of the government were still small
as late as 1930. At that time, the Federal debt was about \$16 billion
and annual Federal expenditures about \$3 billion.

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Prior to 1921 there was no one agency responsible for preparation of an organized budget for the Federal Government as a whole. Under the fiscal procedures then in existence each agency prepared an annual estimate of funds required. The agency estimates were then brought together in a "book of estimates" by the Secretary of the Treasury and presented directly to the House of Representatives.

With the advent of counter-depression measures during the 1930's and the later large expenditures of World War II the present day structure of the Federal budget and the form of present budgetary practice began to take shape.

With this preliminary, let me give you in capsule what I consider to be the major milestones in changing Federal budgetary practices during the approximate past 50 years of our nation's existence.

- The Budget and Accounting Act of 1921 made a number of important changes in the financial management of the Federal Government, most of which are still in operation. The most significant changes were: (1) the establishment of a national budget system by creating the Bureau of the Budget in the Department of the Treasury, administered by a Director responsible only to the President. (2) the establishment of the General Accounting Office under the administrative direction of a Comptroller General, responsible only to the Congress, including provision that the GAO make independent audit of the Government's financial transactions, with reports submitted directly to the Congress.
- Transfer of the Bureau of the Budget to the Executive Office of the President by executive order in 1939 was a move to improve and strengthen fiscal control by the President over the executive branch of the Government.
- Government Corporation Control Act of 1945 required the President to (1) include in his annual budget document "business-type" budget estimates for all wholly-owned Government corporations and (2) the Comptroller General to audit the financial transactions of these corporations.

- The Budget and Accounting Procedures Act of 1950 provided substantive changes in budgeting and accounting practices in the Government resulting from recommendations of the Hoover Commission on Organization of the Executive Branch of the Government.
- Cost-Based Budgets and Accrual Accounting under Public Law 84-863 of 1956, was a further response by Congress to the recommendations of the second Hoover Commission for improvements in budgeting, appropriations procedures, and accounting. In essence this law required (1) agencies to develop their requests for appropriations from cost-based budgets and (2) each agency maintain its accounts on an accrual basis, in accordance with principles and standards prescribed by the Comptroller General.
- Installation of Planning-Programming-Budgeting (PPB) Systems in 1965 by Presidential memorandum directed heads of executive departments and agencies to install, government-wide, planning-programming-budgeting of the type that was begun by the Defense Department in 1961.
- Report and Recommendations of the President's Commission on Budget Concepts, October 7, 1967, contained 12 major recommendations with reference to the concepts of the annual budget and related financial reports, and some additional recommendations with regard to presentation and revision of budget estimates. One of the major changes recommended involved presentation of the budget on a unified basis. The Budget for fiscal year 1969 presented as a unified budget thus superseded the competing budget concepts (the administrative budget, the consolidated cash budget, and the national income accounts budget) followed in prior years.

When viewed in perspective, the study and recommendations of the President's Commission on Budget Concepts is but one -- albeit an important one -- of improvements to enhance the financial management of American public affairs.

IMPLICATIONS OF THE BUDGET COMMISSION'S RECOMMENDATIONS

The primary thrust of the Commission's basic recommendations was adoption of a unified or single summary budget statement to include data on budget appropriations, receipts, expenditures, net lending, and financing. As I stated, the 1969 budget was presented in the unified format recommended by the Commission. The Commission's essential recommendations were that:

- There be a single Federal budget concept for all purposes.
- The budget include all programs of the Federal Government and its agencies.
- Receipts and expenditures be stated on an accrual basis, i.e., as earned and as incurred, rather than on a cash basis as used in the past.
- Loans be differentiated from all other expenditures.
- Sales of participation certificates in loan pools be treated as a method of financing rather than as a deduction from expenditures.
- Receipts be treated as offsets to expenditures to which they are related.

Of interest to all of us who have been in the budget field for some time is the care taken by the Commission to affirm the importance of the congressional appropriation process as the focal point in the allocation of resources among the various Federal programs. Of interest also is the Commission's strong endorsement of:

- The Planning-Programming-Budgeting (PPB) system approach to budget preparation and review, and
- The budget presentation process, including presentation by agencies first to the Bureau of the Budget and subsequently before the appropriations committees of Congress, thereby providing disclosure of all information needed for making sound program decisions.

The Commission's recommendation

-- that budget expenditures and receipts be reported on an accrual basis instead of the present cash basis --

is a logical step. Conventional accrual accounting has long been used by private enterprise. This recommendation will require Federal agencies to use modern financial accounting and cost accounting systems, providing a more accurate measure of the effect of Government activities on the economy than ever before.

The Commission further recommended that the plan for reporting on an accrual basis be carried out beginning with the FY 1971 budget which will be presented by the President to the Congress in January 1970. Most Federal agencies plan to start internal data gathering and testing on a monthly basis by July 1, 1968.

In setting the timing for reporting on an accrual basis, the Commission on the one hand took an optimistic view on the status of accounting systems development in the Federal agencies. On the other hand, the Commission expressed concern that the Department of Defense, because of the size and nature of its programs, would require more time and encounter more vexing problems in converting to a full accrual accounting basis than would other departments and agencies. This situation may exist also in the Department of Health, Education, and Welfare.

Members of my staff are working closely with staffs of the Budget Bureau and Treasury to furnish agencies with guidance and assistance necessary to bring about full accrual accounting and reporting within the time recommended by the Commission.

The implications of the President's action in approving the Commission's recommendations are far-reaching. For those of us who have worked in the field of budgeting for a long time, the Commission's accomplishment is almost unbelievable. That there was virtual unanimity on all major recommendations from a Commission made up of diverse backgrounds--members of Congress, economists and financial experts--makes the accomplishment all the more remarkable. A common definition of expenditures, a single and all-inclusive budget concept, and a definition of activities for which expenditures will be offset by receipts, make the budget more comprehensible than ever before, a document which will invite more intelligent public debate and congressional review.

ACCOUNTING SYSTEMS IMPROVEMENTS

The Budget and Accounting Procedures Act of 1950 vests in the Comptroller General four responsibilities pertaining to accounting in the Federal Government:

- Approving accounting systems that are adequate and in conformity with prescribed principles, standards, and related requirements;
- Prescribing accounting principles, standards, and related requirements;
- Cooperating with Federal agencies in the development of their accounting systems; and,
- Reviewing and reporting on agency accounting systems.

The General Accounting Office has prescribed accounting principles and related requirements for Federal agencies. And, for a number of years, GAO has committed a substantial proportion of its manpower to carrying out the three remaining responsibilities.

Over the 18 years since the passage of the Budget and Accounting Procedures Act, progress in improving financial management systems--including accounting systems--has been disappointingly slow in many areas. However, because of the current interest and efforts by many persons, both within Government and outside, the tempo of improvements has been accelerated greatly.

Several months ago I testified before a Subcommittee of the Committee on Government Operations, House of Representatives, on the rate of progress being made (or not being made in some cases) by Government agencies in meeting the requirements of the 1950 law. I reported to the committee that during the past two years, executive agencies by and large have made considerable efforts and noteworthy progress in improving their accounting systems. I reported also that there is increasing realization among agency officials that adequate accounting systems can provide management with cost and other data necessary to effectively plan and control operations.

I believe we now have a general recognition of the need of approved accounting systems. Let me cite a few evidences. The President issued a strong statement of policy in 1965 calling for renewed emphasis and efforts in the improvement of financial management practices. The House Government Operations Committee recently released a report in a similar vein. The GAO has increased the staff assigned to work with the agencies three-fold over the past two years.

As in so many other areas, we at GAO believe that progress will depend upon a greater degree of cooperation and mutual understanding of the problems of the GAO and the operating agencies in obtaining approval of accounting systems. The fact that only about 1/3 of the approximately 170 accounting systems have been formally approved by the Comptroller General is testimony to this point.

We have had to recognize that the systems are becoming increasingly complex. We have taken steps to improve training with the knowledge that good systems cannot be developed and maintained without competent, professional personnel. And we are now approving the systems in three stages--principles and standards, design, and operation--hoping thereby to eliminate disagreements at their inception and avoiding unnecessary rework on systems which have been developed and formally submitted for GAO approval.

THE NEW "QUANTITATIVE" TECHNIQUES AND SYSTEMS MANAGEMENT

A most pervasive phenomenon of the current era is the proliferation of sophisticated techniques, methods, information systems, and so on ad nauseum, which are offered to managers as aids to decision making. Some of the people who have worked on scientific decision methods have lumped the whole thing under the heading Decision Theory. This is erroneous labeling since the bundle of techniques, etc. are not a single, consistent theory of how to make decisions but rather a collection of techniques, methods, and media for weighing and evaluating various factors underlying two or more possible courses of action. According to others, "decision theory" or "systems analysis" or "systems management" or whatever labeling is fashionable at the moment, is simply the application of

computers and mathematics to problems in a way to reduce all issues to quantitative decision rules.

I am sure you can agree with me that when used properly the technology of information handling, communications, controls, and related developments can be applied in ways that not only can change the process of management itself but can extend the range of man's capabilities. For example, alert businessmen and government administrators are using this technology, computer assisted in most instances, in the operations research areas for building mathematical models to solve organization problems; for simulating varying results under decision alternatives; and for gaming theory applications to competitive strategies under industrial and other non-military as well as national defense circumstances.

I spoke about the extension of PPB systems to Federal departments and agencies. Let me carry the discussion on PPB a bit further to stress the importance of use of "systems management" technology in the Federal Government.

As the first step, PPB calls for careful review of the basic objectives of each major area of activity. It requires Federal agencies to look at the programs they are carrying on, as well as proposed programs, to ascertain their objectives. The next step is to determine what is being or will be accomplished. Total costs of programs must be measured, not only for one year but for several years ahead. And the next step is to compare alternatives, seeking those programs which offer the greatest effectiveness in achieving basic objectives or which will achieve those objectives at the least cost.

Information developed by the departments and agencies under the PPB system was used in the spring preview of the 1968 budget, held late in fiscal year 1966, laying the groundwork for more effective development and application of the system in the future.

Progress achieved with PPB systems so far has been spotty, due, in part, to differences in the extent to which agencies have worked out means of adopting and using PPB and, in part, to the difficulty of the substantive questions involved. According to the Director of the Bureau of the Budget some of the major problems are:

- Maintaining the tight schedule required.
- Developing experienced staffs (also, I might add, in recruiting them).
- Obtaining relevant information.
- Defining program benefits in concrete and specific ways.
- Convincing agency officials of the utility of PPB.

The evaluation of alternative goals and the identification of the best means of achieving the goal selected will take time. These are difficult problems. But the most valuable feature of the PPB system is that it brings problems to the surface and sets in motion the required chain of problem-solving events.

There are signs of increased interest in the Congress in GAO's being able to provide technical assistance to congressional committees in making or reviewing cost effectiveness studies of Government programs. To strengthen GAO's analytic capabilities, we recently established a new systems analysis group in our Office Of Policy and Special Studies. We obtained the services of an experienced systems analyst to head this group, provided university training in systems analysis to various members of our staff, and have provided in-house and other training in PPB to many other staff members.

We believe that this training will enable GAO to make analysts available to congressional committees, to conduct studies for the committees, and to make greater use of agency studies in our audit work. Currently, we are making a comprehensive survey to determine the extent of PPB capability in executive agencies.

I note with considerable interest that some of the State and local governments are using "systems analysis" approaches to solution of some of their major problems. For example, in 1965 California undertook systems engineering studies in four areas: transportation, crime prevention, data handling, and waste management. More recently New York State has been designing and developing a computer-based criminal identification and intelligence system. And a most exciting application has been undertaken by the City of San Francisco in using the system analysis approach to planning its urban renewal program.

THE COMPUTER AND INFORMATION PROCESSING

It is virtually impossible to discuss accounting and other information systems without saying at least a few words about the impact of the computer. Use of electronic computers for accounting purposes now varies widely among Federal departments and agencies. Some use computers extensively in their general accounting systems as well as in their cost accounting systems. Some make little, if any, use of them. But the day is not far off when the accounting systems of all large agencies will be maintained on computers.

A recent census shows that approximately 4,000 computers were being used by Federal agencies at an annual cost of approximately \$1.5 billion. These totals exclude computers used and costs incurred in certain military and classified activities and by Government contractors. Including these costs, the total amounts to more than \$3 billion a year.

The need for improved information to control expenditures for computers becomes increasingly important as improvements in computer and communications technology are put to use. Steps already taken by the Bureau of the Budget to develop a management information system for the automatic data processing (ADP) activities of the Government are carrying us in the right direction. Sharing and hence better utilization of ADP resources has increased during the past few years under the General Services Administration sharing program.

We at GAO currently are engaged in two Government-wide studies relating to the management and use of ADP facilities and expect to make our reports to the Congress in the near future. One relates to the various computer utilization concepts that have evolved over the past few years. These range from simple batch-type processing to real-time, multi-programmed, or time-shared systems which serve many users. We believe that, as "third-generation" and communication systems grow, the concept of sharing large data bases and programs should develop to a significant degree. Only through the greatest coordination of effort on a Government-wide basis, or, at least, on an interagency basis will we avoid extensive duplication of effort in designing and redesigning systems.

Another Government-wide study which we are making is concerned with the compatibility of data processing systems. In this study, we are looking toward ways and means of providing automatic interchange of data and programs between computer systems, concentrating on specific problem areas that have arisen because of a lack of standardization or compatibility.

In spite of constructive steps taken in the past few years, we believe that more attention must be given to improving the management of data processing within Federal agencies. The GAO plans in its future programs to devote more attention to agency data processing management, particularly in the major agencies.

PROBLEMS AND OPPORTUNITIES IN FEDERAL-STATE-LOCAL RELATIONS

I have purposely talked thus far about financial management at the Federal level. This seems appropriate because the manner in which the Federal Government plans and manages its fiscal affairs has a most profound effect upon all other public and private economic and social activities in the country.

A large segment of public expenditures is represented by Federal grant-in-aid programs to State and local governments. The Bureau of the Budget estimates these expenditures for fiscal 1968 at \$18.4 billion and for 1969 at \$20.3 billion. Conservatively, we can expect grant-in-aid expenditures to rise to an annual rate of \$60 billion by 1975. The magnitude of this growth is even more astounding when we remind ourselves that ten years ago Federal financial assistance to State and local governments amounted to \$4 billion a year, and just five years ago amounted to only \$8 billion a year.

There is no consensus on the number of federal-aid programs. The most frequently cited current estimate is that there are statutory authorizations for over 400 separate programs. It is further estimated that the programs are administered by 21 departments and agencies, and 150 bureaus and divisions.

Programs are carried on in each of the fifty states. Nearly 92,000 units of local government, each with its own taxing, planning, financing, and operating authorities, are eligible for grants in aid under one or more Federal programs.

This seemingly endless number and variety of programs has created perplexing problems, to say the least. Funds for job recruiting can be obtained from nine manpower program sources, for adult basic education from ten, for prevocational training and skill training from ten, and for work experience from five. On-the-job training can be financed under five programs. Income maintenance is available under nine programs.

The proliferation of these programs has presented the Federal Government as well as the states and local governments with multiple problems of administration and financial reporting. Eligibility rules, application procedures, allocation formulas, expiration dates, and contracting arrangements all vary.

Take the case of a city which wanted to build a river-front park. It found money available under four different Federal programs--the open-space program, the outdoor-recreation program, the beautification program, and the parks-development program. Even after making the choice that appeared to offer an advantage, the city was still uncertain as to whether it might have made a better choice.

On March 17, 1967, the President sent a message to the Congress entitled "Quality of American Government" in which he called specific attention to the administrative problem of managing grants and directed that steps be taken to remedy the situation. A task force was formed to develop a plan to do this. As a result of its work a bill was introduced into the 1st session of the 90th Congress on August 28, 1967 (H.R. 12631) to provide temporary authority to expedite procedures for pooling of grants at the State and local levels. Work of the bill was not completed in the 1st session. A similar bill was introduced also in the second session on February 16, 1968 (S.2981). The bill is entitled "Joint Funding Simplification Act of 1968", and provides enabling legislation to permit pooling of funds from grants of more than one Federal agency. The bills currently are under consideration by committees of the Senate and House. However, these bills deal with only a small part of the problem.

Over the past several years, the Intergovernmental Relations Subcommittee, of the Senate Government Operations Committee, has studied the problem of Federal-local relations. This committee has called attention to the many problems existing in the Federal Grant system. The advisory Commission on Intergovernmental Relations has also highlighted the needs for some simplification of the Federal grant program.

So much for the problems and some of the preliminary work toward solution. What lies ahead? The Joint Financial Management Improvement Program, a Federal Government-wide cooperative effort of which I am coleader along with the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Chairman of the Civil Service Commission, is establishing a project at an early date to conduct a study and to develop recommendations for improvement and simplification of the general administration and financial management of Federal grants-in-aid to State and local governments.

This would include efforts to develop recommendations for grantee accounting procedures common to all granting agencies, single audit by a cognizant agency, and a reduction in reporting requirements through simplification, combination or elimination of existing reports. The study would cover eight agencies of the Federal Government handling the preponderance of Federal grants-in-aid, e.g., the Department of Health, Education, and Welfare, the Department of Housing and Urban Development, the Office of Economic Opportunity, etc. The project or study team is expected to visit a representative number of State and local governments to ascertain their problems as recipients of grants.

I might also suggest that the future should see more activity by State and local governments, individually and in concert, in the following areas:

- Better determination of needed programs, the resource requirements, and levels of expenditures.
- Improvement in the total financial management and reporting of all resources employed.
- Increasing contacts with and assistance to private industry and institutions in initiation and development of economic and social development programs.

CONCLUSION

This has been one man's panoramic view of the action on several major budgetary and financial management fronts. Perhaps in this broad sweep my view has oversimplified some complex developments and unduly magnified others which are relatively uncomplicated.

I have attempted to stimulate you to thinking both about the magnificance of challenge in this era as well as about the awesome responsibility that accompanies leadership. This paradox of our time was aptly expressed for another time and another society a century ago, by Charles Dickens. In a Tale of Two Cities he wrote:

"It was the best of times, it was the worst of times,
it was the age of wisdom, it was the age of foolishness;
it was the epoch of belief, it was the epoch of incredulity;
it was the season of light, it was the season of darkness;
it was the spring of hope, it was the winter of despair."

Although you do not and cannot comprehend the future any better than the rest of us, I have the utmost confidence that you are developing the knowledge and the experience to make the sensible judgments so sorely needed in this rapidly changing world.