JFMIP

The Proceedings of the 22nd Annual Financial Management Conference

Challenging Government with Better Financial Management

JOINT FINANCIAL MANAGEMENT
IMPROVEMENT PROGRAM

Thursday, April 1, 1993

Contents

Foreword

The Joint Financial Management Improvement Program (JFMIP) sponsors an annual conference to address current issues in financial management policies and practices within the government. On April 1, 1993, the 22nd annual Financial Management Conference was held on "Challenging Government with Better Financial Management." As part of JFMIP's mission to disseminate this information and to enhance the spirit of cooperation among financial managers, we are publishing the conference proceedings.

The conference was opened with remarks by Virginia B. Robinson, Executive Director, JFMIP, and by Donald H. Chapin, Assistant Comptroller General for Accounting and Financial Management, U.S. General Accounting Office. The morning program featured a plenary address by Edward J. Mazur, Controller, Officer of Federal Financial Management, Office of Management and Budget.

Conference keynote addresses were presented by Roger C. Altman, Deputy Secretary of the Treasury, and Alice M. Rivlin, Deputy Director, Office of Management and Budget.

Charles A. Bowsher, Comptroller General of the United States, and E. John Prebis, Chief Financial Officer of the Office of Personnel Management and Chair of the JFMIP Steering Committee, presented three individuals with Donald L. Scantlebury Memorial Awards for leadership in financial management improvement.

Four panel sessions were presented which covered the topics of Development of Human Resources in Financial Management, Information Technology: Tools for Management, Making an Impact with the Audited Financial Statement Process, and Accountability Reporting—The Wave of the Future for Program and Financial Managers.

Acknowledgements

The Joint Financial Management Improvement Program would like to thank all those who participated in this year's conference. We especially thank those individuals who worked behind the scene to ensure that the conference was run smoothly and successfully.

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Chapter 1
Plenary Session
Opening Remarks by Virginia Robinson

Virginia B. Robinson
Executive Director, JFMIP

Good morning. I am Virginia Robinson, Executive Director of the Joint Financial Management Improvement Program. It is, indeed, a pleasure to welcome all of you to our 22nd Annual Financial Management Conference.

In reviewing the registration list last evening, I found that we have a very good mix of representatives here from the public and private sectors in accounting, auditing, budgeting, and other areas of financial management. I was really pleased to see that we have very good representation from what we call the operations community—the accounting and budget operations people. They are the individuals who put out the fires in the agencies, those who work the extra long hours for the functions that are absolutely essential for each agency.

We also have very good representation here today from the Information Resources Management community. We are very pleased with that because we know that for any good comprehensive financial management improvement program, we will be dealing with information technology and other aspects of IRM.

The last attendees that I especially want to mention are the program managers. They are well represented here today. That is very heartening. You may recall that at our last conference we talked about the importance of improving communications between program and financial managers. We are really pleased to see that some of you did the outreach work that resulted in some of your program managers being here today.

Our theme for the conference, *Challenging Government With Better Financial Management*, is related to many of the things that you have been hearing about improving financial management and thereby changing the course of government for the better. We anticipate that the program today will serve as a catalyst to stimulate action in all of us, action to really meet the challenges that we are being asked to meet to improve financial management.

I think all of us recognize, from the President and the Congress on down, that we are being asked to improve government at all levels, and we are going to be challenged from all avenues to have better financial management, as well as management for other aspects of government.

We are fortunate today to have a very strong program. Right along with our theme, we have put a program together with excellent speakers. Our first speaker this morning will give us a special address. The Controller of the Office of Federal Financial Management will speak to us, and he will give us an overview and an update on federal financial management.

Our keynote speakers this afternoon will be the Deputy Secretary of the Treasury and the Deputy Director of the Office of Management and Budget. Mr. Roger Altman and Ms. Alice Rivlin are certainly well positioned to talk to us about the vision for changes in America and to talk about some of the priorities that will have a direct and indirect impact on what we do in government.

Our program today has four workshops. There will be two concurrent workshops this morning; one on human resources development, which we all know is certainly an important area for being able to make improvements in financial management; and a workshop on improving technology tools for management. Managerial tools are so important and vast today that we decided that the workshop should be held in the morning and also continue in the afternoon. It is not a repeat. The morning and afternoon sessions are different programs with different speakers. There will be content in the workshop program for the accounting and the IRM professionals.

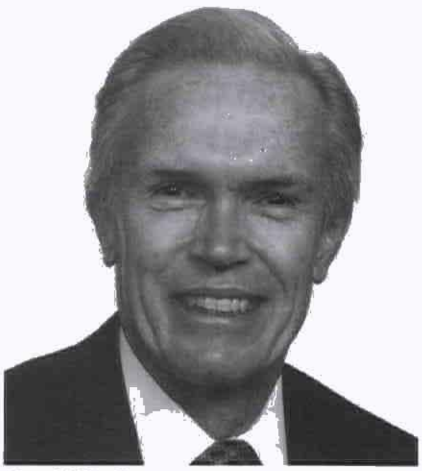
This afternoon, the concurrent sessions will, in addition, address the very important topics of audited financial statements and accountability. Audited financial statements has been one of our key areas. We have had a lot of interest expressed in these topics. For the workshop on *Accountability Reporting for Program and Financial Managers,* I would especially like to underscore *Program* in its title. We are definitely committed to and working to make sure that what we do in the reporting area, in stimulating things in the accountability area, is geared towards program managers.

Proceedings developed from this conference will be made available to all of the people who are on our mailing list.

There is another publication that is on the table that I would like to call to your attention. It is a small, bright red publication. A GAO publication, the title is *Accountability: More Vital Than Ever.* I heard the Comptroller General, who is one of our JFMIP principals, deliver the address on Monday that is contained in this brochure. I want to tell you that it does contain a vital message for program managers, as well as financial managers. There are plenty of copies; be sure to take one with you.

I shall now turn the podium over to Donald Chapin. Don is the Assistant Comptroller General for Financial Management at the General Accounting Office. He is also a member of our JFMIP Steering Committee. Please join me in welcoming Donald Chapin.

Plenary Session
Opening Remarks by Donald H. Chapin


Donald H. Chapin
Assistant Comptroller General for Accounting and Financial Management

Good morning. My name is Don Chapin. I am the Assistant Comptroller General for Accounting and Financial Management and serve as a member of the JFMIP Steering Committee. It is my privilege to introduce this morning's plenary speaker, who has a message of critical importance to all of us in the federal financial management community—a vision of what we need to do to establish a governmentwide framework for accounting, financial reporting, and systems in the federal government.

Today, more than ever before, through the CFO Act and the efforts just beginning by the new Administration to reinvent government, we have an opportunity to make revolutionary changes in financial management. Reinventing government and financial management reform go hand-in-hand. I believe strongly that we need to have a set of standards for accounting, financial reporting, and systems that tie together—that move information from data entry to meaningful reports in a seamless fashion. While we have made some strides in setting the foundation for these standards through the work of Federal Accounting Standards Advisory Board and the continuing efforts of JFMIP, we have not moved fast enough. Today we are at a point in time where we must expedite the development and issuance of these standards.

We also need model and prototype systems that demonstrate successful application of the concepts so that the agencies have practical guidance that will save multiple and possibly inconsistent efforts to produce the information we need. Only in this way will we, as a government, be successful in ensuring "everyday excellence" in financial management so essential to improving the management of our government and in providing the accountability the American public is clearly telling us it wants to see.

Our speaker today will share with you his vision of the new steps we need to take. I have heard his words and thoughts and have signed on to his program. By this, I am not saying there are not other ways of approaching the accomplishment I want to see—there clearly are. But his concept is sound and one which GAO will enthusiastically support. The financial management community has to move out aggressively and, I will emphasize, it must *move out* together. It is time now for us to work together cooperatively toward a common goal of better government. Our goal should be to bring about a much needed integration of accounting, reporting, and systems standards. We need to approach the problem comprehensively so that we end up with meaningful accountability reporting for government.

In passing the CFO Act and in establishing a Controller to head the new Office of Federal Financial Management in OMB, the Congress called for a person, and I quote, "With extensive practical experience and demonstrated ability in financial management." They wanted a proven financial management leader.

Our speaker meets that high expectation. For over a decade, beginning in 1980, he served with great achievement as the Comptroller of Virginia. Working under four governors, he made Virginia a model of excellence in financial management and reporting. He has achieved numerous awards, including AGA's Distinguished Leadership Award, and is a past Scantlebury Award winner. Perhaps most importantly, we have all been able to see first-hand in the past year and one-half his unquestioned commitment to the CFO Act and federal financial management excellence.

I am most pleased that he will remain with the new Administration. When I first heard Ed express his vision of what we need to do, I wanted to stand up and cheer. When you hear it this morning, I hope you will feel the same way.

Please join me in welcoming our leader in financial management, the Controller of the Office of Federal Financial Management—the Honorable Ed Mazur.

Plenary Address by Edward J. Mazur

Edward J. Mazur
Controller,
Office of Federal Financial Management
Office of Management and Budget

I like the theme of this conference, "Challenging Government with Better Financial Management." Everyone here is anxious to challenge our government with better financial management—the kind of financial management that I know each and every one of you wants to bring forth. Better financial management means knowing results, which implies a focus on performance.

A focus on performance, I promise you, will be a challenge to this government. It is clear that we have a President now who wants to challenge us to focus on performance. The recent creation of the National Performance Review falls right in line with understanding results and promoting performance.

Let me tell you a quick story before I get into my slides. One of the Administration's new executives told me recently of an informal meeting with career staff. He just wanted to get to know them. He said, "I've been asking them, 'What did you do yesterday?' " He said, "I've been getting these long pauses." He said, "I've been asking them how what they did yesterday contributed to a concrete product or result." He said, "I've been getting these long pauses."

Well, to be honest with you, I am not surprised that he has been getting long pauses. What many of us deal with is truly so large and so complex in conventional terms that it is all too easy to lose your point of focus and to literally lose your place in the flood of activity, issues, and problems.

So, today, albeit in a very limited way, what I want to talk about is the importance of building and maintaining a context for improving financial management; a context sufficiently understood so that you and I do not lose our places, understand the priorities, and maintain the direction in which to push for improved financial management.

Improving Financial Management vs. Problem Solving

Most of you may have heard my theme: you do not improve financial management by solving problems.

This is a town that does a great job of noting problems. We have our Federal Managers' Financial Integrity Act (FMFIA) process, and it's a wonderful process. We have our high-risk conditions that the President announces and puts in the budget. The new President is putting high risk conditions in his budget. I think the high risk program continuity is wonderful.

GAO and the IGs go to great efforts to point out opportunities for improvement or where things are broken. But I will maintain, as I have all along, that you do not improve financial management simply by fixing problems, although problems cry out for fixing. When we go through the National Performance Review, for those of you who get exposed to it, you will see again that results are what we want to achieve.

If you are a senior executive with Philip Morris, Texaco, or Ford Motor Company, you do not come to work on Monday morning and say, "I'm going to lead this company to a better place by fixing what the auditors said was broken." It just does not work that way, no matter how valid are the auditors' conclusions.

What you do is figure out where you want to go in terms of cost reduction, service levels, and so forth. Then your management processes, including your financial management processes, support your direction and goals. In the process of achieving your goals and the direction you have planned, I maintain that you end up resolving and eliminating weaknesses identified by auditors and others.

Plenary Address by Edward J. Mazur

First Elements in Building a Context

We have already started to establish the following context for improving financial management.

The business community, the professional community, and people from all over the United States—all who have an interest in the management of government—came together with the Congress and the President and passed the Chief Financial Officers Act of 1990 (CFO Act) that said, "We are going to focus on financial management. We are going to have those things that every other entity in the United States has in place." We are now going to have audited financial statements—how strange that we did not have this requirement before the CFO Act. We are going to have people called agency CFOs who are responsible in a clear, concise way for financial management. We are going to focus on our financial management systems and other financial management issues. The passage of the CFO Act was an important first step in establishing the context for improving financial management.

Next, OMB developed its 5-year financial management plan. The 5-year plan came out last April, is being updated right now, and hopefully will hit the streets soon. The plan sets out eight different areas that try to form a context for improving financial management in the federal government:

- financial management organization,
- financial management personnel,
- accountability standards,
- financial systems,
- internal controls,
- asset management,
- the way in which we articulate requirements to state and local governments, and
- audited financial reporting.

Finally, the CFO Council, particularly its Council Operations Group (COG), has decided to focus on governmentwide policies and the transferability of agency-related solutions. Both areas are in need of management study. Again, the CFO Act, OMB's 5-year plan, and the CFO Council form an initial context for improving financial management.

Size and Complexity

A context is so important because of where we are today in the federal government and the magnitude of the challenge we all face. The following slide is my version of Fortune 500 companies revised. What this slide shows is that of the top 30 entities in the United States, the three largest, in terms of dollars spent per year, are the Department of Health and Human Services (HHS), the Department of the Treasury, and the Department of Defense (DOD). They are right up there with General Motors, Ford, the States of California and New York, Phillip Morris, and Du Pont.

What does this slide mean? I have been working with Presidential personnel to help identify candidates for agency CFO positions. I have been reviewing resumes for the positions. A lot of them are pretty good, but what I say is "What you are looking for is somebody who could be the CFO of Ford Motor Company. Think big. These are big jobs. The Federal Government is a very complex environment." We have to be aware of that when we try to create a context for improving financial management.

Federal Government Size and Complexity

Comparison of Federal, State, and City Governments
and Fortune 500 Corporations

Ranked by Dollars (Millions)

1	*HHS*	591,700
2	*Treasury*	302,400
3	*DOD*	279,500
4	General Motors	123,780
5	Exxon	103,242
6	Ford Motor Company	88,963
7	*USDA*	67,000
8	IBM	64,792
9	General Electric	60,236
10	Mobil	56,910
11	CA (State)	55,376
12	NY (State)	53,325
13	Philip Morris	48,109
14	*DOL*	46,800
15	Du Pont	38,031
16	Texaco	37,551
17	*OPM*	37,200
18	Chevron	36,795
19	*DOT*	36,500
20	*DVA*	35,400
21	New York City	33,110
22	*DOEd*	30,900
23	*US Army Corps of Engineers*	29,500
24	Chrysler	29,370
25	Boeing	29,314
26	TX (State)	27,732
27	Procter & Gamble	27,406
28	*HUD*	26,000
29	Amoco	25,604
30	NJ (State)	23,820

Ranked by Employees

1	*DOD*	927,200
2	General Motors	756,300
3	IBM	344,553
4	Pepsico	338,000
5	Ford Motor Company	332,700
6	General Electric	284,000
7	NY (State)	239,589
8	New York City	234,322
9	*DVA*	230,400
10	United Technologies	185,100
11	NC (State)	180,634
12	CA (State)	178,832
13	Philip Morris	166,000
14	*Treasury*	163,200
15	Boeing	159,100
16	Eastman Kodak	133,200
17	Du Pont	133,000
18	TX (State)	132,221
19	*HHS*	130,000
20	Chrysler	126,500
21	FL (State)	125,852
22	Digital Equipment	121,000
23	Westinghouse	113,664
24	*USDA*	112,500
25	Sara Lee	110,000
26	Xerox	109,400
27	McDonnell Douglas	109,123
28	General Mills	108,077
29	Motorola	102,000
30	Exxon	101,000

Startling Facts

We also have to acknowledge some of the problems that I previously mentioned. We have issues that beg for treatment. We have to be aware of them. I call them "Startling Facts."

STARTLING FACTS

Debts to the Federal Government
Managing Cash and Payments
Reporting on Federal Resources and Performance
Management Controls

For those of you who have been in the federal government a long time, you will not be startled by these facts. The federal government is owed $196 billion in non-tax debt, of which $47 billion is delinquent. Taxes due are delinquent in the amount of $63 billion. Many federal loan programs, either by design or as a result of poor screening procedures, make new loans to borrowers who are already delinquent on other federal debt. Some of our procedures do not screen out companies with delinquent tax debt from being awarded new contracts.

In terms of managing cash and payments, we pay out $1.5 billion a year through Medicaid that ought to be paid by private insurers. Some of our small companies are hampered from doing business with the federal government because we do not pay our bills on time. Our unwieldy food stamp program calls for the benefits to pass through 25 hands before being finally redeemed.

One out of every four of the audited financial statements prepared under the CFO Act for fiscal year 1991 were unauditable because of inadequate records, and most of the rest received adverse or qualified opinions. The 23 largest agencies have 800 systems and 1,300 applications for their accounting and financial management functions, with 30 percent of these over 10 years old and with half not meeting the internal agency requirements.

You already know from my earlier comments that we have our high risk programs and that they have divulged about 500 major material weaknesses. So, we have size and complexity, and we have problems, broken systems, and so forth. This creates a challenge for anyone to want to move forward.

A Framework for Policy Development

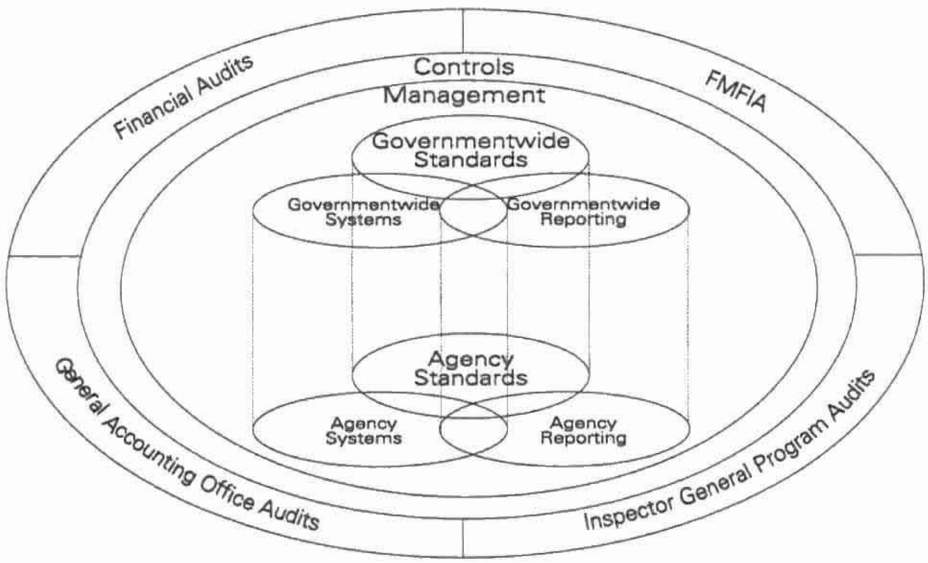
What I am asking you now to think about is, "Well, how do I relate to all of that in my day-to-day work?" Chances are that you relate to some of it somewhere. How many of you are working on too many projects? How many of you are working in ways that maybe you feel are uncoordinated? How many of you are working on internal control fixes and not necessarily improving financial management, if you buy into my thesis that there is a difference? My own sense is that there are too many points of origination in terms of the projects that we have.

For the rest of my remarks, I want to share with you the notion that policies and standards are what drive change and are what will ultimately drive improvement in financial management in the federal government.

You start with what the policy framework should be. Policy and standards give you a sense of direction. In that regard, this slide gives you a financial management overview.

The illustration shows the sphere within which all of us work. We work with

Financial Management Overview

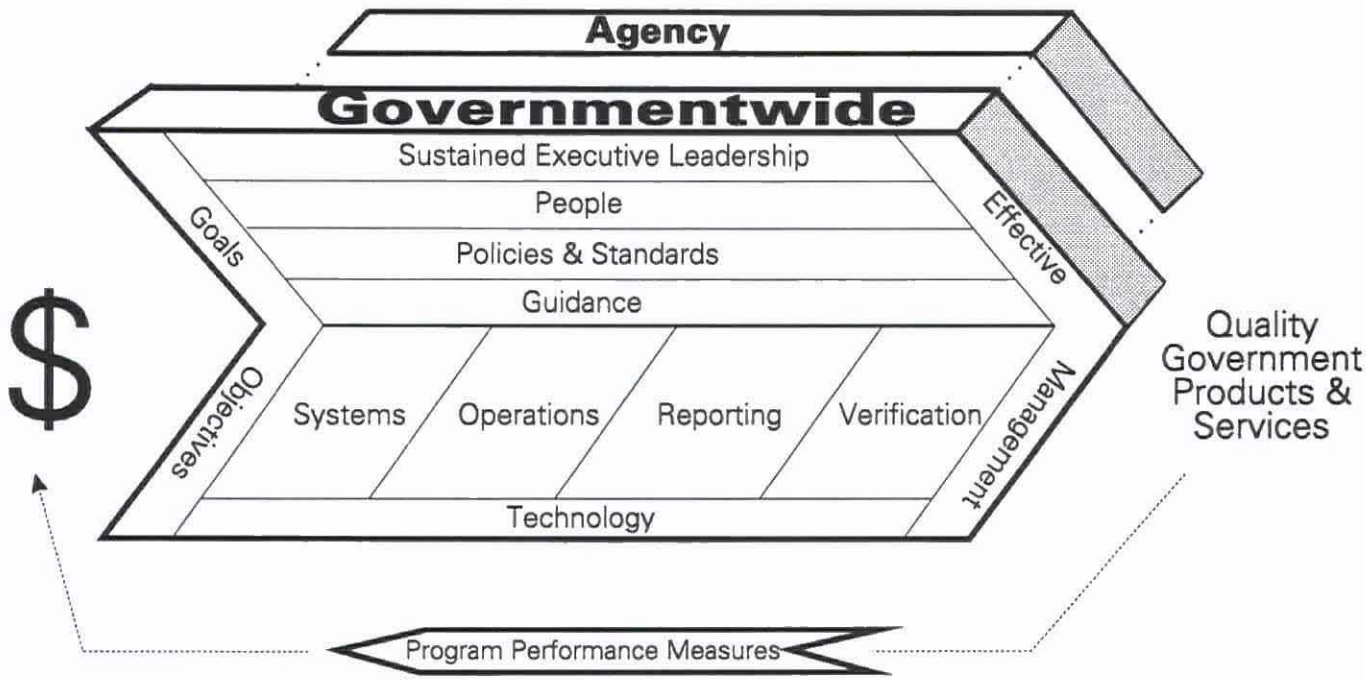


governmentwide standards driving governmentwide systems and governmentwide reporting that filter down to affect agencies who develop their version of standards, systems, reporting, and so forth. All of this is performed within a context of continually looking at and monitoring ourselves through the things that are around the outside of this sphere—the FMFIA effort, financial statement audits, GAO audits, and IG program reviews and audits.

Governmentwide standards are near the top. If we do not get them right and get them out on time, if we do not accelerate making standards available, then everything else shifts around on its own, and maybe that is why we have, conceivably, so many of these adverse auditing reports.

On the next slide, we see a number of factors regarding how financial management has to be considered, moved, and changed.

Here you see two slices, governmentwide and agency-related—each one being affected by executive leadership, people, policies and standards, and guidance that supports those policies and standards. All of them affect the systems, operations, reporting, and verification mechanisms, which are all on the technology platform that originates from objectives and concludes with effective management. Performance measurement closes the loop, providing the feedback on how we are doing.



What I want you to do is pause a second and say, "Yesterday and the day before, and tomorrow, and the next day and so forth, which of these little boxes on this slide am I working on? Do I understand when I am working on one box versus another? Do I understand how the boxes relate?"I will challenge you by saying, I will bet there are times when you do not really know.

So, what can we do about it? Don Chapin, Jack Prebis, Jerry Murphy, and I, and other members of the JFMIP Steering Committee, have worked together now for 16 months. We believe that we can do a lot to improve financial management if we begin to focus, in a far more concerted way, on the development of governmentwide policies and standards and accelerate their availability to you—the people who have to do the work and develop the agency standards, systems, and reports.

If you do not have governmentwide policies and standards, then you are working in a world that is incomplete. You may still make progress, but it may not be as effectively rendered.

In this next slide, you can see that we have identified about four dozen governmentwide standards so far. The first grouping is accountability standards. By and large, these are coming out of the Federal Accounting Standards Advisory Board (FASAB) process. For example, there are standards on inventory, loans and loan guarantees, liabilities, and investments. We do not have a standard, per se, for performance measurement right now.

When we move to information standards, as indicated on the slide, and address data standards, we are talking about things like the standard general ledger. When we address reporting standards, we are certainly incorporating OMB's form and content bulletin.

When we address system standards, we are talking about an OMB Circular, such as the one on financial management systems that is nearing final revision.

FINANCIAL MANAGEMENT STANDARDS AND REQUIREMENTS

Government Initiatives	Number of Initiatives
Accountability Standards	
a. Accounting Standards	10
b. Performance Measurements	0
Information Standards	
a. Data Standards	3
b. Reporting Standards	2
System Standards	2
Verification Standards	11
Budget Requirements	2
Federal Operating Requirements	6
Non-Federal Operating Requirements	6
System Requirements	7
Total	49

When we address verification standards, we are talking, for example, about OMB Circular A-128, the single audit standard on audits of state and local governments. There are also audit follow-up standards and GAO financial statement audit methodology, an important part of the verification process.

These and the other standards and requirements are needed. We, the members of the Steering Committee, and other members of leadership in the financial management community need to have them firmly in our mind and be asking, "Where are these standards? Are they coming out the door or are they not?" We cannot wait 2, 3, 5, or 10 years for them. The guidance is needed now!

It is not enough to know there are 49 governmentwide standards. What is even more important is to understand how these policies, standards, and requirements interrelate and to assure ourselves that as accounting standards are developed, we are mindful of how they flow into systems we develop.

Improving financial management in the federal government is a big job in a complex environment. We, the members of the JFMIP Steering Committee, are committed to doing a far better job in the area of policies and standards, of knowing where we are, and working with you and your colleagues to get these standards implemented in the format and form they should be as quickly as possible.

Thanks a lot. It's been good to be here with you today. I hope that you have a great conference.

Chapter 2
Keynote Addresses
Address by Alice M. Rivlin

Introduction by Edward Mazur: I have the very distinct pleasure of introducing to you Alice Rivlin, who is the Deputy Director in the Office of Management and Budget. Prior to coming to OMB, Alice Rivlin was Herbst Professor of Public Policy at George Mason University and a Senior Fellow in the Economic Studies Program at the Brookings Institution. Perhaps most importantly for all of us, she was the Founding Director of the Congressional Budget Office and served in that post between 1975 and 1983.

In her experiences, she has also served as Assistant Secretary for Planning and Evaluation at the Department of Health, Education, and Welfare. She has been very active with her professional colleagues, having served as President of the American Economic Association, and she chaired what came to be known as the Rivlin Commission on budget and financial priorities for the District of Columbia. She is a graduate of Bryn Mawr and has her Ph.D. from Radcliffe.

She is also quite a prolific author. Her most recent book is called *Reviving the American Dream*. I know that many of you have probably done what I have tried to do and to sense where people are coming from in terms of their attitudes; many of you have read David Osborne's book. If you have, I strongly encourage you to read her book.

It is a very thoughtful book, one that I think really speaks from the heart and from a world of experience. When I read in this book that she would characterize herself as an optimist, a pragmatist, and with a bias against "magic wands and painless solutions," I knew that she would be an outstanding Deputy Director for OMB.

Please join me in offering a very warm welcome to Alice Rivlin.

Alice M. Rivlin
Deputy Director,
Office of Management and Budget

I am really pleased to be here. I bring personal greetings to this conference from Leon Panetta, who along with Chuck Bowsher and the others, is a Principal of this organization. Leon joins me in offering very warm congratulations to the award winners, to Harvey Eckert, Robert Gramling, and James Yager, for a job well done and one that we can all admire.

I would like to talk about the Clinton Administration's economic plan—both the remarkable decision process that put it together and the outcome. Then I would like to turn to the next job: running the government better and managing its finances more effectively.

A new Administration is a remarkable thing. It is rather hair-raising what we do to ourselves in the name of democracy. We, unlike other countries where the shift at the top is thin, shift the whole top rank of the United States Government at once. First comes an exhausting campaign in which the candidate has to focus entirely on the process of winning, no matter how much he says he is thinking about the transition and the process of governing. Then, the day after the election he must pick up the pieces and pull together a team to govern the country. It is a remarkable thing to be part of this process.

President Clinton campaigned very actively on economic issues, on the problems facing the economy and what the government could do about them and what we all could do about them. So, the first order of business was to pull together an economic team and get started, even before the inauguration, on a budget and an economic plan.

Moreover, one important detail had escaped everybody's notice: this was the first incoming Administration that would not have an outgoing President's budget to build on. The lack of an outgoing budget was not the fault of the outgoing Administration. It was the fault of the Congress which changed the date of the submission of the budget.

The law now requires the President to submit the budget to the Congress on the first Monday in February. In a transition year this means the new President, not the outgoing President. The change in law only added to the challenge. The President was already very concerned about what was happening to the economy and needed to examine what the federal role should be and how to get things on a new track.

President Clinton appointed his economic team almost immediately. He got Leon Panetta and myself on board at OMB; the Secretary of the Treasury Lloyd Bentsen and Deputy Secretary Roger Altman, whom you will hear from a little later, at Treasury. He put Bob Rubin in the new and as yet untested post of Chairman of the National Economic Council to keep the various parts of the economic establishment together. Laura Tyson and Alan Blinder came on board at the Council of Economic Advisers. The Secretary of Commerce and Secretary of Labor were appointed. All of these people got appointed early.

President-elect Clinton then sat us down in the dining room of the Governor's Mansion in Little Rock, and we started thinking together about what to do about the economy and to share our views about what to do.

The President likes to hear everybody's ideas and to interact actively, to ask questions, to state opinions, to argue. It is a very lively and time-consuming process. As a decision process, the process of putting together this plan was as good a one as I have been involved in during a fairly long career in and out of government.

It was good, first, because we started with the basics: what is wrong with the economy? This question had been discussed in the campaign, but it needed further discussion. We needed to look at the latest numbers, think about the projections, and see what ought to be done. Everyone agreed there were big problems.

There were, in fact, several problems. We were coming out of a recession, but not very rapidly. The economy needed some stimulus to get firmly on the track to recovery, especially with respect to job creation. This recovery had not created the number of jobs that you would expect, in large part because the forces of recovery were fighting against other forces in the economy such as the downsizing of major corporations in a competitive environment, the downsizing of the defense establishment. The other forces of change were eliminating jobs at the same time that the recovery was putting people back to work.

There was a need to make sure that we were firmly emerging from this recession. More importantly, there was a need to address the underlying difficulties with the economy. Apparent for a couple of decades, these difficulties have gotten worse, rather than better. The economy has grown too slowly. Wages have grown too slowly—a reflection of persistently slow growth in productivity. Our standard of living no longer rises as rapidly as it once did. We will not regain our rapidly improving standard of living until we promote investment, both public and private, and increase the productivity of the economy.

Even more serious than the slow growth in average incomes during the 1980s was the rapid increase in inequality. The people who did well in the 1980s were people at the top of the heap, in part, by virtue of education and skills. There was an increasing demand for people with education and skills.

People in the middle just held their own. People without skills appropriate for a modern economy fell further and further behind. We had a much bigger income gap between the rich and the poor by the end of the 1980s than we had at the beginning.

Most economists and, indeed, the voices of the campaign agree on what must be done. We, as a nation, need to invest—both privately and publicly. We let our public infrastructure fall into disrepair. We neglected the need to keep up the skills of our labor force despite the rapidly growing demand for skills. We failed to stay on the forefront of technology and technological development.

This means, in part, shifting what the federal government does from consumption and lower priority programs toward investment in infrastructure, skills, people, and technology. This by itself would not have been so hard. The budget deficit complicates matters. The huge overhang of the federal deficit absorbs savings that should be flowing into investments.

Little more than a decade ago the federal government used a tiny fraction of the nation's savings to finance its deficit. Today the federal government absorbs more than half of the nation's savings to finance the deficit.

We were on an unsustainable course with respect to federal finances. We could not maintain a huge structural deficit in the federal budget. Ever increasing interest payments on the federal debt precluded using a growing portion of taxpayers' money for productive uses.

Reducing the deficit was clearly a major imperative—a hard thing to do when the economy was recovering from a recession, and when there was also a need to shift to longer-run investments. It was not a question of doing one or the other. Balancing the budget at the expense of increasing public investment—or worse, balancing the budget by cutting public investment—would have been foolish. We had to figure out a way of doing both, of increasing investments and bringing the deficit down.

It would not have been so hard to have done this in the middle of the 1980s when the economy was growing strongly. It would have been easier to do both in 1984 to 1985, "to balance the budget." There were, of course, those of us who warned that and said, "You'd better do it now. If you wait until the debt and the interest are bigger and the economy is falling into a recession, it will be much harder."

But the voices crying in the wilderness at that moment had not been listened to. What we were afraid of happened. We had the recession. We did have the bigger debt. We have higher interest payments. Restoring fiscal health is a much harder job than it would have been earlier.

In any case, we sat around the table and we talked about it. We talked about how fast you could reasonably get the deficit down. It is, after all, a risky thing to do. Ross Perot notwithstanding, you can't take the deficit down so rapidly that you endanger the recovery.

Since economics is a very inexact science, there were a diversity of views about how fast was too fast. Nobody was against bringing the deficit down, but there were varying degrees of nervousness about how fast we could do it and not endanger the recovery.

We talked, first in a dining room in Arkansas and then around a slightly larger table in the Roosevelt Room in the White House, hour after hour. The major decisions did not take that long because the President felt very strongly that we had to do both the investments and the deficit reduction. The President came out on the side of a major bold plan very early.

So the rest of the time—and there were a lot of hours—was consumed with going through the federal budget page after page, and asking what can we cut? What is of a lower priority? What is feasible to reduce from both an economic and political point of view?

We fashioned lists of spending cuts, but they were not enough to get us to the deficit target. We had to turn to the always-painful revenue side and say, "What can be increased?" We looked, first, at increasing taxes—such as the top marginal income tax rate—that would place the burden on those best able to afford it.

However, there are not enough rich people to solve the deficit problem. One has to turn to broader base taxes. We chose a broad-base energy tax, in large part because it had other arguments going for it than just the revenue. It helps us cut pollution and make ourselves less dependent on the import of foreign oil.

We put all of that together. The President signed off on it and made a very eloquent speech on it on February 17. Since then we have focused on the two-fold process of filling out the details, because that speech only gave the outline, and of working through the lengthy and complicated process of getting the package through the Hill.

The first steps have been very successful. We do have a budget resolution which is either about to be or has been voted on today. The complicated process of reconciliation and working with the appropriations committees on the details has just begun.

This part of the plan, even if it moves quite rapidly through the Congress and emerges in a not-very-unchanged form, is, again, just the beginning in two senses. It is just the beginning in a policy sense.

We used the Congressional Budget Office's economic assumptions for two reasons. First, we did not want to argue with the Congress about economic projections. Those arguments typically consume much time and energy. Embracing CBO's assumptions gave us a common set of economic projections. Second, these were quite conservative economic projections. The CBO is not very optimistic about the growth of the economy over the next several years. From a decision point of view that was good. We did not want to be stacking the deck in favor of ourselves, making it easier to make these decisions. We didn't want to be accused of generating rosy scenario outlooks, so we chose this relatively conservative set of projections.

If you look at the budget deficit, even if the economy does better than we think and even if the Clinton Plan is enacted in its entirety or is somewhat strengthened on Capitol Hill, the best that one could hope for is that the deficit comes down and then goes back up again at the end of the decade. That is not very promising. We could reduce the deficit below $200 billion. That seems like a major victory, but then the forces that are pushing it up again, even if the Congress enacts no new legislation and cuts no taxes, will take over. Debt maintenance growth and, most particularly, federal spending on Medicare and Medicaid will push the deficit up again.

The next big policy issue—and we are working hard on it—is to get the health costs for the nation, as well as for the federal government, under control. There are other important initiatives in the President's program including welfare reform and national service.

The other major sense in which this plan is only a beginning is that it is only a plan, a framework for what the government ought to be doing. Everything depends on improving the efficiency and effectiveness of government programs, the ability of the government to manage its own affairs. This is where financial management has a major role to play. We must make the government more accountable to the taxpayer. We must, at the same time, make it more responsive to its clients.

Before the 21st century begins, we've got to move the federal government into the 20th century with respect to the technology of processing information, especially financial information. We need to think about a federal government that can be better organized to provide the services that it must provide and that people want.

From the point of view of financial managers, there is a major agenda. I don't need to tell the people in this room what that agenda is. We must improve our automated financial systems. We must be able to provide accurate, timely and readily accessible information for financial activities. We must increase the collections of tax, non-tax, and delinquent debt.

For starters, catching the deadbeats means automating the guaranteed loan activities and expanding the use of private collection agencies. We must expand the use of electronic means to improve the efficiency and timeliness of the payments process.

We must expand the number, availability, and usefulness of agency-level audited financial statements. Our aim must be to make these statements as relevant to the government as they are to every business, to make them as ordinary and as usual a part of the executive's day as they are in a major business.

Finally, we need to improve accountability in internal control and evaluation, especially in high-risk programs. This means making program managers accountable for their output, not for how skilled they are in pushing paper. It also means demanding hands-on assessment of the status of high-risk programs and holding managers' feet to the fire for delivering results.

Everybody in this room has a lot of pieces of this agenda on their plate and a lot of hard work to do. Many of you are engaged in orienting new agency CFOs. People who are new to government will need to learn about the issues associated with your agency and your job. All of them need to be on top of the basics. They need to understand the CFO Act and its requirements and how the Office of Management and Budget and other agencies relate to them and to their plans.

You are engaged in improving services to senior and program managers, many of whom are also new at their jobs and are asking questions that may be pretty naive. These people need to know what tools and techniques are available and why they are important and useful, and how you can assist them.

You are engaged in completing audits for the fiscal year 1992 financial statements, many of which will, again, have to be prepared for the first time. We also need to make sure that these statements get done on time so they are not just a post-mortem record that goes on a dusty shelf, but a meaningful tool for planning and evaluation.

You are engaged in refining program performance measures. This is a matter of enormous interest at the moment to the Office of Management and Budget. It is not an ivory tower activity. It is one in which you will have to interact with programs, with people in the field, and with state and local governments.

You are engaged in focusing the attention of senior program managers on high-risk programs, and saying, "Watch out for this. You are going to need more resources here to correct this problem. You better get on top of it before it gets away from you."

In these challenges, I hope that the Office of Management and Budget can help you. We are the new user-friendly OMB. We pick up a lot of flack from around the government about OMB. We know that some of that goes with the territory. Nobody loves the budgeteer and the naysayer, but we think some of it can be changed. We can work collegially with the agencies and, indeed, also with state and local governments. We can be seen as helpful in a joint process of running the government, not as the enemy to be sent off.

Finally, you have a major ally, not only in the President, but most visibly at the moment in the Vice President. The Vice President has taken aggressive charge of the effort to run a National Performance Review. That means looking at all aspects of government on a fairly tight time horizon and trying to see what we can do better. What small things can be fixed quickly, and what big things can be fixed in the long run.

The Vice President and his teams will interact with all of you. It is going to be an exciting time of—I hesitate to use the phrase because it is overused, but it is the right one—a time of reinventing government.

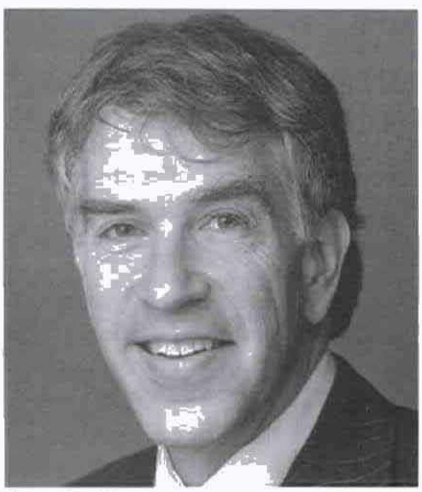
I am delighted to be here. I urge you to get back to your agencies and your posts and to dig in and help us make this an Administration that really did take a look at the federal government, decided that it could be better run, and then did something about it. Thank you.

Address by Roger C. Altman

Introduction by Edward Mazur: Jerry Murphy [Fiscal Assistant Secretary, Department of the Treasury, and JFMIP Steering Board member] is home ill and would otherwise want to be here to introduce to you Roger Altman, who was recently confirmed by the Senate to be Deputy Secretary of Treasury. As such, he is the second highest officer in Treasury and the Chief Operating Officer there.

Prior to his nomination, Mr. Altman was Vice President of the Blackstone Group, a private merchant banking firm, and has also served as managing director of Lehmann Brothers, and was a member of its 7-person management committee and its board of directors. He has served in government previously in the Carter Administration as Assistant Secretary of the Treasury for Domestic Finance.

He received his BA degree from Georgetown University and an MBA from the University of Chicago. This is a gentleman who as he does his work over the next four years can have a lot to say and an a great deal of influence over us who are trying to improve financial management in the federal government. Please join with me in offering Roger Altman a very warm JFMIP welcome.



Roger C. Altman
Deputy Secretary of the Treasury

I appreciate very much being here. I would like to talk about two things. One is financial management, and one is to address myself to a few questions that I find being asked all the time about the President's economic plan.

Let me start off with a somewhat personal point. As you said, I have had the privilege of serving before. This is my second time here. I have the privilege of serving in the Treasury Department, which I think is a marvelous organization.

Now, there have been times in the history of the United States when the military was our most important governmental asset. There have been times when our diplomats have been most important, or at least on the front lines. But I think that this is a time, given the economic problems facing the country and the financial issues confronting the United States government, when our financial troops are on the front line, and appropriately so.

You all know that our federal balance sheet is not very encouraging. We had a nearly $300 billion deficit last year; $2.1 trillion over the last 10 years. We have just gone up to the Hill to ask Congress to increase the debt limit to $4.145 trillion. Given that, it sure is no secret that the public is disaffected.

There are only two ways to improve a balance sheet, or to improve any financial condition. One is revenues, the other is costs. None of us in this room, at least individually speaking, has the power to raise revenues. Were we in the private sector in some industrial corporation, we could raise prices, but we can't do that here. So, the issue is to focus on what we can control; that is, costs, and finding more efficient ways of doing things, managing cash better, managing assets better, and so on.

The President has made this one of his top priorities. I just want to spend a minute telling you what we are trying to do in the Treasury in that regard.

Before I do that, let me say that there are remarkable opportunities to adopt in the federal sector many of the streamlining steps and productivity improvements that we have seen so often in the private sector in recent years. I think that many people feel that somehow the two worlds are like different planets in separate orbits. To some extent, they are, but there are many things that can be done similarly in the federal sector.

For example, downsizing the Treasury can be done without sacrificing service or function. How are we trying to do that? Well, we started off trying to do it—because we had received, in effect, an allotment from the President in regard to our share of the work force reduction that he has proposed—by putting in a managed attrition program.

I have some familiarity with that in my work over several years in the government of New York City. I was Chairman of the Economic Development Agency in New York, and an adviser for a couple of years to the Mayor.

We haven't put in place an austere managed attrition program at all. It is 3 out of 4 for the time being. By definition, we are not talking about dismissing anyone. However, I am absolutely convinced, having talked to many of the bureau heads, that given enough time we can work quite well and increase productivity in the process. We are not taking a straight-jacket approach. Anyone who wants to come in and say, "I've got a better way to get to the same end," fine, let's do it.

Second of all, there are many consolidation opportunities in the federal sector. I'll give you an example of a few that pertain to the Treasury. The Customs Service is part of the Treasury, and the INS (the Immigration and Naturalization Service) is part of the Justice Department. Many of their functions overlap since they both manage borders. One, in the most basic sense, is managing money and financial assets going across borders, and the other is, in effect, managing people flow. There are opportunities—I don't know the politics of these—to consolidate, eliminate duplication and the like. We are going to try to do that.

We have the Office of Thrift Supervision, and the Office of the Comptroller of the Currency in Treasury. There are opportunities to put these together or parts of these organizations together to save money and raise productivity. I have a list of about 10 of these ideas that we plan to work on, and we have advised the appropriate bureau heads in the Treasury that we plan to do this. I'm sure we won't get them all. Maybe if we get 3 out of 10, we are doing well. There really are opportunities.

I know this will cause some people to fall over, but there are also privatization opportunities. I found out in New York City that privatization was sort of the *p word*. You couldn't mention it, but that is ridiculous. There are opportunities to privatize functions currently carried out by the federal government that we ought to get on and try to do. I don't know whether it is the FAA or it is selling the broadcast license spectrum, but there are a lot of opportunities in that area.

My basic point here is that we might be democrats but we are not slothful. President Clinton is serious about trying to adapt some of the private sector techniques in terms of streamlining and of increasing productivity in this Administration. When we first received our personnel goal, in terms of the share of 100,000 FTEs (full-time equivalents), frankly, our reaction was "That's easy." We committed ourselves to obtaining that goal over the next four years; we are not going to do it in one year. We are not going to dismiss anybody (but just going way beyond that in a fair way).

In terms of cost reduction, saving money, you are familiar with a variety of things that can be done. At the Treasury, we write 495 million checks a year, and another 445 million we directly deposit through electronic funds transfer (EFT). That is 940 million transactions a year. A check costs about 26 cents to write, while EFT costs about 3 cents. There is a 23 cent difference and with 940 million transactions, there are savings if you can do it. So, that is why we are making every effort to move towards maximum reliance on electronic funds transfer.

You have a similar example in terms of float in cash management. There are 5 million businesses that pay taxes to the IRS. From the time they send in their check until the time it clears—and there are now 13,000 financial institutions out there that help process those checks—there is a 5 to 7 day float involved. If we can collect electronically, we would recover hundreds of millions of dollars in interest each year. We are making big efforts through the IRS's Tax Systems Modernization program to move increasingly toward an electronic system.

The same applies to the government's debt collection programs. We have a system for federal employees who are delinquent in terms of federal debts. There is a garnishment system in which a portion of their paycheck is retained. Quite a bit has been collected that way. For anyone out there who is a delinquent borrower from the federal government, we garnish any tax refund checks and apply it directly to those federal debts. More than $3 billion has been collected that way.

My point is simply that there are so many opportunities—just working on the cost side of the equation—to modernize, to streamline, to save money, and to raise productivity. To the same extent that the public doesn't appreciate how hard people work and how dedicated they are, I don't think the public appreciates that there are opportunities to improve.

Let me shift gears and make several comments about the President's economic plan, hoping that I'm not going to repeat what Alice Rivlin said. I find myself being asked the same basic questions time and time again. One of them is, "You talk a lot about deficit reduction. Is that really going to happen?" There has been that talk around for years and years, and it never has happened.

In fact, on Wall Street, where I come from, people look at things in a very simple way. There was the 1990 budget agreement, $500 billion of savings. Now, for those of you who are familiar with that, it essentially happened. It did really occur. But Wall Street's view is, "Now, wait a minute. They promised $500 billion. They've got a deficit looking out to 1997 projected by CBO of $350 billion. It didn't happen. They never did it." So, there is a lot of skepticism about whether, in fact, the deficit will be reduced.

I want to mention one major reason why I think the deficit will be reduced, which I think financial managers can appreciate. We made a special effort to avoid any sleight of hand, any gimmicks, any financial legerdemain. We didn't even use our own internal economic forecast, the Administration's economic forecast. I don't know if that has ever happened before.

We used the CBO economic forecast, mostly because it wasn't ours, because we wanted to be "Simon Pure" and totally above board. Our own forecast, which has been published, is considerably more optimistic than the CBO forecast, but we didn't use it.

The most popular forecast out there in the private sector is probably the blue chip forecast. It is basically an average of about 40; it's a leading economic forecast. It is notably more optimistic than the forecast on which our budget is based. If that blue chip forecast should come to pass, we'd reduce the deficit in the fourth year of this plan by another $40 billion, or down to about $165 billion. So, we have made a very special effort to be above board in regard to that.

In addition, we didn't use any magic asterisks. We didn't use any rosy scenarios, and we didn't use any of the frequently used caps on mandatory spending. The key to that is putting a cap on mandatory payments.

I was on television the other day debating a Republican Senator, and that was his strategy. "We are going to put a cap on mandatory payments. We don't need any tax increases. We don't even need some of these other spending cuts." Well, mandatory payment is a euphemism for entitlement. Health-related entitlements like Medicare and Medicaid have been going up very fast and have been going much higher than the rate of inflation—two and three times the rate of inflation.

So when people talk about saving money by putting on a mandatory payments cap, they are really referring to capping those programs. But, as you know, Medicare, for example, consists of a whole host of components. I mean, there are many components in the Medicare program.

When you ask people in terms of a cap on mandatory payments, how they are going to reduce the programs they are going to cap; they smile; they wink; they nod; they don't have an answer. The reason is that they don't want to do that. They want to send it to the Congress. It is a phony approach.

We didn't do any of that. We submitted a list of 150 cuts, program by program. One of the reasons, I think, the budget has been well received by the Congress has been that we took this straight-up, no-gimmicks approach to it.

If you remember, maybe the biggest applause in the State of the Union speech was when the President talked about this, when President Clinton said extemporaneously that the other side of the aisle may laugh about the CBO, but it was a lot more correct than the budgets our predecessors submitted. That got a great huge applause. So it is not a minor issue.

I want to talk for a moment about health care. People ask me what is this health care plan going to be and how does this relate to your economic plan? The answer is that it has a very central relationship because health care costs are rising so fast that they are strangling the economy.

Health care costs are 14 percent of our gross domestic product. They are on the way, in terms of the present services path, to being 20 percent of our gross domestic economy. In comparision, the largest share of health costs consumed by any other industrialized economy is Germany at 9 percent. So we are just out of control.

So many businesses are struggling under the pressure of health care costs that many of them, of course, are dropping health insurance. This is one reason why we have 37 million Americans without any insurance and more every day. In the world's richest nation, that is just unacceptable. I can't pre-judge our plan because most of the crucial decisions haven't been made yet, but I think you will see the Administration come forward with a bold plan.

I think it will propose a basic benefit package in terms of what every American is entitled to receive. It will kick off, for better or worse, an even more fervored debate than we already are having.

The newspapers are filled every single day now with numerous articles about health care as the Administration goes through its deliberations. This is one of the President's most cherished goals. You have all heard him talk about it. There is no question that the plan is going to be bold. So, in effect, that is the second step in our economic program.

No one could expect—and we don't—that everything we propose will be speeded through the Congress the way the budget has so far, but last fall about two-thirds of the American voters, a little less, voted for change. It was essentially a one-issue election in terms of economics. You know that famous line in Little Rock headquarters, "It's economics, stupid."

So, there is a tremendous mandate to make that change. This is why this economic plan, which does set off in quite a different direction from the point of view of the budget, from the point of view of the investments the President is proposing to make, has been received so well. We hope that will continue as long as it can, and, at least, throughout much of this year when we have so much to do. I hope I can come up here at the end of the year and say that we did it, but we will have to wait and see. Thank you.

Chapter 3
Presentation of Awards
Brief Remarks by Charles A. Bowsher

Charles A. Bowsher
Comptroller General of the United States

It is a great pleasure to be here again and to welcome everybody. I am very pleased with the turnout. Budgets are tight these days, so to get this kind of a turnout for our meeting is very gratifying.

I am very pleased with the awardees this year. I've known Bob Gramling at GAO, for many, many years. Bob has just done an outstanding job for us in these last few years in a very tough area in the banking and S&L crisis.

I've known Harvey Eckert. Harvey and I have worked hard on the Government Accounting Standards Board (GASB) and some of the other issues over the years, so it is great to see Harvey win it.

I don't know Jim Yager, but I'm sure his accomplishments make him a very worthy awardee.

There is a new team in town; they are called democrats. So, Alice Rivlin and Roger Altman are going to be the main speakers here today. I'm looking forward to hearing from them as much as you are.

I spoke earlier in the week to the Institute of Internal Auditors. There are copies [of my speech] available, as I think was mentioned before. The speech is on accountability. I would encourage all of you, if you have time, to pick up a copy and to read it. With individuals both within and outside of the government pointing out the problems with our financial management systems, I think it is more and more timely that we make progress and make progress fast in this area.

So, it is a great pleasure to see all of you. I am looking forward to hearing our speakers.

John Prebis
Chair, JFMIP Steering Committee
Chief Financial Officer,
Office of Personnel Management

As Chair of the Steering Committee, I will announce and present the Scantlebury awards for distinguished leadership and financial management improvements in government. The award commemorates Donald L. Scantlebury, a man whose ideas and actions brought significant advances to financial management in both the public and the private sectors.

At the time of his death in 1981, Mr.Scantlebury, was the Chief Accountant and Director of the Accounting and Financial Management Division in the General Accounting Office. He also served on the JFMIP Steering Committee. The award is a continuing tribute to a dynamic leader and a true innovator whose high standards we should all try to emulate. This year, we have three award recipients, financial management leaders in their own realms who exemplify those standards.

James D. Yager is the Assistant Executive Director of Management Services for the South Florida Water Manager District. The District's 1,500 employees are responsible for the preservation and protection of Florida's water resources, and, also, for cleaning up after hurricanes and storms of the century. Forty percent of the state's population live within its jurisdiction.

Shortly after his arrival, Mr. Yager launched an extensive multi-year plan of major improvements for financial information and management systems. Projects included accounting systems integration modernization, automation of the District's first purchasing system, and an auditing committee to provide oversight for ethics and effective controls.

Under his guidance, a new $2.8 million financial system was installed that has yielded a 25 percent internal rate of return. He established a formal accounting function that revamped accounting controls: analysis, reconciliation and reporting. This process led to recovery of $936,000 in previously unbilled receivables. A reorganized accounts payable function produced a 95 percent drop in delinquent invoices in its first year. His policy on negotiations of contract awards has saved $5.2 million over a 5-year period. He was also a principal player in saving $1 million in group health insurance premiums through policy restructuring and carrier negotiations. And, his District-wide productivity improvement program, combined with better services and product, already is expected to return a benefit of $25 million. In addition, Mr.Yager redesigned and simplified the format of financial reports which greatly enhanced the understanding of financial data by agency managers, as well as the public at large. This effort brought the District its first Certificate of Achievement for Excellence in financial reporting from the Government Finance Officer's Association in 1990. It was followed by another award in 1991. He also vastly strengthened the annual budget document which garnered the Distinguished Budget Presentation Award from the GFOA also in 1990.

It is now my pleasure to present the Donald L. Scantlebury Memorial Award to James D. Yager for his exceptional service to the citizens of Florida.

Harvey C. Eckert is the Deputy Secretary for Comptroller Operations in the Office of Budget for the Commonwealth of Pennsylvania. Mr. Eckert's leadership has made Pennsylvania a model of excellence in state financial management. Among his achievements are major improvements in administration, accounting, auditing and systems development.

Mr. Eckert established a professional internal audit program that provides state agencies with a broad range of services such as financial performance and computer-based auditing. He established Pennsylvania as a leader in the implementation and performance of the Single Audit Act and documented how it was done.

As a result, Pennsylvania has been able to provide its single audit expertise to the federal government and to state and local governments throughout the U.S. To maximize investment income and make the best of funds, he established numerous automated collection and deposit systems. One outcome of his leadership was Pennsylvania's first bond-rating increase in 17 years.

Also, he has been recognized for his contractor responsibility program which was designed to ensure the selection of competent and accountable contractors. In three years, this program generated over $6 million in savings. He was a key partner in the Commonwealth's largest systems development effort to date, integrating all central administrative systems: personnel, payroll, purchasing, budget and accounting, into the central database.

The new system resulted in major reporting improvements. Again, its effectiveness has been recognized nationwide. As evidence of his skills as a financial manager, Pennsylvania became the first state to receive on its first submission the Government Finance Officer's Association Certificate of Achievement for Excellence in Financial Reporting. The state has received five more certificates since then.

He also developed a new school accounting and financial reporting system that has gained national distinction. Along the way, he launched a cost-savings program based on ideas submitted by employees. So far, that has saved $3 million. These are achievements all of us would be proud to claim. With great pleasure, we present the Donald L. Scantlebury Memorial Award to Harvey C. Eckert.

Robert W. Gramling is Director of Corporate Financial Audits for the General Accounting Office. We recognize him for his exceptional leadership in advancing major federal banking and deposit insurance reforms, and for fostering policy that has led to major reform of federal regulatory practices, as well as agencies' financial management systems.

His particular ability to define both the problems and the required corrective actions has produced the foundation that now has strengthened the overall soundness and safety of this country's financial institutions. His efforts are well documented in over 100 reports and many testimonies and briefings to Congress.

By developing an audit methodology that assesses broad industry financial risks and regulatory weaknesses and relates this perspective analysis to the insurance fund's financial exposure, Mr. Gramling greatly improved the usefulness of financial statements and audit opinions. Prime examples are his banking and savings and loan failure reports, and the Bank Insurance Fund and Resolution Trust Corporation financial statement reports.

His expanded audit opinion report on the Bank Insurance Fund equipped Congress with an early warning analysis of that troubled fund. His efforts have produced important actions by both regulators and the Congress. One example of this is the lifting of the cap on insurance fund premiums paid by banks. The resulting increase in bank assessments will produce billions in income for this fund, and thus, reduce the level of taxpayer financing.

Mr. Gramling recommended improvements to the regulatory structure and limits on Deposit Insurance Fund obligations. These recommendations were part of the legislation known as the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the legislation that rescued the savings and loan industry. Examples of his insightful analysis and on-target recommendations are now used in training sessions by regulators such as the FDIC and by the American Institute of Certified Public Accountants.

His work, also, has led to overall improvement in the financial management and internal control environments of corporate entities and executive agencies such as EPA, GSA, the Federal Financing Bank, the Pension Benefit Guarantee Corporation. I have offered here just a few examples of his rather major accomplishments. It is my great pleasure to present the Donald L. Scantlebury Memorial Award to Robert W. Gramling.

Donald L. Scantlebury Memorial Award Winners
James D. Yager, Robert W. Gramling, Harvey C. Eckert.

Chapter 4
Panel Sessions
Development of Human Resources in Financial Management


Robert Agresta
Office of Personnel Management

Robert J. Agresta, Assistant Director for Employee Development Policy and Programs, Office of Personnel Management (OPM), and panel moderator, said the panel concurred on a fundamental question: "What will be the major impacts of the CFO Act on performance requirements and the consequent training needs of financial management personnel?"

The development of human resources in financial management raises other questions also.

"Have we, as a community, adequately addressed the implications of the CFO initiative by how staff in the major occupations in the GS-500 series are expected to perform their jobs?"

"Are we placing too much emphasis on the recruiting and not nearly enough on raising professionalism of existing staff?"

Agencies must pursue well-targeted training initiatives to enhance effectiveness. These initiatives should address the major organizational, occupational, and individual performance priorities in a given agency. The Office of Personnel Management plans to publish a final set of regulations in the *Federal Register* that will call on agencies to systematically reassess training needs at these three priority levels.

The underlying concept is that each individual who joins the federal workforce is interested in a career and not solely a job. Hence, a Career Path Framework which addresses the initial entry, developmental, journeylevel, senior, and career transition stages is considered integral to career planning strategy.

Mr. Agresta indicated that nothing would please the panel more than to see their session serve as a launching point for renewed interagency cooperation in addressing systematically the issues related to the development of human resources. He said the OPM is eager to assist the financial management community in bringing together their very substantial resources and expertise to consider these issues.


Michael Serlin
The Center for Applied Financial Management

Michael D. Serlin, Executive Director of The Center for Applied Financial Management (The Center), and Assistant Commissioner, Financial Management Service, Department of the Treasury, outlined the current financial reporting environment facing agencies, which includes audited financial statements, Credit Reform, and the Standard General Ledger criteria. These demands in conjunction with lack of staff needed for compliance, Mr. Serlin suggested, may prompt agencies to seek outside expertise to help solve particular problems or help identify better ways to perform the work. The Center offers, on a reimbursable basis, assistance in the area of accounting cross-servicing and financial consulting services.

The Center's accounting cross-servicing function uses standard off-the-shelf software and serves eight client agencies including the Small Business Administration and the Nuclear Regulatory Commission. It is also testing a personal computer based package that could be offered to smaller agencies at a much lower cost than the existing package.

The Center's consulting and education assistance now includes reconciliation services. These services provide assistance with reconciling the Statement of Differences and the General Ledger, as well as reconciliation training for an agency's financial personnel. Assistance in support of the CFO Act is also available, such as performing pre-audits of agency financial statements. Several agencies have asked The Center to provide this service.

The Center offers educational events, such as the Year-end Closing Seminar (to be held in Washington, DC, Sept. 1-2, and Colorado Springs, Sept. 28-29), the Government Financial Management Conference (July 20-21), and Dollars and $ense. The Year-end Closing Seminar covers completion of the Treasury SF-2108, "Year End Closing Statement," with column by column analysis, third year impact of the "M" Account legislation, and discussion of federal agency financial reports. The Government Financial Management Conference will cover topics such as strategic management, new directions for budgetary accounting, and the new government debt collection contract. Dollars and $ense, described as the bread and butter course, is a 2-day course which has already been offered six times in 1993. Ten more courses are planned in various parts of the country, including Kansas, Georgia, New York, Illinois, and Washington, DC.

The Center conducted a survey of agencies to determine what type of training they most wanted. Based on the findings, courses are being considered for Federal Agency Financial Reports (FAFR), Standard General Ledger, Statement of Transactions, Management Controls, and Imprest Fund Management. Presently, the Center is surveying the interest in, structure of, and preferred dates for a course on Form and Content of Agency Financial Statements.

Elizabeth Smedley
Department of Energy

Elizabeth E. Smedley, acting Chief Financial Officer (CFO), Department of Energy (DOE), described the Department's Financial Management Development Program (FMDP) and the process involved in its implementation.

DOE's organizational structure was changed in response to the CFO Act. The Office of the CFO has responsibility for budget and accounting. The major field offices were assigned a field CFO with responsibility over three divisions—accounting, budgeting, and financial review. The Department wanted to assure that managers and staff could successfully address the current and future challenges necessary for strong and effective financial management.

DOE developed a program to provide hands-on experience and meet the needs of departmental financial management personnel at all career levels. It is designed to provide a developmental roadmap for employees and their supervisors, managed centrally, executed locally, and providing opportunity for all employees to participate. The FMDP's efforts are currently directed to accountants, budget analysts, and senior financial managers. Accounting technicians are the next targeted group. The program participation rate stands at 89% of eligible personnel. All CFO offices are required to implement the FMDP. The program involves on-the-job training and formal classroom experiences, including conferences, and participation in professional organizations.

Ms. Smedley attributes the development of the FMDP to commitment from DOE's top management and use of in-house personnel with Department experience in the areas of accounting and budgeting. The process, completed in one year, did not require contractual assistance, large sums of money or time away from work, but draws on the work experiences of employee and manager in the developmental activities. It began in June 1991 with the assignment of a senior headquarters manager to be responsible for the program's development. By June 4, 1992, with the concurrence of the Secretary of Energy, the FMDP was implemented.

Gene Dodaro
General Accounting Office

Gene L. Dodaro, Director of Operations, Accounting and Financial Management Division, U.S. General Accounting Office (GAO), focused on GAO's staffing and training strategy and highlighted the importance of effective sustained implementation to achieving meaningful results.

A critical aspect of the training strategy involved establishment of a central methodology and a training group. GAO has had to increase the number of its financial audits and increase its capabilities to support the CFOs and the IGs. Support for complying with the CFO Act included setting up an audit support group whose mission was to work with IGs of those pilot audits (under the Act) not performed by GAO. Training programs were structured to enhance their export to the IG community to help them get a fast start in implementing the audit requirements under the Act. A comprehensive financial audit manual was prepared. It formed the basis for training and provided a reference point to ensure consistency, uniformity, and efficiency.

The GAO developed courses, such as Principles of Budgetary and Proprietary Accounting and Introduction to Financial Auditing. The Auditing course has been presented to over 1500 people, half from Department of Defense audit agencies. GAO is developing an entire training curriculum for its financial auditors and has already developed a number of courses from entry to advanced levels in planning and managing financial audits.

Lessons learned from GAO's experience in developing a training program were the needs for dedicated staff, systematic reviews, good target audience participation, relevant training, and qualified line supervisor instructors. GAO's process of taking the best people offline to teach them how to develop and present these training courses demonstrated GAO's interest and intent for high standards in training. Mr. Dodaro stated that both his and Ms. Smedley's presentations illustrated what can be achieved within existing resources with some creativity and good priorities. Government must invest in the development of its people to achieve a first class operation.


Wallace Keene
National Aeronautics and Space Administration

Wallace Keene, Information Resource Manager, National Aeronautics and Space Administration, moderated this session on *Information Technology: Tools for Management.*

Mr. Keene commented that articles and books on business reengineering and reinventing government are becoming desktop references for senior federal managers. The financial community has done much to standardize its reporting efforts, but in many cases has not gone forward with redesigning the approach to managing its functions.

Having users establish the requirements for systems has been a mandate for years, although users have often abrogated that responsibility. The technology for helping users reengineer their systems and processes has continually expanded. It is very worthwhile to expend the effort to focus the attention of management on technological tools which both facilitate the accomplishment of business functions more efficiently and help to determine how functions can be redesigned to be more cost effective.

Mr. Keene observed that if, as is often said, there are no new facts about the future, it is true that we are partners in an increasingly global enterprise and the working attitudes of the 1980s are perhaps gone forever. The challenges to the financial community are enormous. He cited Peter Drucker as saying that "Accounting has become the most intellectually challenging area in the field of management and the most turbulent one."


Michael Brown
Microsoft

Michael Brown, Treasurer, Microsoft Corporation, indicated that tools and technology aid Microsoft in defining its businesses and the ways business processes are conducted. Microsoft has 4 billion dollars in revenue, does business worldwide, and has manufacturing locations in the State of Washington, Ireland, and Puerto Rico. At Microsoft, each desk has at least one computer; companywide the average is three personal computers per person. They are networked with nearly 40,000 nodes for employees, customers, vendors, suppliers, and other commercial relationships.

Microsoft uses software in five main families of tools which assist in defining a process and bring some order to the desktop.

- Tools to do planning, budgets, and comparisons to the goals and targets
- Tools for the development of products, shipping of products, sales, and generation of revenues
- Tools to manage resources, capital equipment, facilities, and the human resources function
- Tools for customer satisfaction
- Tools for communications.

When somebody has an idea, it is assigned to a Management Information System (MIS) group; the group is given an opportunity to continue to build and improve on it; and this process improves the tools for running the business.

Microsoft's Treasury unit manages about 1.7 billion dollars in cash and short-term investments, which in size is equivalent to a medium-sized mutual fund. From Redmond, Washington, the department directly manages 23 foreign currencies and cash receipts and disbursements in 65 countries; its staff includes six people with productivity tools. They work in a work cell environment, all in the same room with computers at hand and with the walls covered with big screens containing real-time information needed to do their work. Mr. Brown described how Microsoft developing an enterprise data model driven by the business processes of planning, selling, and resource management. He pointed out that horizontal layers across the model consist of:

- communication network—real time, around the world, 24 hours a day
- business logic in defining and coordinating processes and identifying where the accounting and process logic enters the model, and
- standard definitions of data.

He stressed implementing processes so data is input only one time (called "handle data once," it improves efficiency tremendously).

In considering traditional functions such as order management, accounts payable, credit management, accounts receivable, payroll, cost accounting, fixed assets, controllers, journal entries, etc., Microsoft decided the core business processes did not have much to do separately with each of these departments. They decided that items tended to get stuck as they flowed up through the structure or authorities to move on to the next part of the organization. Microsoft organized and reorganized virtually all financial activities into self-directed teams that "owned" processes. Treasury operations, asset and procurement, and manufacturing are examples of those teams. The company is organized around the processes.

To summarize the lessons learned, Mr. Brown indicated four important points:

- Tap employee ingenuity at the desktop and empower employees to tell you what they need to do their jobs
- Develop an efficient data model for cohesiveness
- Organize people around the key processes
- Invest in tools.

Philip Kiviat
KnowledgeWare

Philip Kiviat of KnowledgeWare explained that business process reengineering (BPR) is the radical redesign of business processes to accomplish the aims of increasing profits, reducing costs, satisfying customer needs for quality service, and accomplishing other objectives. He observed that its keynote is radical redesign. It redefines the jobs people and computers perform in these new processes. It creates more complex jobs. It changes organizational structure from organization by function to organization by business process. It revises incentives or other management structures in order to get people to behave appropriately. For example, Ford Motor Company eliminated paper invoices completely and instructed their suppliers to make no partial deliveries. When an order is placed, payment information is entered; when the goods are received and complete, the supplier is paid electronically. The process, which supplanted normal accounts payable, accounts receivable, and other processes, caused a 75 percent reduction in staff over a 5-year period.

Reengineering refers to reinventing, process change, process improvement, or redesign. It differs from total quality management (TQM) in that business process reengineering is a radical innovation across the functions of an organization whereas TQM is within a single process. TQM and business reengineering are complementary; TQM takes place all the time, BPR takes place when needed.

Radical changes in business processes are possible considering five information technologies—electronic data interchange (EDI), expert systems, imaging, client/server architecture, and geographic information systems (GIS)—where one can look for the solutions needed today.

The methodology of an ordered approach is required at the top of an organization for going after the problem. The steps characterizing reengineering are to:

1. Develop business vision and process objectives, prioritize objectives, and set stretch targets;
2. Identify processes to be redesigned, noting critical or bottleneck processes;
3. Understand and measure existing process, identify current problems, set a baseline, and consider the economics in terms of cost, value, and dynamics of the current structure in order to improve them;
4. Identify information technology levers and new process approaches; and
5. Design and build a prototype of the process, implementing organizational and technical aspects.

Mr. Kiviat stated that business process reengineering first identifies a problem and then sees how information technology can help solve that problem. He observed that this is why the efforts have to be led by the people who have the problems, not by people who sell solutions. He stated that the organization should locate the reengineering activities outside the existing operations and structure of the organization and provide strong and involved leadership.


Cynthia Kendall
Department of Defense

Cynthia Kendall, Deputy Assistant Secretary of Defense for Information Systems, spoke about DOD's approach in dealing with information technology. The Corporate Information Management (CIM) approach focuses on business process improvements, not on technology or information systems. Each functional manager at the DOD must look at the way current missions are done today and look for improvements.

DOD's budget authority is decreasing: 1994 represents a decline of 34% in real terms from 1985 and by 1997 the real decline will equal 41%. There is tremendous pressure to cut back the cost of conducting management activities and support activities across the department.

The CIM project provides tools to the mission managers to achieve efficiencies in their particular process improvement activities. The primary tool is Item Definition (IDEF). It is a tool for managers to use to model what they are doing and to look for areas that can be improved. The DOD is pursuing this methodology as a standard. IDEF is being used in over 100 activities.

The process is circular; the idea is to make incremental improvements rather quickly; then to go through the process again looking for more. Functional direction needs first to be established. Next, current processes and costs are defined—this describes what is being done at present. Based on that, a manager can look for opportunities to make improvements or adjustments. As alternatives are found, the manager does a functional economic analysis. The best alternative is implemented. The manager then reevaluates the full process and starts on the process again.

A further idea of the IDEF methodology is to eliminate non-value added activities. For the amount of money being invested, another activity may have higher pay back. It should be continued. Possibly more should be invested in it.

Two years ago the Defense Accounting Finance Service (DFAS) pulled together all the resources doing finance and accounting throughout DOD. A large number of systems were found to be supporting the process. Each had to be maintained. These were called "legacy systems." An approach was devised to weed them out and thus reduce their number. Ninety legacy systems were specifically addressed.

DFAS wants to lower the number of systems from 90 today down to 12 and then by 1995 down to 7.

An example of applying the IDEF in the financial area concerned the DOD's Universities. In 1991, the Congress directed that uniform cost accounting for operation of professional military education schools be used. A GAO report had indicated a lack of guidance in cost reporting related to problem in the financial reports. Given this as background, the IDEF process was started. The different business processes at the universities were reviewed to see if there were ways to reduce cost and/or increase efficiencies. As a result a number of recommendations were made with early estimates that $1 million or more can be saved per year.

In closing, Ms. Kendall shared a slogan used in DOD CIM activities: "If you do what you always did, you will get what you have always got."

Bettsy Lane
Department of the Treasury

Bettsy Lane, Director of the Financial Innovation Division, Financial Management Service, Department of the Treasury, views the future as without paper and paper checks. Information flows electronically. Funds are disbursed or collected electronically and "on-time."

An "all-electronic" Treasury sees a transaction cycle as completely electronic, not partially. By converting to all electronic, FMS would make it easier for the public to do business with the government, and do business the way business does business.

For such an all-electronic Treasury to be realized, work needs to be done to provide the missing link: automation of the "information" portion of the transaction cycle. Ms. Lane described several problems which still exist. There is limited automation of a transaction cycle. In some cases, only a segment of an entire transaction cycle is electronic (one example is IRS's receipt of a tax return in paper form and providing a tax refund by ACH; another example is an agency's receipt of a billing in paper form and payment electronically by ACH Vendor Express). The current volume represents limited saturation of use—nothing close to what ultimately can be done in terms of electronic transaction cycles. A key problem, for example, which limits the flow of information is the fact that information continues to be provided on paper. Ms. Lane suggests we have to stop thinking of EFT as a "mechanism" for payments and collections and instead consider EFT as an enabling technology which provides a facilitating medium for administrative efficiencies.

It is the Treasury's goal to convert all cash flows and associated financial information to electronic media. FMS, in working to achieve those goals, has acted to improve both the information flow and payment:

- Electronic benefit transfer (EBT) use to deliver benefits to individuals without bank accounts via a plastic card and thus eliminate paper checks and coupons.
- Electronic funds transfer (EFT) use to eliminate checks and transmit information and funds.
- Automated Clearing House (ACH) use for direct deposit, vendor express payments, and also EBT delivery.
- Taxlink-electronic federal tax deposit (FTD) use to eliminate paper coupons by using ACH with PCs and touchtone phones to pay corporate taxes.
- Electronic certification system use to eliminate paper forms from the payment certification process.
- Electronic data interchange (EDI) assessment and use by many agencies.

- Automated standard application for payments—a process that simplifies federal government business with states.

With now being the time for innovation from government, it is time to tap the potential for use of technology for new services and for improving old services. Ms. Lane indicated that we need to continue to push the barriers out and establish new thresholds for innovation. We can exploit technology for the routine functions.

Norwood Jackson
Office of Management and Budget

Norwood Jackson, Chief, Financial Standards and Reporting Branch, Office of Management and Budget, discussed the objectives of financial reporting and used the exposure draft of the Federal Accounting Standards Advisory Board on federal financial reporting as the cornerstone for his presentation. Federal financial reporting fulfills the duty to be accountable, provides the basis to evaluate performance, and discloses the adequacy and reliability of financial controls. Federal financial reporting is more than the financial statements; it must be useful for decision making, and the process requires management to meet the objectives of the reporting.

Fulfilling the duty to be accountable means managing the budgetary resources, complying with laws, making operations more efficient and economical, and improving information for management. Financial information provided to management is more than that presented in the financial statements. It includes the types of internal financial reports that management must use in making decisions. The audited financial statement process provides the sense of security that the information in the financial reports is reliable because this same source of information is used for the preparation of financial statements.

Being accountable can be achieved, from a financial perspective, by reporting: (1) the receipt, obligation, and disbursement of resources; (2) the status of budgetary resources; (3) actual versus budgetary costs; and (4) performance information. With such information, officials confidently may meet with legislators at the times legislation is being considered to discuss its future impact. With good financial information, such as anticipated unfunded liability, behaviors can be changed to consider this impact early.

Mr. Jackson said reporting provides the basis for evaluating performance concerning program costs, their composition and changes, and efforts and accomplishments in relation to costs. Reporting addresses asset and liability management. Financial reports of the form and content issued under OMB guidance will evolve and recognize the importance of internal reports such as those which corporations use to run their daily operations. The model for federal financial reporting is yet to be developed.

Evaluating performance may be accomplished when basic cost information is captured for assessment, cost comparisons and analyses are conducted, and both financial and nonfinancial indicators (inputs, outputs, outcomes, and comparisons with goals) are being reported. Mr. Jackson sees the cost comparisons and analyses as the ingredient for managed competition, in that the budgetary process can begin to focus on inefficient operations to effect change. A periodic reporting process provides the mechanism for reporting how well goals are being met. Audits evaluate the reliability of the reporting.

An example of disclosing the adequacy and reliability of financial management controls is the reporting on controls under the Federal Managers' Financial Integrity Act. The Office of the Inspector General (OIG) becomes an important part of this process because the information reported can be assessed against the areas disclosed by audits to have had problems with controls.

Federal financial reporting must be useful to the decisionmaking process. The reporting should be a catalyst for change by leading to changes in program providers, revision and elimination of programs, and assessment of an agency's progress in problem solving. The audit process provides the annual assessment that helps to ensure problems are reported and resolved. This annual assessment will begin to give greater attention to performance measures.

Mr. Jackson concluded that much can happen if there is collegiality between the OIG and agency management and they go about the work in a productive way. It would be difficult to measure the effectiveness of the Chief Financial Officers Act if just the financial side were measured. Rather, there must be a broader view of the progress in terms of the products being useful for decisionmaking.

Patricia Dalton
Department of Labor

Patricia Dalton, Director of Financial Statement Audits, Office of Inspector General, Department of Labor (DOL), stated that DOL with budget authority of $38 billion would rank 14th on the list of Fortune 500 companies. DOL's major programs include workers compensation, unemployment insurance, and various training programs.

DOL was the first cabinet level agency to have audited financial statements. Its OIG began in 1986 with an audit of the DOL balance sheet and now audits all financial statements. The OIG compiled the statements for the department from 1987 through 1989. DOL's new accounting system has significantly facilitated the process. The reporting has changed significantly since 1986 to include an annual report for the general public and various other reports for internal use.

Ms. Dalton emphasized it is the audited financial statement process rather than simply the statements alone that has produced results. The process emphasizes systems discipline, focus on program costs, and enhancement of the OIG's audit planning. She cited the general ledger system, grants management, and the Unemployment Trust Fund as systems areas benefitting from the audited financial statement process.

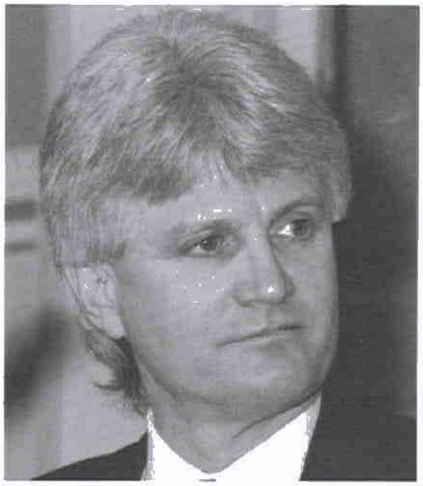
DOL now has a balanced general ledger and the process has brought rigor to the accounting operations from the program level on up through the departmental level. The annual process has established controls and instilled discipline to the program offices. The reporting capability and compliance with OMB's form and content requirements for financial statements have improved, and program offices are communicating with each other on OIG findings related to grants.

Focusing on program costs, she discussed linking performance measurement data, such as cost, to information in the financial statements. The OIG has been auditing performance data for several years on selected programs. As an example, the OIG has audited performance measurement data of the Job Corps program. The OIG found the costs to train a participant at its training centers varied widely. She said such cost information can provide the basis to analyze causes of differences. Performance measurement is applicable to financial operations also; she cited the costs to process invoices in various offices as an example.

The audited financial statement process becomes a framework for the OIG's audit planning process by providing comprehensive risk assessments upon which the OIG audit plan is based. The OIG is able to use information in the audited financial statements to spin-off other audits, for example, audits of the grants area and vendor payments.

In summary, Ms. Dalton said the audited financial statement process at the DOL is viewed by both the OIG and agency management as having produced positive results: strong commitment by management, improved communications, a new central accounting system, implementation of a general ledger, and improved training and upgrading of financial staff.

Making an Impact with the Audited Financial Statement Process



Shelby Hallmark
Department of Labor

Shelby Hallmark, Deputy Director, Office of Workers Compensation Program, DOL, said program management now has some tools to work better with financial management in improving the audited financial statement process. He discussed the benefits from the process as being an improved discipline and an improved working relationship with the OIG. Both program management and the OIG are now more organized. These are hopeful signs, and he looks forward to additional accomplishments.

He opposed the financial audit process initially, which began at DOL before the CFO Act, because it imposed additional requirements with no apparent benefit. At that time, he did not see a problem with his unfunded liability because it was not viewed from a budget perspective as a concern of OMB or the Congress and he opposed the cash versus accrual accounting approach. The CFO Act now requires this process for the federal government and DOL is in the forefront because of its early work with the process.

He expressed concerns, however, about the cost of preparing the financial statements. The financial side of his program area expends the equivalent of 2 staff-years to compile the statements, with additional staff time expended by the program side and at the departmental level. The time has not yet arrived where the process has proven itself because the financial statements do not go much beyond the compilation stage—their routine use within managerial and decisionmaking processes has not yet been realized.

On performance measurement, Mr. Hallmark favors the process for improving financial and program measures, but said that it scares those in program management because there is some loss of control. While program managers understand the measures they have been using and they have worked well with the Congress, the true measures of performance may frighten some program managers.

Mr. Hallmark would like to link various program and financial measures as a basis for discussing resources with the Congress and helping the budget process. For example, he discussed linking information on the total DOL liability for compensation cases with the need to act more quickly on individual compensation cases. He also discussed linking the financial side with the appropriations process. The Congress and OMB budget analysts would have to focus on the financial side through the appropriations process in order for program management to do so.

In closing, Mr. Hallmark stated the process should proceed slowly because it is huge and strange with interacting parts (budget and accounting structures). He urged that room be left for the individual managers to still fit their situations and be as economical as possible. The process should be cost-effective and, with the competition for funds, be viewed with skepticism and distrust. He stated the process should apply a concept from the Paperwork Reduction Act in that old requirements must be consolidated or deleted when new requirements are implemented.

Panel Session Summaries
Accountability Reporting—The Wave of the Future for Program and Financial Managers

Harold Steinberg
Office of Management and Budget

Harold Steinberg, Deputy Controller, Office of Federal Financial Management, Office of Management and Budget, observed that the public is concerned about governmental financial management and demands more financial information and accountability reporting. Financial reporting of useful and reliable information is expected about what is happening financially and about the uses of resources. In response to the concern for financial management reporting, the Federal Accounting Standards Advisory Board (FASAB) conducted a project on financial reporting objectives; its exposure draft has been issued for comments. The FASAB exposure draft recognizes that accounting is a tool for demonstrating accountability across the board. The draft suggested what has been called an "accountability report."

Federal financial reporting takes place in the environment which characterizes the federal government's responsibility as a sovereign nation. The responsibilities encompass the common defense and the general welfare, including economic well-being, of the nation. For government's broad services, nothing exists that can be called exchange transactions to match income and outcome; there are no market measures for the value of the output. Government has significant investments in capital assets such as public domain land, education programs, and research. It has a significant investment in assets that do not produce income but are maintained to provide the services that the government is in existence to provide.

Government already has a financial document—the budget—that is very visible. A policy document, the budget is used to reach agreement on goals and control the use of resources. The budget focuses on cash and budget authorities. Financial reporting is essential to focus on the economic consequences.

Four users of government information are the citizens, the Congress, the Executive Branch—the President, OMB, Treasury, etc.—and program managers. The four groups each have duties and make decisions which require certain information. In defining the kinds of information needed to fulfill their responsibilities, the FASAB document indicates that six kinds of information are needed:

1. information about the budgetary aspects of sources and uses of revenues,
2. reporting on how the programs are doing,
3. reporting on the status of the assets and liabilities used for the program,
4. information on cash flows, receivables, assets, liabilities, and inventory levels,
5. information about future concerns, and
6. reporting on problem analysis and controls.

Further, the FASAB document identified four objectives for reporting in the federal government. The first objective has to do with budgetary integrity--recognizing that one of government's major objectives is to help people be publicly accountable for the money being raised through taxes and other means. The next objective, operating performance, makes a financial report useful in evaluating the costs and accomplishments of reporting entities against performance measures. The third objective is stewardship. Financial reports should enable users to assess the impact of operations and investments. The last objective is the deterrence of fraud, waste, and abuse.

Panel Session Summaries
Accountability Reporting—The Wave of the Future for Program and Financial Managers

John Hill
General Accounting Office

John Hill, Director, Audit Support and Analysis, U.S. General Accounting Office, described a model developed (by GAO) using Department of Veternas Affairs operations to place into a conceptual framework the objectives with which the FASAB process was concerned. The prototype VA statements emphasize the format, content, and interrelationships of information. They learned that the more objectives included in the financial statements, the more complex the statements had to become. This is a serious issue, as Congress, the Administration, program managers, and the public may not be active users of financial reports because they have found them to be too complex. As more and more objectives are added, more attention must be directed to making statements be user friendly.

The financial statements in the VA example are organized around both major programs and major activities. The VA is organized around its programs with minor program mixing within the individual agencies of VA—this facilitates program level reporting. Such correspondence of programs and department organization, Mr. Hill observed, is not found for all federal departments.

An example of a major activity is provided by the VA's hospitals. Composite reporting is done at the activity area, and hospital facility level reporting is also accomplished.

Three different focuses of reporting used for the VA financial statements were addressed. One, a budget focus, was adopted as it had been learned that many people in the budget community expect the financial statements to show how the budget is tied into the process. The second focus, on performance, reflects how statements may be cost based and useful to pull together cost information so that they can be used for performance measurement. The last focus is on statements which are stewardship oriented; these are very different from the traditional financial statement as they derive from government responsibilities and lack a counterpart in the private sector.

Different reports used in the VA example reflected those particular focuses. For budgeting, a budget execution report uses information that would be audited to compare budget to actual, thus highlighting the differences between the budget passed by the Congress and the actual amounts shown in the accounts. The statement of financial resources and funded liabilities shows financial resources and all funded liabilities on that budget focus. A reconciliation to the budget statement links the budget account to the cost of programs and provides a crosswalk between the accruals, obligations, and cash.

The performance focus largely is addressed by the statement of operating position. Resources needed for performance measurements may be shown by this statement. Different sections show as entity-related those resources which the entity may use for its own operation, distinguishing them from those assets (non-entity) for which the entity has a stewardship function.

Mr. Hill indicated, considering performance measurements, that it may be very difficult to implement some measures over a 1-year period which is usually the period on which a financial statement is based. Program characteristics may dictate that a program takes years to produce results or show measurable returns on investments. It may be important to track those investments over a number of years and to report related intangibles. A schedule of future claims and budgetary resources may show the impact of current policies on the future. The statement may include expected outlays of the future given some of the current commitments or the present values of liabilities that exist at the current time.

The stewardship focus tracks assets that are not used in operations. The operating statement, may show assets owned by the government for the public. For instance, if the Washington Monument were on the books of a particular agency, it would not be shown as one of the operating assets, but would instead be tracked on a separate stewardship type of statement.

The financial statements, in summary, should be viewed conceptually. They differ in terms of their objectives. They differ in time span and this may suggest the need to get beyond the period of just looking at one year or two years. They differ in needs to match costs to outcomes--to the results of what we are doing in the federal government. They differ by stewardship focus. What the financial statements should be, in focus, form, and content will be subject to continuing discussion.

Barry White
Office of Management and Budget

In discussion following the presentations, Barry White, Budget Examiner, OMB, observed that the suggested statements continue to look like financial statements and that they would be presented to program managers and other non-financial officials. These policy and decision makers are not financial people, but are political appointees or career officials. Mr. White added that questions of accountability for a program typically point not to a single department but to at least two or more cabinet agencies and 20 or more assistant secretaries and maybe 100 SES program managers who are responsible for some aspect of the program. He said that a choice between the department structure or the program structure for reporting was not a viable one as one would want to hold all people appointed by the President and confirmed by the Senate accountable for measures of what goes on in their agencies.

Justine Rodriguez
Office of Management and Budget

Justine Rodriguez, Senior Economist, Office of Economic Policy, OMB, commented that department level aggregated reporting would need to be supported by information on important sub-level matters. You can compare data for various purposes. You can pull some information out for publication knowing the rest exist for reference. She observed differences in the information made public by corporations and government. A corporation's balance sheet is available to creditors and investors; its managerial accounting and budget are confidential to the firm. For government, the budget is announced according to agreed rules; the budget process raises money from tax payments to government. Congruency is found more with the income statement (corporation) and the operating statement and balance sheet (government), as each analyzes how well the organization manages what it is doing over a time period. You have an implicit cost statement of what was produced for the expenses in the period. That is what one tries to maximize.

Accountability Reporting—The Wave of the Future for Program and Financial Managers

Michael English
Department of Health and Human Services

Michael English, Program Manager, Department of Health and Human Services, observed that FASAB recognizes that non-financial information is very important and that it has to be included with other information identified for financial management. Without supplying program information, financial data alone is relatively meaningless for managing programs. Financial information gains meaning when it is attached to program information. To program people, most of the extraordinarily important information lies in the supplemental and overview type information. The financial reports take a necessary first step in associating budget with financial information; the next step is to start associating financial information with program information. As a program manager, Mr.English said he views the accountants in his operation as participants in the overall process of making programs work and he wants them to participate. However, an annual report, as described, would not be very important to him; what he needs instead are the results at least quarterly in order to manage from a program perspective and to build information which may subsequently fulfill the annual reporting requirement.

Dennis Fischer
General Services Administration

Dennis Fischer, Chief Financial Officer at the General Services Administration, observed that current times require answers and cannot avoid the hard economic questions imposed as programs compete for scarce dollars. In terms of the budget process, we have to show both that programs are worth the dollars spent as well as of high values in dollars earned or implicit in terms of social good.

Further discussion centered on the redirection of resources. It was pointed out that one way to kill performance measures in the federal government would be to come up with really bad information.

Performance legislation now pending and the emphasis on accountability from OMB is requiring departments and agencies to approach the new expectations conscientiously. New reports mean that people may start looking at information, some of it not good. Auditors become more involved in reviewing the systems from which this information comes, to make sure that there are good underlying databases. Some agencies already audit the numbers on which performance indicators are based. In activities to develop and report performance measures, there is a need to consider the requirements of new legislation, overall usefulness for managing, saving of money, and achievement of other objectives.

Chapter 5
Award Winners

Donald L. Scantlebury Memorial Award Winners

1992

Harvey C. Eckert
Deputy Secretary for Comptroller Operations,
Commonwealth of Pennsylvania

Robert W. Gramling
Director of Corporate Audits
U.S. General Accounting Office

James D. Yager
Assistant Executive Director,
Management Services
South Florida Water Management District

1991

Richard P. Kusserow
Inspector General
Department of Health and Human Services

Mary Ellen Withrow
Treasurer
State of Ohio

1990

Tom L. Allen
State Auditor of Utah
State of Utah

Robert L. Yates
Vice President and Controller
Tennessee Valley Authority

1989

William L. Kendig
Director of Financial Management
Department of the Interior

Ellen O'Connor
Budger Director, Executive Office for Administration and Finance
Commonwealth of Massachusetts

1988

Kenneth P. Boehne
Chief Executive Officer
U.S. Railroad Retirement Board

Louis L. Goldstein
Comptroller of the Treasury
State of Maryland

Elizabeth E. Smedley
Deputy Assistant Secretary for Financial Management and Controller
Department of Energy

1987

Conrad R. Hoffman
Director, Office of Budget and Finance (Controller)
Veterans Administration

William R. Snodgrass
Comptroller of the Treasury
State of Tennessee

1986

William R. Douglas
Commissioner,
Financial Management Service
Department of the Treasury

Douglas R. Norton
Auditor General
State of Arizona

John R. Quetsch
Principal Deputy Assistant Secretary (Comptroller)
Department of Defense

1985

C. Morgan Kinghorn
Comptroller
Environmental Protection Agency

Edward J. Mazur
State Comptroller
Commonwealth of Virginia

1984

Clyde E. Jeffcoat
Principal Deputy Commander
Finance and Accounting Center
Department of the Army

Earle E. Morris
Comptroller General
State of South Carolina

1983

Roger B. Feldman
Comptroller
Department of State

James F. Antonio
State Auditor
State of Missouri

1982

Harold L. Stugart
Auditor General
Army Audit Agency

Roland W. Burris
Comptroller
State of Illinois

1981

David Sitrin
Deputy Associate Director for National Security
Office of Management and Budget

Thomas W. Hayes
Auditor General
State of California

Award Winners

Financial Management Improvement Award Winners

1980
Marcus Page
Director, Division of Financial Management
Environmental Protection Agency

Robert Cronson
Auditor General
State of Illinois

1979
June Gibbs Brown
Inspector General
Department of the Interior

Anthony Piccirilli
Auditor General
State of Rhode Island

1978
William M. Henderson
Fiscal Affairs Specialist
Department of the Treasury

Frank L. Greathouse
Director, Division of Department of the Treasury, State and Municipal Audit
State of Tennessee

1977
Rear Admiral James R. Ahern
Deputy Comptroller of the Navy
Deaprtment of the Navy

Lloyd F. Hara
Auditor, King County
State of Washington

1976
Alice M. Rivlin
Director
Congressional Budget Office

Joseph T. Davis
Assistant Commissioner (Administration)
Internal Revenue Service

1975
Terrence E. McClary
Assistant Secretary of Defense (Comptroller)
Department of Defense

John E. Dever
City Manager of Sunnyvale
State of California

1974
Bernard B. Lynn
Director
Defense Contract Audit Agency

Martin Ives
Deputy Comptroller
State of New York

1973
Edward S. Stepnick
Director, HEW Audit Agency
Department of Health, Education and Welfare

Robert R. Ringwood
State Auditor
State of Wisconsin

1972
Robert C. Moot
Assistant Secretary of Defense (Comptroller)
Department of Defense

Richard W. Miller
Associate Assistant Secretary for Administration
Department of Labor

1971
John P. Abbadessa
Controller
Atomic Energy Commission

J. Patrick Dugan
Treasurer-Controller
Export-Import Bank of the United States