# THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM in the Federal Government of the United States

- its scope
objectives
methods
1967

# THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

## in the Federal Government of the United States

*a cooperative endeavor of importance to all management staff*

1967

*prepared by the*

- TREASURY DEPARTMENT
- BUREAU OF THE BUDGET
- CIVIL SERVICE COMMISSION
- GENERAL ACCOUNTING OFFICE

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## Foreword

The Joint Financial Management Improvement Program in the Federal Government has been in existence for over 18 years. During this period, Government operations have become more complex and have placed increasingly greater demands on the financial management systems of the various agencies. The Joint Program has provided continuing leadership in stimulating the modernization of agency systems to satisfy those demands, and now occupies an important and permanent place in the organization of the Federal Government.

The Joint Program has produced many significant accomplishments in the strengthening of financial management systems in the Federal Government. The accomplishments and results obtained, highlighted in the annual reports of progress, have generated a vigorous interest in this cooperative improvement effort. It is to serve this interest, and to provide a better understanding of the objectives and methodology of the Joint Program, that this pamphlet has been prepared.

Although considerable progress has been made during the past 18 years, much remains to be done if the financial management systems of the Federal Government are to continue as useful aids to management. The needs to be met continually are increasing, the technology is rapidly changing, and it is incumbent upon the Joint Program to keep pace with these developments in a way that will best serve identified management needs. To attain this objective, top management in the agencies must give full support to this cooperative effort, because successful operation of the Joint Program depends upon the active cooperation and participation of top level officials throughout the Federal Government.

Henry H. Fowler
*Secretary of the Treasury*

Charles L Schultze
*Director, Bureau of the Budget*

John W Macy Jr
*Chairman, Civil Service Commission*

Elmer B. Staats
*Comptroller General of the United States*

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THE ROLE OF MANAGERS

## Origin and Scope of the Program

### • What is the Joint Financial Management Improvement Program in the Federal Government?

This is a Government-wide cooperative effort of all agencies to establish and maintain systems of financial management of maximum usefulness throughout the Federal Government. Leadership is provided by the Comptroller General of the United States, the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Chairman of the Civil Service Commission. Its purpose is to promote the development and use of improved financial management systems in planning, executing, and controlling agency operations in order that the systems may contribute to better management in the executive branch; provide more meaningful information for use by the Congress in acting upon appropriations and other legislation; and furnish the public a clearer picture of the financial condition and operations of the Federal Government.

### • How did the Program originate?

It began in 1948 by agreement between the Comptroller General, the Secretary of the Treasury, and the Director of the Bureau of the Budget. The purposes of this agreement were to seek an improved means of carrying out the interrelated activities and responsibilities of these central agencies and to coordinate better these efforts with the financial management activities of the operating agencies. At the request of the others, the Chairman of the Civil Service Commission joined the Program in 1966 to assist in the personnel aspects of financial management.

### • What are the Program's fundamental premises?

The fundamental premises upon which the Joint Program is based can be summarized as follows:

1. The accounting, budgeting, reporting, and other financial management activities are the responsibility of the executive branch.

2. The financial management systems of the executive branch must give recognition to the needs and responsibilities of both the legislative and executive branches.
3. Effective attainment of these objectives requires close working relationships among the General Accounting Office, the Bureau of the Budget, the Treasury Department, the Civil Service Commission, and the operating agencies.
4. There must be an audit function independent of the executive branch which appropriately recognizes existing features of internal control in the executive agencies, including internal audit.

## • What is the scope of the Program?

When the Program was established, it was designated as "The Joint Program for Improving Accounting in the Federal Government." Initial improvement efforts dealt mainly with the accounting and auditing practices of the Government. However, the central and operating agencies recognized that if maximum benefits from the accounting changes were to be obtained by the managers at every level of agency operations, the area of improvement must be broadened to cover the full spectrum of financial management. Thus, the scope of the Program was expanded to include budgeting, reporting, and related financial management practices that would assist agency managers in their program planning, execution, and control. This was one of the early significant benefits of the joint nature of the Program. Consequently, it was redesignated as the Joint Financial Management Improvement Program in December 1959.

## Basic Authority and Objectives

### • What is the authority for the Program?

The conduct of this cooperative improvement effort was originally based upon agreements expressed in a joint policy statement issued in January 1949 by the Secretary of the Treasury, the Comptroller General, and the Director of the Bureau of the Budget. Initial experience under the Program led to the development and passage of the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 65) which amended the Budget and Accounting Act of 1921 (31 U.S.C. 1), and provided for more specific identification of the related responsibilities for budgeting, accounting, auditing, and financial reporting in the Federal Government. It also provided the central agencies with broad legal authority for the Joint Program in Section 111, which states it to be the policy of Congress that:

> "(f) The Comptroller General of the United States, the Secretary of the Treasury, and the Director of the Bureau of the Budget conduct a continuous program for the improvement of accounting and financial reporting in the Government."

This authority provides the basis for the central financial agencies to continually maintain Federal financial management systems so that they will keep abreast of new developments as they occur.

### • What is the interest of the Congress in the Program?

The deep and continuing interest of the Congress in the development of effective financial management throughout Government can be seen in legislation enacted during the years of the Program and in the concern that congressional committees have shown with the results obtained under the Joint Program.

Some of the legislation passed by the Congress evidencing its strong support of the Joint Program are: the use of accrual accounting, adoption of cost-based budgeting for internal operations and appropriation requests, development of consistent classifications, and simplification of allotment structures (31 U.S.C. 18, 24, 66a, and

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665); the year-end withdrawal of unobligated balances and the establishment of merged accounts (31 U.S.C. 701); the use of statistical sampling procedures in the examination of disbursement vouchers (31 U.S.C. 82b–1); and the making of appropriate accounting adjustments or reimbursements between agency appropriations (Public Law 89–473).

The Committees on Government Operations in both houses are particularly concerned and frequently are in touch with the central agencies and individual operating agencies on matters of concern to the Joint Program. Typical examples include the study in this field conducted by the Senate Committee on Government Operations, which resulted in the release of Senate Document No. 11 in February 1961—a report on "Financial Management in the Federal Government." This report provided a comprehensive analysis of existing and proposed legislation in the field, and a discussion of financial management improvements made, proposed, and under consideration. Another illustration is the hearings by the House Committee on Government Operations which resulted in the issuance of House Report No. 179 in March 1965 on the "Submission of Agency Accounting Systems for GAO Approval." This report contained recommendations to the central and operating agencies for accelerating the development of approvable accounting systems. Follow-up hearings on the same subject were held by the same committee in September 1966 and in July 1967.

Thus, through the enactment of desirable legislation and the conduct of periodic hearings, the Congress—its committees and staff—provide stimulus and advice that contribute to the continuing effort to strengthen financial management practices throughout the Federal Government.

## • What is the interest of the President in the Program?

Beyond their approval of legislation in this field, succeeding Presidents have given evidence of their concern and support for activities carried out under the Joint Program. Among the more prominent of these are the following examples:

In 1956, the President released a statement concerning implementation of the budget and accounting recommendations of the Second Hoover Commission. In this statement, he stressed the strengthening of the Joint Program ". . . in order to bring about more rapidly desirable improvements in budget and accounting . . . ", and subsequently called for intensified efforts by executive agencies toward that goal.

On May 24, 1966, the President addressed a memorandum to the heads of departments and agencies expressing his strong and continuing interest in the development of business-like financial systems throughout the Federal Goverment. He recognized the progress made under the Joint Program, but stated that more action was needed to meet the responsibilities set by the Budget and Accounting Procedures Act of 1950. Therefore, the President requested the head of each executive department and agency to take immediate action to:

> "—Insure that the system of accounting and internal control in his agency meets management needs and conforms to the principles, standards, and related requirements prescribed by the Comptroller General.
>
> "—Work with the Civil Service Commission in developing a more vigorous program for recruiting and developing the professional personnel to design and operate effective financial management systems.
>
> "—Assure that financial reports and cost data provide adequate support for the planning-programming-budgeting system.
>
> "—See that the agency's managers are given the basic tools they need—responsibility-centered cost-based operating budgets and financial reports—for setting and achieving maximum cost reduction goals."

In conclusion, the President called for full support by the agency head. He added, "I want every manager—the general manager and the financial manager alike—to feel and respond to your personal demands for the use of the highest quality, business-type financial information systems."

### • What are the objectives of the Program?

The basic goal of the Program is the improvement of financial management practices throughout the Government in a manner that will most effectively serve management purposes, and achieve maximum efficiency and economy in all operations. The current objectives include the following:

1. Strengthening of agency organization and staff facilities to provide for the most effective conduct of agency financial management operations.
2. Establishment of responsibility-oriented agency accounting systems on an accrual basis that will serve fund and cost control needs and include monetary property accounting as an integral part of the systems.
3. Integration of planning, programming, and budgeting practices with the accounts to provide adequate support for budget formulation and review of annual cost-based appropriation requests.

4. Development and use of responsibility-centered cost-based operating budgets and financial reports that will provide goal setting and cost incentives for agency managers in terms of the cost of all resources going into the job.
5. Simplification of agency appropriation and allotment structures, and development of the most effective methods of control of appropriations, funds, obligations, expenditures, and costs.
6. Use of consistent classifications to bring about effective coordination of agency programming, budgeting, accounting, and reporting practices.
7. Establishment of suitable internal control practices, including internal audit, in the agencies.
8. Effective integration of agency accounting and reporting in management information and control systems that will satisfy the requirements of the budget process, internal management needs, and the central accounting and reporting of the Treasury Department.
9. Development of accurate and useful agency and Government-wide reports on fiscal status, financial results of operations, and cost of agency performance of assigned functions.
10. Education of personnel in effective maintenance and maximum utilization of these management tools to effect economy in Government operations.

### • Does the Program contemplate the use of a uniform financial management system in every agency?

No. The wide scope and diversity of the activities carried on by the Government preclude the establishment of a single system that must be used, without variation, by every agency in Government. For example, the financial management system required for a manufacturing activity is not appropriate for a lending activity, nor is the system required for a regulatory body suitable for a collection activity. Instead of requiring a uniform system, the Program places emphasis upon the issuance of broad principles, standards, and guides that will channel the efforts of each agency toward the development of systems which are best suited to its particular management needs, yet are compatible with the broader needs of total Government management and public information. Thus, within a particular department of the Government, there may be several different kinds of systems—depending on the different management needs within the department—from which data can be developed and consolidated in a consistent manner for broader needs.

## • Do the current objectives of the Program involve new concepts?

The underlying concepts of this Program are essentially the same as when the Program was established. Since then, there has been a gradual evolution in agency practices from the traditional cash and obligation basis of budgeting and accounting to the use, additionally, of accrual and cost information in an integrated financial system that is comparable with many of the concepts followed in private industry.

The recent establishment of planning-programming-budgeting systems in the executive agencies is compatible with earlier concepts of the Program. This effort is directed toward strengthening the budget formulation process, and represents an extension and further implementation of the program and performance techniques that were adopted in the 1951 budget presentations; the cost-based budgeting developments in 1956; and the five-year budget projections initiated in 1961. Agency financial management practices, particularly the operating budget, accounting, reporting, and control systems, will need to keep pace with the demands of the output-oriented program structure and the strengthened planning, programming, and budgeting practices being developed.

Another important and logical development of the underlying concepts of the Program is responsibility-centered reporting under a unified management information and control system. This provides line managers and top management (total management) with reporting that integrates cost information with the agency budgetary controls and pinpoints individual responsibility for all controllable costs. Thus, the Joint Program continues to encourage and support developments in the financial management field that contribute to strengthened total management systems.

## Methods of Operation

### • How is the Program carried out?

Development and execution of the Program are achieved through close coordination of the efforts of the operating agencies and the four central agencies, in terms of the specific responsibilities of each. Leadership of the Program is provided by the three central agencies with financial responsibilities, the General Accounting Office, the Bureau of the Budget, and the Treasury Department; and by the Civil Service Commission with its responsibilities for Federal personnel administration. The essence of the Joint Program is a mutual interest in improved management and a joint effort to attain common objectives.

Coordination of Government-wide projects and financial management improvements in the operating agencies is achieved through a steering committee composed of a representative of each of these central agencies. In addition, each operating agency designates a representative to act as liaison with the steering committee.

### • What is the relationship between the individual responsibilities of the central and operating agencies and those of a joint nature under the Program?

The individual financial management responsibilities of the central financial agencies are set forth in the Budget and Accounting Act of 1921, the Budget and Accounting Procedures Act of 1950, and other pertinent legislation. The broad responsibility of the Civil Service Commission for Federal personnel administration is contained in both legislation and executive order. However, the performance of these separate responsibilities complement each other to the degree that the discharge of an individual responsibility by one of the agencies may have considerable impact on the adequate discharge of individual responsibilities by the other agencies. It is necessary, therefore, that efforts to develop effective and economical financial management systems for any part of the Government, or for the Government as a whole, be coordinated by all organizations having related responsibilities. By working together on a cooperative basis under the Joint Program, the several agencies are better able to carry out their individual responsibilities in the most effective manner.

### • How are the responsibilities of the four central agencies and the operating agencies coordinated under the Program?

The steering committee, composed of members representing the heads of the four central agencies, provides joint leadership in developing financial management improvements within the individual statutory responsibilities of those agencies. The designated liaison representatives of the operating agencies provide a channel of communication on matters affecting the statutory responsibilities of individual operating agencies.

### • How is the steering committee for the Joint Program organized and how does it operate?

Each of the representatives on the steering committee is currently and actively concerned with the functioning of the Joint Program. The committee holds regularly scheduled meetings to consider problem areas, initiate work projects, and keep abreast of the progress being made in strengthening financial management systems throughout the Government. These meetings are held on a rotating basis in each of the three central financial agencies. A committee chairman, who serves for one year, is appointed by and selected from the representatives of these three central agencies. He is responsible for coordination of committee activities during his designated term.

The steering committee operates as a body of coordinate members. Under the general direction of higher authority in each central agency, the committee may determine the subjects, functions, procedures, and other areas related to the financial management activities of the Government which should be studied, surveyed, or expedited on a joint basis. To accomplish this, the committee may establish joint project teams to study Government-wide financial management matters or to advise and assist operating agencies in the development of their internal financial management operations.

The steering committee keeps itself advised of financial management problems and the progress being made to improve financial management systems (Government-wide and within operating agencies) by consultation with operating agency officials and by reviewing reports and other information issued by the operating agencies or disclosed by audits, examinations, and other regular operations of the central agencies.

In summary, the committee provides advice and guidance on financial management improvement efforts throughout the Government in matters of Government-wide significance and in those involving internal agency operations. However, the steering committee does not assume any regulatory or administrative powers impinging on the authority and responsibilities of the agencies involved.

### • Why does the Program emphasize joint action by the three central financial agencies?

The failure to recognize the common interest of the executive and legislative branches caused difficulty in some earlier efforts to improve financial management in Government. The current authorizing legislation more specifically identifies the responsibilities and fundamental interests of each of the central financial agencies and calls for the joint and cooperative exercise of assigned financial management responsibilities. The Joint Program provides the means by which these interrelated responsibilities are brought together to attain effective results. The improvements brought about through these joint efforts, which have been reported in the Joint Program annual reports, are indicative of the effectiveness of these working arrangements.

### • Does the Program involve other central agencies?

Other central agencies are drawn into Joint Program operations to the extent appropriate, considering the way in which their individual responsibilities impinge upon the objectives and activities of the Joint Program. In 1966, the Chairman of the Civil Service Commission was asked by the heads of the three financial agencies to join them in the program to assist in the personnel aspects of financial management. This action was taken in view of that agency's role in the recruitment, training, and retention of Federal employees and the importance of these functions to financial management improvement efforts. The General Services Administration, which provides Government-wide direction for property and supply management, cooperates with the steering committee and participates in matters concerning this aspect of financial management.

### • To what extent do operating agencies participate in the Program?

Each agency in the executive branch has a vital part in the Program. The extent of each agency's participation varies depending upon what needs to be done. If a matter is Government-wide in scope, it is developed primarily by the central agencies, and individual operating agencies are consulted by the central agencies to determine the need for, and effect of, any contemplated changes. In addition, in some cases, one or several operating agencies may test or develop improvements of a Government-wide nature for the Joint Program, and in this way have made important contributions to overall efficiency.

The internal systems of the individual operating agencies, on the other hand, are the primary responsibility of the head of each agency, and must be installed and maintained by the agency on the most effective basis consistent with prescribed principles, standards, and guidelines. Central agency representatives consult with agency staff or provide assistance in internal agency improvement work according to the need of the agency for assistance and the availability of central agency staff for this purpose.

## • What types of personnel participate in the Program?

Financial management systems, methods, and controls are operational tools employed to serve management in the performance of assigned programs and functions. Best results are obtained under the Program by participation of representatives of all affected elements of management, not solely accounting and budgeting specialists. In the central and operating agencies, all types of personnel—accountants, auditors, budget examiners, economists, organization and management specialists, program and operating managers, and others—are participating in the Program.

## • How are the work projects of the Program staffed?

Work projects are performed under the direction of the steering committee. Operating agency staff assigned to a Joint Program project are selected by the agency after fully considering the purposes, scope, and requirements of the project, and the related factors involved. The central agencies assign their staff on the same basis. Other personnel in various agencies may be contacted in the course of a joint project, since in most cases the project team will also require assistance from personnel who are not specifically assigned to the project. This approach leads to widespread participation and provides for the most effective results.

# The Role of Managers

### • What incentive prompts operating agencies to adopt business-type financial systems?

The President stressed this need in his May 24, 1966, memorandum to the heads of all agencies. In addition, he stated at the Department of Defense Cost Reduction Awards Ceremony on July 12, 1966, that:

> "In Government, as elsewhere, it is much easier to spend money than to save it. But it is even harder to spend less and to get more results. * * * I believe that the kind of democratic Federal system that we have in this country should be and can be the most efficient of all. What makes any Government efficient is the assumption of personal responsibility by the people who serve it. People accept that responsibility when they have both freedom and incentive to do so. And it is precisely in our form of Government that they have maximum freedom and maximum incentive."

There is also a growing awareness of the needs of responsible managers for information on operating factors over which they can exercise control in the achievement of goals that contribute to the attainment of the organization's overall objectives. For example, the objectives of the planning-programming-budgeting systems, properly integrated with business-type financial systems as a vital part of total management, promote the concept of directing the attention of each responsible manager to the profitability of his operation (that is, whether it has been done at the least cost and with demonstrated cost reduction effectiveness). In addition, existing financial management concepts, properly applied, provide individual managers more freedom of operation because of the elimination of outmoded and cumbersome allocations of funds at low levels. A natural outgrowth is that top management is in a better position to exercise executive direction through delegation of authority to lower levels and review of performance in relation to overall objectives, based on the assurance of live communication channels for the flow of timely and informative periodic reports.

- **What can agency top management do to increase the effectiveness of the Joint Program?**

Acceptance and support by top management is vital to the success of any program. The Joint Program to be successful must have the active and working support of agency heads and their top staff. Enlightened top management has a direct and continuing interest in sound financial management practices because the latter provide the necessary instruments by which to guide and direct programs with assurance and sensitivity to the issues and alternative courses of action. To accomplish this, top management must "sell" financial management to the total management team, across organizational lines as well as throughout the individual organizational units. This can be done by increased indoctrination of agency staff in the modern concepts and techniques of financial planning; by providing managers with goal setting opportunities through the use of cost budgeting, targets, and progress indicators; by asking appropriate and penetrating questions of all managers; and by attracting greater numbers of qualified financial management personnel to Government service. The financial manager and those responsible for making financial management improvements should be provided with an adequate and informed staff, and should be located organizationally as a full member of top management.

- **Why must every manager consider financial management as an integral part of his managerial responsibilities?**

All managers need devices to measure and evaluate where a program has been, where it is going, what it has accomplished, what is yet to be accomplished, and what are the resources used and available at each of these successive stages in relation to what was planned and what has actually happened. This is what an effective financial management system tells the managers. The financial manager can provide this decisionmaking information to a program manager, but the financial manager cannot make the program decisions. Consequently, to operate a program efficiently and economically, the program manager and the financial manager must work in concert to obtain this end result.

- **What is the nature of the financial manager's responsibilities?**

Financial management has been described as that part of total management which is concerned primarily with the financial affairs of an organization and the translation of actions, both past and proposed, into meaningful and relevant information for use in the management process. Depending upon how an agency head decides to set up his financial organization, the financial manager's responsibility may encompass all or part of such specific functions as programming, budgeting, accounting, reporting, cash management, control of resources, cost reduction, internal auditing, systems development, and management analysis. However the organization may be established in an agency, the financial manager's objective should be the integration and coordination of these functions into a comprehensive financial management system that serves the identified needs of agency management and external requirements. This involves designing, establishing, and maintaining an integrated financial management system which will furnish timely data that are used in the direction, evaluation, and control of operations at the various levels of management. Such an integrated system must be compatible with the requirements of the Bureau of the Budget, the General Accounting Office, and the Treasury Department; and is required to provide accountability for agency funds and assets and full disclosure of the financial results of agency operations. To accomplish this, the financial manager must establish and maintain a suitable financial management organization, staffed with qualified and competent personnel.

### • What can agency financial managers do to increase the effectiveness of the Joint Program?

The agency financial manager can increase the effectiveness of the Joint Program and accelerate the adoption of sound financial management practices by developing a broad understanding of his agency's operations in relation to the Joint Program objectives. In so doing, the financial manager must accept the responsibility for supporting and increasing the effectiveness of the Program by actively contributing to its work and by energetically supporting its objectives.

### • How can the Joint Program contribute to cost control and cost reduction?

To reiterate, the basic goal of the Joint Program is the improvement of financial management practices throughout the Government in a manner that will most effectively serve management purposes and achieve maximum efficiency and economy in all operations. The accomplishment of this basic goal would, of itself, be a major contribution toward cost control and cost reduction. More specifically, however, the Joint Program objectives contemplate the use in each agency of accounting systems that incorporate cost accounting techniques and provide for the systematic accumulation of cost information in terms that are meaningful for planning, programming, budgeting, and management control. The reporting of such cost information should be done on a responsibility-centered basis down to the lowest level of authority in the organization, and should be related where feasible to significant measures of program and work. An important feature is the incorporation of cost-based operating budget procedures in relation to these reports so that every manager can compare what has been accomplished against what was planned. This type of performance reporting is an important ingredient of prudent and efficient control of agency operations. Operating cost plans, targets, and periodic reports in relation thereto thus play a significant role in achieving cost control and cost reduction.



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