JFMIP

The Proceedings of the 20th Annual Financial Management Conference

Improving Program Delivery and Stewardship through Modern Financial Management

THE 20th ANNUAL CONFERENCE

JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

Monday, March 18, 1991
Washington, D.C.

Contents

Forward

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 March 18, 1991, the 20th annual Financial Management Conference was held on "Improving Program Delivery and Stewardship through Modern 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 keynote addresses were presented by Donald J. Atwood, Deputy Secretary of Defense, and Elaine L. Chao, Deputy Secretary of Transportation. Deputy Secretary Atwood pointed out the success of Operation Desert Storm and discussed the organizational changes that the Department of Defense is making to improve the way it does business. Deputy Secretary Chao indicated how the Department of Transportation is incorporating the principles set forth in the Chief Financial Officers Act of 1990 (CFOs Act). Their speeches can be found in Chapter 1. This chapter also includes the discussion by Frank Hodsoll, Executive Associate Director of the Office of Management and Budget, on "Plans for Implementing the CFOs Act."

The luncheon session remarks are presented in the second chapter. Deputy Secretary of the Treasury John E. Robson and JFMIP Principal Constance B. Newman, Director of the Office of Personnel Management, gave brief addresses. Deputy Secretary Robson discussed issues of future economic growth, the federal budget for fiscal year 1992, and reform of the banking system. Ms. Newman directed her remarks to the issues of productivity, quality, public image, and management. The awards portion of the program, conducted by Gerald Murphy, Fiscal Assistant Secretary, Department of the Treasury, featured the remarks of Elmer Staats, former Comptroller General of the U.S., and Chairman, Federal Accounting Standards Advisory Board. Mr. Staats recognized in his remarks the 20th anniversary of the JFMIP's annual conference. He also spoke in remembrance of Donald L. Scantlebury in commemoration of the 10th anniversary of the Donald L. Scantlebury Memorial Awards. Award presentations for 1990, presented by Deputy Secretary Robson, concluded the luncheon session.

One plenary and three other panel sessions covered the topics of federal accounting standards, technological developments, improving operations through better financial management, and meeting the requirements of the CFOs Act for financial analysis. Summaries of these sessions are found in Chapter 3.

Acknowledgements

We would like to acknowledge and 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

Opening Remarks

Virginia B. Robinson
Executive Director, JFMIP

Good morning. I am delighted to welcome so many of you to our 20th Annual Conference. The count before the walk-in registrations this morning was about 852, so we are very pleased to have this very good turnout, with excellent representation from both the public sector and the private sector.

I am also pleased to tell you that we are getting interest from around the world. We have representation here from Australia, Canada, and other countries; and we have representatives here from seven states so far. We welcome all of you, and are very glad that you have chosen to participate in this 20th anniversary conference. This is also the 10th anniversary of the Donald L. Scantlebury Memorial Awards, named for the Chief Accountant at the General Accounting Office.

These are very exciting times in financial management—some of us are beginning to think, very possibly the most exciting time since the passage of the Accounting and Auditing Act of 1950—maybe even the Budget and Accounting Act of 1921. With the surprise passage of the CFOs legislation last fall, and I say many of us were pleasantly surprised, we really have a new agenda before us now.

A number of people have asked, "Why do you say it's exciting?" "What's different about the financial management legislation that has been passed this time?"

I see three distinct differences. The first thing I see that makes a difference with this legislation is that the Congress is very much directly involved.

Congressman John Conyers, who is Chairman of the House Government Operations Committee, and Congressman Horton—who were so much responsible for the passage of the CFOs legislation—have met with the President's Council on Management Improvements, President's Council on Integrity and Efficiency, and the Chief Financial Officers Council. It was not your typical political meeting where you have, on the one hand, this, and, on the other hand, that. They told us about their real expectations, and what they expect to see us deliver as a result of the new legislation.

The second thing that I see as a major difference between this legislation and legislation that we have had in the past is that we have from the Congress the concepts of what I would refer to as "pilots." They have told us what they expect. They have talked about the major activities to come out of the legislation, and they have given us specific time frames in which to accomplish it, not just time frames to tell them we have done something, but also to show the cost and benefits that resulted from our financial management activities.

The third thing that I see as a major difference at this particular time is that we are changing. When you go through the financial management community, you see that the accountants, the auditors, the budget specialists, financial management specialists, the IRM specialists, and others all are moving toward saying a common theme now.

We must produce documents, especially for reporting, that are useful. That word is used more frequently now than I have ever heard it in the past, and not just "useful," but especially "useful for the federal government." That makes a major difference.

In addition to those three things, I see a few other strides that are occuring and thant certainly present some light at the end of the tunnel. We have consensus building now for standardization. This is not just new with the CFOs legislation. We at JFMIP have issued—and we talked to you about this last year—a draft document on standardization of financial information for the federal government.

We sent the draft document to our central agencies; we expect comments from them by the end of the month; and I am pleased to say we will be looking forward to getting comments from the operating agencies as well.

Again in the standard setting area, we have some new mechanisms in place. Later this morning you will hear about some updates from the Federal Accounting Standards Advisory Board. That is new, and we have great expectations for that area to support the other standards and standardization initiatives.

Of course, in JFMIP proper, we expect to continue our emphasis on financial management training. I just suspect that you haven't heard enough about that yet. We certainly are not ready to stop our work in that area. We have issued a training document. By the end of this month we hope to have a document to the printer on a compendium of courses that are available for financial management training, and we hope that in our lifetime—in the very near future, really—we will have a training policy in place that says not just accountants but others in financial management disciplines as well will have requirements for training to upgrade the professionalism of financial management in government.

On our program today, we are very fortunate to have two tremendous keynoters. They were not selected lightly, and I am sure they took a lot of things into consideration when they agreed to share their views with us today. We are very privileged to have Deputy Secretary of Defense Atwood this morning; and this afternoon we will have Deputy Secretary of Transportation Chao.

What is very special about these two keynoters is that not only do we have evidence of their commitment to improvements in the financial management area, they are in charge of program management and delivery and they have a message that is most important for the theme that was chosen for this conference, "Improving Program Delivery and Stewardship Through Modern Financial Management." I expect that we will have excellent messages from them that will carry us through these very challenging times that we have.

I would like to leave one special thought with you, not only as you move through the conference today, but as you move through the joint projects, the many endeavors that we have undertaken to improve financial management and government. That thought is: "The great thing in this world is not so much where we stand as is the direction in which we are moving."

Keynote Address by Donald J. Atwood

Donald J. Atwood
Deputy Secretary of Defense

It is my great pleasure to be here this morning. It is indeed a privilege to be with you people today. The Joint Financial Management Improvement Program is a driving force within the federal government for continuously improving financial management policies and practices, and, obviously, those among you who have been so active in the establishment of chief financial officers within all of our agencies deserve a lot of credit.

The ability of federal agencies to adapt to the rapid pace of world events will determine how successfully this country will meet the challenges of the 21st century.

Over the past two years, democracy has begun to flourish again in Eastern Europe, and the threat of a massive Soviet-led invasion of the continent has greatly diminished, but this has been replaced by the growing threat of regional conflicts. Even so, we can still downsize our armed forces.

Last month we submitted our fiscal year 1992 defense budget, a budget of just over $278 billion. It calls for the continuation of the 2-year-old program that we have had in place to draw down the size of our armed forces.

By fiscal year 1996, America will be spending only about 3.6 percent of our Gross National Product on Defense. That is the lowest percentage since before World War II.

This makes it mandatory that we operate the Department as efficiently as possible. Throughout the Defense Department, we must eliminate non-value-added activities.

In a bureaucracy as large as ours, there are many such activities that, if eliminated, would both improve effectiveness, and would save money. We are intent on eliminating each and every one of them. This morning I want to discuss some of the organizational changes that the Department of Defense is making to improve the way it does its business.

The ability of federal agencies to adapt to the rapid pace of world events will determine how successfully this country will meet the challenges of the 21st century.

Before I begin, however, I want to add a postscript to Desert Storm. After months of preparation, and six weeks of combat, a coalition of 33 nations fulfilled the United Nations' mandate to liberate Kuwait.

We can be especially proud of the performance of our own armed forces. In less than 2 months we managed to systematically destroy the offensive capability of the world's fourth largest military force.

There are four reasons why we were so successful. The first is the professionalism of our servicemen and women who served over there. There can be little doubt that Operation Desert Storm has transformed Americans' view of the military and perhaps of ourselves as a nation.

I hope we are seeing a whole new culture of confidence spread throughout American industry, throughout academia, and throughout many other institutions in this great country.

The members of our all-volunteer force, both active and reserve, did an outstanding job and displayed tremendous skill and courage throughout this campaign. They believe that freedom is worth fighting and dying for.

While we are thankful that our casualties were not greater, we grieve for the families who lost loved ones. Their sacrifice restored the freedom of the Kuwaiti people and ended a reign of terror and destruction in that country. All of America has a deep sense of pride in our men and women in uniform.

The second reason for our success is the quality of our military leadership. As Commander in Chief, President Bush deserves much of the credit for that victory. He built a global consensus that resulted in 12 United Nations' resolutions, and he fostered a national consensus that won Congressional approval in his course of action.

Through 5 long months, he pursued all diplomatic options until there was no option left but to push Saddam Hussein out by force. The President steadfastly stuck to his principles throughout this conflict, and he earned the respect of people and nations around the world. There will be a lasting impact. Faith in America's commitments has been restored.

The distinguished leadership of Secretary Cheney and General Powell was another decisive factor in the outcome of the Gulf War. As the President mobilized world opinion against Iraq, they mobilized the military forces needed to do the job.

They made absolutely sure that the troops in the Middle East would not want for anything that would make their job easier and as safe as possible. Their first thoughts were always about the safety and security of our Armed Forces.

Of course, General Schwarzkopf also deserves a major share of the credit for the total and complete defeat of Iraq. He will undoubtedly go down in history as a master strategist in planning, but he should also be recognized for his diplomatic leadership. He was responsible for coordinating over 700,000 land, sea, and air forces from 33 nations—no mean task. The swift coalition victory is a tribute to the skill with which General Schwarzkopf made use of the coalition's forces.

A third factor in our success was the strength of our air power. This was the greatest triumph that air power has ever achieved. There has been no other war in history in which heavy and precise bombardment had such a devastating and decisive effect.

By the time the ground war started, the enemy was down to one meal a day. He was out of water; he was badly demoralized by day-and-night bombing, and he was virtually cut off from any central command.

Coalition aircraft flew over 110,000 missions while maintaining operational rates of over 90 percent. The effectiveness of the air campaign cut the ground war to a mere 100 hours.

The fourth factor in the success of Operation Desert Storm was our technological advantage. The smart weapons were the stars of the war. Precision-guided munitions clearly demonstrated their effectiveness for the whole world to see. The Patriot missile proved for the first time that one missile could be used to destroy another. Tomahawk missiles hit their targets with stunning accuracy after flights of hundreds of miles at tree-top levels, and laser-guided bombs accurately slid down airshafts. The M1 tank, the Apache helicopter, the F-117 Stealth fighter, and many, many other systems also performed magnificently.

Opponents of high technology often said that such weapons would be too complicated to be effective. They have been proven wrong. Instead, advanced technology can actually simplify complex missions. Although these are sophisticated weapon systems, they are operable because our people are not only intelligent, but they have also had the right training.

Advanced technology is a force multiplier, and the proof can be found in the charred remains of Iraqi military equipment, littering Kuwait and Iraq.

Let me emphasize one point. Just because we wrapped up the ground campaign in 100 hours does not mean it was a pushover. The Iraqi Army, before the campaign, was well equipped, and it had a large number of well-trained and experienced troops. The simple truth is they were overwhelmed by superior weapons, operated by superbly trained forces. These forces executed a well-conceived plan that took full advantage of our ability to use combined forces in an air, land, and sea attack. We cut the Army off, we broke its morale, and then we rolled it up—a good 20th century army was crushed by a force that is moving toward the 21st century.

Now let's turn to the future.

With a demonstrated professionalism and dedication of our Armed Forces, it is of extreme importance that those of us who provide support to the military be held to the same standards of excellence.

As you know, in July 1989, we completed the Defense Management Report which recommended specific actions to improve the way the Department of Defense manages its business.

Those recommendations included a number of organizational and operating changes. One of the most important is the centralization of standards for data processing hardware and software embodied in the corporate information management initiative.

The objective of this initiative is to significantly increase the effectiveness and efficiency of information management in the department. In this regard, we are integrating our telecommunications and our data processing systems. The plan calls for an open system architecture that will permit continuous update of our information systems as improvements, applications, and technology warrant.

Standard information systems will be established for broadly-defined functional areas to facilitate their use.

The six major finance and accounting centers in the Defense Department have now been consolidated into one organization . . . This allows us to unify policies and practices while providing improved customer service and at much lower overall cost.

Earlier this year, we took another significant step toward greater efficiency when we established the Defense Finance and Accounting Service. The six major finance and accounting centers in the Defense Department have now been consolidated into one organization, reporting to the comptroller. This allows us to unify policies and practices while providing improved customer service and a much lower overall cost.

Other defense management practices are also undergoing fundamental changes. Last year the commissaries were consolidated under the Defense Consolidated Commissary Agency. The heads of the four Service commissaries are now under one management.

The Defense Commissary system constitutes the fourth largest grocery operation in the country. The centralized management will achieve economies of scale, providing better service for less money.

We also have a comprehensive project underway to consolidate all of the logistic supply depots. Thirty Defense Department supply depots will eventually report to one organization. Last July we began by establishing a prototype for this consolidation with five depots in the San Francisco Bay Area.

We are also pushing for greater coordination among our maintenance depots. In the future, maintenance workload will be based more on competition between and among the military services and the private sector.

I might add here that the establishment of a Defense Business Operating Fund, the capitalization expenditures, and the inclusion of depreciation of all of our assets will give a more realistic picture of what we are doing for our users.

The Department's research and advanced engineering efforts are another focus of attention. We are taking steps now to coordinate this responsibility under the Director of Defense Research and Engineering. This includes oversight of the activities conducted within each of the services and their laboratories, as well as at the Defense Advanced Research Projects Agency.

Consolidation of laboratories within each service is already underway. Our ultimate objective is to assure that we get the most value for our defense dollar. We are committed to funding a robust research and advanced engineering program, including building and testing prototype systems for proof of concept.

The last series of changes and perhaps the most far-reaching concerns the Defense acquisition process. As we scale down our Defense budget, we must make some tough choices regarding weapon system development and production. We simply cannot afford to go ahead with all of the programs that would have been started in the last decade.

To help us make better decisions, we are instituting a more disciplined Defense Acquisition Board Milestone Review. As you know, the Defense Acquisition Board is chaired by the Under Secretary for Acquisition and is used to review the status of major programs to determine whether or not they are ready to proceed from one phase of development to another. These phases are concept definition, demonstration and validation, full-scale development, and, production. The milestones are those points of transition from one phase to another.

Realistic goals and objectives must be established up front when basic mission requirements and specifications are first defined. Each program must be evaluated on the basis of whether or not it satisfies the cost, schedule, and performance criteria set for each milestone.

No program—and I repeat—no program should advance from one phase to another without satisfying these criteria. To make the process more effective, a streamlined program management organization is essential. We have already reduced layers of bureaucracy between the program manager and the senior decisionmakers in the services. However, we are also increasing the visibility of the decision-making process by simplifying and reducing the layers of oversight which have grown within the Office of the Secretary of Defense.

Advocacy by program managers should not be their primary function. We want them to manage their programs and to provide accurate and timely evaluations of how effectively they are meeting their goals.

Advocacy by program managers should not be their primary function. We want them to manage their programs and to provide accurate and timely evaluations of how effectively they are meeting their goals.

As spending comes down in the years ahead, it is going to become increasingly important that the Defense Department extract the most value from its dollars spent. Our efforts are gaining momentum. As we make one change, another opportunity appears to further improve efficiency.

We are on a path of continuous improvement that will significantly change the way the Defense Department does its business. This is important because the success of Operation Desert Storm has stimulated the American public to seek higher levels of excellence. Performance of our armed forces in the pursuit of Persian Gulf challenges all of us to support them to match their standard.

For the Department of Defense, I say let's rededicate ourselves to do just that. Thank you very much.

Questions and answers

Q. "How can you be sure that the extensive management changes you are making in DOD will not degrade the military effectiveness of the forces that won victory in Desert Shield/Desert Storm?"

A. I think, in fact, it will enhance the effectiveness of the military forces. What we are doing is reorganizing and eliminating non-value-added functions. We're in essence improving the efficiency of the operation at the Department of Defense, and it's being done without degrading the military forces one iota. Because we are able to make efficiency improvements, we are able to save money—and I might add that the total forecast savings from these improvements over the next 6 years will be approximately $70 billion.

Those savings are done without having to take one soldier, one sailor, one marine, or one air force man off the roll. They are done without removing a ship or a wing, or a rifle, or artillery or an airplane. It is a fantastic improvement process that is going on.

The intent is not to reduce the effectiveness; the intent is to save money and devote all of our resources, or as much as we can to helping the military do their job.

Q. "What incentives are you relying on to encourage your executives and managers to down-size their operations? Accept cross-servicing — make it work?"

A. As you may know, of the many studies that have been done about improving the effectiveness and efficiency of the Department of Defense, almost all of them have been done by outsiders. Done by people who no longer worked at the Defense Department (if they ever did), they finish a report and they make their suggestions and they hand it to those of us that are working there and say, "There, that does it. Now you just implement it."

Good management practice will tell you over and over again that the way to improve any operation is to get those involved who have to implement it to be the ones that analyze and study and make the recommendations on what should be done. They need to participate in the decisions that they will have to implement.

That is the approach that we have used, and every one of these improvements is the result of a team process made up of people who work within the department, who, after days and weeks together, come up with an optimum mechanization for improving efficiency.

These ideas are the ideas of the people that work there. They are not the ideas of top management alone or of outside people alone. These are the ideas and plans put together by the people that run the department and that is what is going to make it lasting.

Top management comes and goes, outside consultants come and go, but the people that work there are the ones—if they believe in it—who will make a lasting effect.

Q. "Could you give some examples of non-value-added activities?"

A. I sure can. We unfortunately do a tremendous amount of paperwork just trying to justify the activities that are going on. I cannot tell you how many reports, how many memos, that we write among ourselves, to Congress, and to the Executive Branch justifying the actions we are taking.

I think one of the biggest savings we can make is to in essence say if this report is not necessary, do away with it, and that's the sort of thing that is sweeping through our entire operation. That is number one, to do away with unnecessary reports and memos that have nothing to do with managing the business but really have only to do with justifying things that happened.

I think a second savings is that we found we wanted program managers to be very active in managing their programs, but we found they were being advocates. And why? Because they were spending all of their time convincing the management within their service, convincing the Office of the Secretary of Defense (OSD), and convincing Congress that, in fact, their programs were good programs.

In private industry, you find that a program manager spends 80 to 90 percent of his or her time running a program, and less then 10 to 15 percent of their time justifying it. In DOD, we found by actual survey that program managers were spending over 80 percent of their time being advocates, justifying, and less than 20 percent of their time managing.

These are just a couple of examples of non-value added functions that I hope we are doing away with.

Q. "Can you discuss any use in DOD of Dr. Deming's total quality management (TQM) ideas?"

A. Yes. Dr. Deming is not the only one who has been very active in the techniques which are commonly called quality management or quality as job one, or TQM, or whatever you want to call it. That's a whole new science that has grown up in the last 20 years. It started within industry—started in academia and industry; and it swept through Japan. Dr. Deming was the so-called leader of the activity within Japan. He has been back here in the States and propagating it.

It is more than just a catch-all, quality management. Total quality management means some very simple things.

I will tell you a good example of what happened in a well-known automotive company. It was apparent that quality was not competitive on a world-wide basis. So management said, "We know how we will improve quality. We will, in effect, put a whole series of inspectors on the end of an automotive line, and they will let nothing new through that isn't letter perfect." They did, and sure enough nothing got through that wasn't letter perfect, because nothing got through.

It was obvious that just putting inspectors on the line was not the answer, and so they went back, and they said, "Well, it must be something in our manufacturing process. It's got to be the suppliers." So they repeated with the suppliers, and they soon shut them down.

They then went into their tooling—the manufacturing tooling they used, the assembly process, and the routing, and they made changes to improve the quality, and they found the quality improved. It did not improve all the way, but it came up.

So they then went back to the engineers, the people who designed it, and they added some design changes which they put in, and that tended to improve the quality. But, again, not all the way.

They went back into the suppliers, and they had them do the very same thing; and then they went back to the people who wrote the specifications, the test standards.

Ultimately, they have been able to make fantastic improvements in quality, and, at the same time, lower costs.

What it proves is that quality is not just one persons's responsibility. Quality is everyone's responsibility. Quality is the responsibility of every direct engineering manufacturing person, but it's also the responsibility of people in finance.

While we may make a bad decision even when we have all of the data, we make awful decisions if that data is incomplete or it is inaccurate.

Part of this whole business is making sure that everyone that works within the department, including the financial management, has accurate, comprehensive, and timely information to make the decisions that bring about effectiveness in your operation.

Q. "The consolidation of the research, development, test, and evaluation (RDT&E) engineering activities, will probably result in base closures. How is DOD going to execute this plan with Congress not wanting closures in their districts, and where will the up front resources come from?"

A. Number one, the consolidation of laboratories will indeed result in some transfer of responsibilities from one lab to another. It will entail closing older, more obsolete laboratories and consolidating some of those for greater efficiency.

As you know, Congress has recommended through legislation that we establish a Base Closure Commission. That commission is currently being consummated. By April 15th, they will be in place and we will be recommending bases all over the world to them for evaluation as to the impact and the desirability of closing those bases.

That Commission will make a final decision on which ones will be closed. This will include some of our laboratories. It will not include laboratories in which there will be minor changes, with small reductions or additions in head count. The Commission will deal with larger operations rather than just minor adjustments in personnel; and the closing of laboratories as well as the closing of any bases will be a part of the responsibility.

Q. "Tell us more about the consolidated finance and accounting center. Is it one processing center, centralized management, or both?"

A. There are six financial centers within Continental United States. These centers belong to the various services. They are the ones to whom all of the financial people report their information to in reporting up. All of the accounting and finance information flows through these centers.

In order for a standardization approach to be taken, we have consolidated all of these centers under the direction of the comptroller, so that now they do not report to the individual services. The services get their information from these centers, but it will be in a standardized format, a format that allows them and allows the Office of the Secretary of Defense to make the kind of decisions we talked about.

None of these financial centers has been predicted to close as of this time. They are all operating independently, but they are all operating under the direction of the comptroller.

Q. "Can the Defense Department provide funds combined with NASA to complete the space station? It seems that the station will be strategically important to the military."

A. I am going to a Space Council meeting later and that will be one of the subjects there. We, within the Defense Department, have a vested interest in not just the space station. Its primary purpose is to run microbiology experiments, but also, and perhaps more importantly, to conduct a life services test.

The Department of Defense's principal role is in the launch systems. We have engaged in a comprehensive, joint program with NASA to develop an advanced launch system, the core of which would be common to both the launch requirements of the Department of Defense and also the launch requirements of NASA.

Our principal interest in the space station has to do with the launch capabilities, the launch requirements, and the development of launch facilities and boosters able to satisfy both NASA and DOD.

Remarks by Frank Hodsoll

Frank Hodsoll
Executive Associate Director
Office of Management and Budget

Good morning. Let me thank JFMIP for holding these conferences every year, for getting all of us together to share our perceptions as to what the next steps are in financial management, and also to recognize those who have done an excellent job.

I was asked to address the annual JFMIP conference on "Plans for Implementing the CFOs Act." This morning, I have a great deal to say—not only about plans, but also about accomplishments. A lot has changed in federal financial management since last years's JFMIP conference. I think it's fair to say that the CFOs Act has been a major impetus for change. But it is the people in the federal financial community—at the agencies, Treasury, GAO, and even OMB—who have seized on the opportunity created by the CFOs Act, and who are making things happen on a pretty broad scale.

This morning I want to give you a status report on our collective efforts with respect to federal financial management people, organizations, standards, systems, and reporting.

First, federal financial management people. As you know, the CFOs Act calls for Deputy Director for Management and a Controller at OMB, and for Chief Financial Officers at 23 agencies. Within a matter of weeks, the president should be nominating candidates for the Deputy Director and Controller positions. OMB is actively working with agency heads on the designation and nomination of agency CFOs, and I expect that most of these actions will be taken by May or June.

So, in relatively short order, we should have our financial management leadership in place throughout the government. But what about the financial management people who actually do the work? We have not forgotten them. The fiscal year 1992 budget provides for additional full time equivilent (FTE) in a number of cases and Connie Newman, the Director of OPM, has committed to work with OMB in ensuring that the federal personnel system provides for the recruitment and retention of high caliber financial management staff to implement the many mandates of the CFOs Act. That OPM/OMB effort is getting underway this week.

The JFMIP, under Jerry Murphy's direction as Chairman of the Steering Committee, has taken a leadership role in fostering training for accountants and related financial management personnel. You are probably familiar with the JFMIP report on continuing professional education that was issued in December 1990. The JFMIP also will soon be issuing a compendium of training courses for financial management personnel.

Auditor training needs are also receiving more attention. Between now and September 30, GAO intends to provide training in audits of financial statement for up to 500 agency auditors. Meanwhile, the Inspectors General are moving full steam ahead to establish a training institute at Fort Belvoir. In June 1991, the institute will start offering entry-level audit training. In September 1991, the institute will start offering training in audits of financial statements. In the meantime, the Department of Labor OIG, a pioneer of financial statements, has offered to include others in a DOL training session this summer.

Next, let's talk about financial management organizations. The CFOs Act reflects the Congress' conviction that fundamental organizational changes are required to improve federal financial management performance. Many of you have expressed the same thought to me: We need organizational structures and authorities that give financial managers "clout" within the agencies.

We need organizational structures and authorities that give financial managers "clout" within the agencies.

The CFOs Act, as you know, includes a number of organizational requirements—both with respect to OMB and the 23 agencies covered by the Act. It was not clear to me, at the outset, that OMB needed to issue additional guidance in this area. However, several months ago, at the urging of the Chief Financial Officers Council (CFO Council), I set out to meet with the heads of the 23 agencies. My primary purpose in these meetings was to convey the importance that (OMB Director) Dick Darman and I attach to the CFOs Act.

Inevitably, the meetings also provided an opportunity to discuss issues of concern to the agencies as they started planning to implement the Act. After meeting 17 or so, it became very clear to me that there were a number of key organizational issues, and that the agencies sincerely wanted OMB guidance on these issues.

As a result, on February 27, we issued a document titled "Guidance for Preparing Organization Plans Required by the Chief Financial Officers Act of 1990." That document lays out, with some specificity, the organizational structures and/or authorities necessary to enable the CFO—both for the agency and its component part—to:

- Establish effective financial management policies and internal controls;
- Ensure adequate systems to produce useful, reliable, and timely financial and related programmatic information;
- Develop useful financial analysis and performance reports;
- Integrate budget execution and accounting functions; and
- Ensure high quality in financial management personnel.

These organizational issues are very sensitive, and we at OMB are doing everything that we can to see that the intent of the CFOs Act is met in a spirit of cooperation and collaboration.

The formal deadline for submission of agency plans is April 1, and the formal deadline for OMB approval or disapproval of those plans is May 1. But, in fact, OMB is, and has been, working closely with the agencies in the development of the plans. Our goal is to resolve any problems before the formal submission of plans.

The third topic I want to cover is financial management standards. A year ago, we knew that we did not have generally accepted accounting standards for the federal government, but we did not know how we were going to obtain them. Now we know. Through strong efforts by GAO, Treasury, and OMB, turf was overcome and the Federal Accounting Standards Advisory Board (FASAB) was established on October 10, 1990.

FASAB consists of nine members—three from outside the federal government, and one representative each from GAO, Treasury, OMB, the civilian agencies, the defense and international agencies, and the Congressional Budget Office. FASAB is charged with recommending federal accounting standards to GAO, Treasury, and OMB. With the approval of those three agencies, the standards will be issued by GAO and OMB. Incidentally, FASAB will have a full-time staff—financed by GAO, Treasury, and OMB—to assist it in carrying out its important work.

We were honored that Elmer Staats agreed to serve as Chairman of FASAB. The Board has now held two meetings, which have underscored the complexities that attach to these issues of federal accounting standards. I hope that, within the next few months, you will start seeing movement. But that's the next session on the agenda, so I will leave it to Ron Young, Jim Blum, Bill Kendig, and Al Tucker to give you their impressions.

In addition to accounting standards, the federal government has long needed information and systems standards that would allow consistent reporting of financial data throughout the federal government. The past year has seen important progress on these fronts, as well.

This month, the JFMIP issued draft information standards for financial data elements in Treasury and OMB reports. Allowing for review by the JFMIP Principals and agencies, the final information standards should be issued by July.

In terms of systems standards, the JFMIP has continued to build on the *Core Financial System Requirements*. About a year ago, functional standards for payroll and personnel systems were issued. In January, functional standards for travel systems were issued. The JFMIP is now evaluating the next target areas for functional standards.

Finally, in the area of auditing standards, in January 1991 the Comptroller General established the Comptroller General's Advisory Council on Auditing Standards. This Council, designed to reenforce the participatory nature of the audit standards setting process, includes representatives from the federal government, state and local governments, academia, and the private sector. Jim Thomas, Inspector General of the Department of Education, will be serving as Chairman of the Advisory Council.

Let's move on to talk about what has been happening in the area of federal financial systems. Last spring, when OMB announced its Five-Point Program, we said that we were going to undertake a program of intensive, interagency reviews of agency financial systems. We conducted five of these reviews in the fall of 1990, and we learned a great deal.

We learned, for instance, that the management side of OMB needs better information on agency financial systems in order to be an effective advocate for funding those systems. And, in order to get better information, we need to change the timing and content of our financial systems data call.

As a result, last week we issued for comment a proposed data call that focuses on financial systems strategy. Our idea would be to issue the data call, collect the data, and provide feedback to the agencies during the spring. With respect to financial systems, the budget process would then be limited to attaching numbers to a strategy that OMB and the agency had already agreed to. We are looking forward to your reactions to this proposal.

The five systems reviews we did this past year also indicated a need for better coordination of data calls being made under various OMB circulars, and that is something we will be working on this summer. We will, of course, also be undertaking another series of agency reviews this summer.

With respect to central agency systems, OMB's Five-Point Program projected automation of the SF-133s through use of a Treasury data base. We said that the automation would be accomplished by February 1991, and it was. As you might have expected, however, the automation brought to light a series of SF-133 reporting gaps. Treasury, OMB, and the agencies are working hard to resolve these gaps, with the expectation that we will have fully consistent Treasury and OMB data within the next 2 months.

The final topic I'd like to cover today is financial reporting. The CFOs Act was signed into law on November 15, 1990. In the several months following, the agencies and OMB were preoccupied with identifying the 1992 funding needed to implement the audited financial statement requirements of the Act. Working together, I think we can say we did quite a job—the President's 1992 budget includes $104 million for audited financial statements, $31 million for preparation of the statements (which is the CFO's responsibility) and $73 million for audit (which is the IG's responsibility). This $104 million compares to a total of about $10 million in the 1991 budget for audited financial statements. We now need to make sure that these amounts are appropriated.

After dealing with the 1992 budget issue, we at OMB have turned our attention to some other pressing concerns: the need to define what will be considered a substantial commercial activity for the purposes of preparing financial statements; the need to define the reporting entities for which financial statements will be prepared; the need to develop a governmentwide plan under which audited financial statements will be produced and OMB waivers will be granted; the need for guidance on the form and content of financial statements on 1991 activity; and the need for guidance on the scope of audits of financial statements.

We have dealt with the first three needs—concerning substantial commercial activities, reporting entities, and a government-wide plan—in a March 14 document titled "Request for Data on Agency Plans for Audited Financial Statements." This document asks that the agency Inspectors General and Chief Financial Officers work together to develop (by March 29) the detailed information we need to:

- Prepare a report on substantial commercial activities, which is due to the Congress on May 1, 1991;
- Prepare a multi-year, governmentwide plan for producing audited financial statements.
- Grant necessary waivers from CFOs Act requirements for audited financial statements.

In order to address the other two pressing needs (for guidance on form and content as well as audit scope), OMB convened two advisory groups including Treasury, GAO, CFO, and IG representatives. I am now reviewing draft guidance in both these areas. It is our intention that the guidance be widely circulated for comment before issuance. It is our hope that the comments will allow final issuance by the end of March.

Let me hasten to reassure you on the guidance dealing with the form and content of statements on 1991 activity: we intend that this guidance move the government forward in presenting its financial condition in a useful way, but we do not intend that the guidance require disruptive, mid-course adjustments in agency accounting practices.

While these have been OMB's immediate preoccupations, a significant amount of other work has been going on. This month, the General Accounting Office issued an important document titled: ***Financial Reporting: Framework for Analyzing Federal Agency Financial Statements.*** It's my understanding that, within the next week or so, GAO will also be issuing a guide on contracting for audits of financial statements. Meanwhile, the Inspectors General are working with GAO, GSA, and OMB to establish a multiple award schedule for such audit services. Also, this month, the systems and information committee of the CFO Council will be wrapping up a long-term study of reporting formats for federal financial statements.

Most importantly, the CFOs and the IGs in the agencies are gearing up to meet their expanded responsibilities for financial reporting under the CFOs Act. I have been particularly heartened to learn that, in at least some of the agencies, this task is being undertaken as a collaborative effort involving program managers, as well as the CFOs and the IGs.

. . . the CFOs Act has given us an almost unprecedented opportunity to change things for the better, and the really hard work is still ahead of us. We have to institutionalize the organizational changes. We have to redouble our commitment to getting sound financial systems that provide accurate data. And we have to tackle the enormously difficult issue of producing financial reports that are useful to decision makers.

That's my status report on efforts to improve federal financial management. I think you will agree that we are making progress. But I want to remind you that the CFOs Act has given us an almost unprecedented opportunity to change things for the better, and the really hard work is still ahead of us. We have to institutionalize the organizational changes. We have to redouble our commitment to getting sound financial systems that provide accurate data. And we have to tackle the enormously difficult issue of producing financial reports that are useful to decision makers. This is a long-term endeavor that we are embarked upon, and it will require a long-term commitment from each of us. Thank you very much.

Keynote Address by Elaine L. Chao

Elaine L. Chao
Deputy Secretary of Transportation

I am delighted to join you today to share some of my thoughts on government financial management. As my concentration at Harvard Business School was in finance and general management, I have the utmost respect for the work of financial managers. Finance is at the heart of all good management. There can be no good decision making and no good policy development — public or private — without adequate and timely financial implementation and accountability.

Unfortunately for those of us in the public sector, we have not always been viewed as properly handling the financial resources committed to our trust. The HUD scandals provide a classic example. The federal government has over 200 financial systems. And many of these are antiquated, incompatible, redundant, and do not stack up to today's accepted accounting standards.

That's the bad news. The good news is that the bad news is old news. That's because we've made remarkable progress in recent years.

The Reagan Administration got the ball rolling with its Reform '88 initiative. It's a little hard to believe that before this initiative there was not a standard general ledger of accounts, or that each agency was not required to have a single integrated accounting system. Perhaps our success to date can be summed up with one statistic: Over the last 8 years, the number of federal financial systems has been reduced by about 50 percent.

The spirit of Reform '88 is still with us. The Bush Administration continues to focus on the improvement of the quality, relevance, and timeliness of federal financial data, and the introduction of modern financial systems. Our approach can be summed up in two words — accuracy and usefulness. Quite simply, if our systems churn out inaccurate and useless data — as we have so often done in the past — then we will have made no progress. But I think those days are gone — and gone for good.

My optimism is based in part on the passage of last year's Chief Financial Officers Act. I am very pleased with this legislation, and consider it one of the principal government management initiatives of the past 20 years. I believe it could spell the beginning of the end for government financial mismanagement. Let me give you a few reasons why I feel this way.

First, it is modeled very much after the pattern of a CFO's responsibilities in the private sector.

Second, it puts in place a powerful organizational structure for financial management. Twenty-three CFOs reporting directly to the heads of their agencies will make a difference. Add to this, a Deputy Director for Management at OMB and a Controller who will head the new Office of Federal Financial Management. All this adds up to the kind of organizational structure — and positions with sufficient authority — to deliver on accountability, and ensure that we produce accurate and useful information.

As President Bush said when he signed the CFOs Act, "The establishment of a Deputy Director for Management in OMB will strengthen and institutionalize the 'M' in OMB.

Third, not only does the CFOs legislation provide the means of accountability, it requires it. And it requires it of both the agencies and OMB. Agencies must now develop financial management plans, and they must produce annual progress reports. As for OMB, after its initial submission in February 1992, it must then produce by January 31 every year thereafter a governmentwide financial management status report and a 5-year plan.

Fourth, the CFOs Act provides a strategy for producing audited financial statements, because good financial statements require good financial systems to produce them.

Finally, each agency's CFO will be responsible for developing training programs and continuing professional education requirements to ensure a high quality work force. The Joint Financial Management Improvement Program has produced a valuable guide on CPE requirements for the government's accountants.

... each agency's CFO will be responsible for developing training programs and continuing professional education requirements to ensure a high quality work force...

As promising as the CFOs legislation is, we know that, by itself, it won't do the job. We need to implement it. We need to put its principles into practice. That is why, in conjunction with the Administration's CFOs proposal, OMB established its Five-Point Program for implementation.

You heard Deputy Secretary of Defense Donald Atwood this morning explain some of the ways the Defense Department is incorporating the principles set forth in the CFOs legislation and the Five-Point Program. I thought it might be helpful to share with you some of the things we're doing on the civilian side at the Department of Transportation.

The financial systems program at DOT is actually quite comprehensive. It addresses the establishment of new financial management systems and an effective training program to support future development initiatives. And we're already seeing impressive results.

We implemented a new primary accounting system for 90 percent of the Department's accounting transactions. We eliminated five seriously deficient systems and reduced accounting system operating costs by 25 percent, saving more than $63 million.

The Department of Transportation has consolidated 16 accounting offices and established a state-of-the-art finance center for the United States Coast Guard. Over the next 2 years, we expect to complete the implementation of the primary accounting system, consolidate three additional accounting offices, and eliminate five more deficient systems.

We have implemented one of the few transaction driven, standard general ledger capabilities in the federal government. Other recent improvements are an automated accounts payable process and better interfaces with Treasury Department payment processes.

Underlying these initiatives has been a strategic vision encompassing more than 50 subsidiary financial systems, including procurement, payroll, and personnel. So far, we've been successful in defining and building the next generation of financial applications in a coordinated, collegial manner. In fact, our financial management plans have been incorporated into the implementation phase of our National Transportation Policy.

The Department's efforts in this area have been underway for several years. Early in 1984, an interagency group was formed at the direction of OMB under the leadership of the Department of Transportation. The group was given the task of developing a standard general ledger chart of accounts for governmentwide use. Today, all government agencies must use the Standard General Ledger that the group completed in 1986.

We are now seeing the Standard General Ledger facilitating the reconciliation and consolidation of trial balances prior to the preparation of agency and central agency reports. The single governmentwide structure that is now taking shape will enhance the ability of central agencies to consolidate accounting data that comes from the records and reports of individual agencies.

As I previously outlined, at the Department of Transportation, we are continuing to make successful strides forward in implementing our primary financial system. We call it the Departmental Accounting and Financial Information System, or DAFIS. It will serve as the foundation for the production of audited financial statements, and record all budget and accounting transactions against the Standard General Ledger.

In fiscal 1990, we implemented the system at the U.S. Coast Guard Finance Center in Chesapeake, Virginia. It will allow the consolidation of 12 of the Coast Guard's district accounting offices. Closer to home, the system was put in place last month in the Office of the Secretary and the Research and Special Programs Administration. One more DOT administration will be incorporated in to the system this fiscal year, and three in fiscal year 1992.

Today, approximately 13 million transactions per year are processed through DAFIS. When fully implemented in September 1992, the system will process in excess of 16 million transactions per year and account for the Department's $30 billion budget.

To sum up, the upgrades and implementation of DAFIS will result in the uniformity and standardization of policies, procedures, data, and reports. It will eliminate redundant systems. And it will foster consistency and comparability in financial analysis and reporting.

. . . our longer term vision is to establish a single, fully integrated financial management system . . .

Over the last 5 years, the Department of Transportation has also made significant strides forward in improving other areas of financial management. We now have a standard payroll system serving more than 60,000 civilian employees and have reduced our payroll processing offices from 20 to 2. A number of specific initiatives saved us more than $12 million last year alone. For example, we used a contractor to save $2.1 million in improper unemployment claims.

While we're making considerable progress at the Department of Transportation, like most federal agencies, we're operating financial management and subsidiary systems which are yet not integrated. Our systems have been independently developed without the benefit of an overall system strategy.

Therefore, our longer term vision is to establish a single, fully integrated financial management system for the Department. We call it our Administrative System Improvement Program (ASIP). The basic objective of ASIP is to build systems according to the corporate information needs of the Department as a whole, rather than its individual components. This means a system that will comply with OMB Circular A-127.

Our Administrative System Improvement Program follows two tracks. The first track recognizes the need for immediate, interim system improvements. These include full DAFIS implementation to establish the core financial system and our completed integrated personnel/payroll system. The second track is the development of a strategic data plan from which future initiatives to improve our system will evolve.

A strategic vision alone is not enough for sound financial management. Strong oversight is needed to identify, monitor, and correct problems. That's why we've been hard at work complying with the standards set forth in the Federal Managers' Financial Integrity Act.

We're establishing procedures to link the Act's management control process with our budget process. We continue to look for additional vulnerabilities and opportunities for improvement as we apply more stringent criteria for identifying and tracking management control weaknesses than that required by OMB. I have been personally engaged in our management integrity efforts.

The Inspector General plays an important role in helping us implement the objective of the Financial Integrity Act. Her office provides invaluable technical assistance throughout the Department and helps us identify program areas that need improvement. She also assists in resolving audit recommendations to achieve and maintain effective management control systems.

The excellent working relationship between the Inspector General and the Department's financial professionals has helped foster improvements in procedures and in the development of DAFIS. In fact, DOT is one of only a few cabinet agencies to develop a single, consolidated departmental data base for tracking and reporting audit results in conjunction with the Inspector General.

In 1989, after the major disclosure of fraud and mismanagement in federal government, the Secretary asked the Inspector General to review DOT programs to see if similar problems have existed or could occur at the Department. The IG reported back last year that management actions had saved the Department $41 million for disallowed costs and $132 million for funds put to better use. Also, management has committed to actions on recommendations valued at $335 million.

In and of themselves, however, our steps to improve the internal management of the Department are not enough. In a Department with extensive ties to the states, we have had to come up with some innovative approaches to improving the financial management of our state programs.

We have developed better ways to share financial information with the states. For example, our Federal Highway Administration has made a large data base available to the states computer to computer. This makes a wealth of information on the financial status of highway programs and other vital program information available to the states immediately. Information that sometimes took hours, or even days, to get, can now be obtained upon punching in a request on a computer keyboard.

We now have the ability to register direct receipt of financial transactions for state programs. Pilot studies are also being conducted with three states to provide for direct entry of requests for program approvals and program obligations in those states. This will both expedite the approval process and improve productivity.

Recipients of funds from both the Federal Highway Administration and the Urban Mass Transportation Administration are receiving the benefits of electronic payment systems that expedite payments. Preliminary research and planning is also underway to examine the feasibility of using electronic signatures, a practice used widely in the private sector.

Let me give you one example of the value of these new systems. Up until just a few years ago, it took weeks to determine the status of unobligated program balances for our highway program. Now, using our new systems and communications, we literally have this information from some 80 offices around the country up to date each morning. This is but one basic example of the value of modern financial systems.

As encouraging as these developments are, I'm reminded of a recent sobering statement by one of the deans of American accounting, and my professor at Harvard Business School. Robert Anthony, who, speaking of government financial statements, said that "very few people have seen them or have expressed an interest in seeing them. I know of no Executive Branch decision or legislation that has been influenced by the information in these financial statements. The financial statements are not used because they are not audited; the real explanation is that agencies don't make an effort to develop these statements, let alone have them audited, because they are not useful. Auditing useless information won't make it useful."

. . . the relationship between our accounting and program offices should be that of a partnership.

Professor Anthony goes on to say " that's the challenge before us. We need to move toward financial statements that classify costs by program, provide corresponding measures of program performance, and project future liabilities and returns on investment resulting from the program."

In a nutshell, that's probably a good assessment of the challenges we all face. However we go about addressing those challenges, we realize, of course, that we must do more than just respond to specific requests or provide basic services.

We must recognize that we are, first and foremost, service organizations. Financial management is not an end in itself. Therefore, the relationship between our accounting and program offices should be that of a partnership. They should share a mutual understanding of each other's respective needs and responsibilities. In this way, our accountants and financial managers will be in a position to provide genuine help to the program offices.

If we tackle our challenges in that spirit we will succeed. We are all painfully aware of the fiscal environment of constrained resources that will be with us for the foreseeable future. But we can stretch our resources and we can make them work more efficiently. And you in the financial management community are key to this endeavor.

Thank you very much.

Chapter 2

Remarks by John E. Robson

John E. Robson
Deputy Secretary of the Treasury

This is the 20th annual conference of the Joint Program. You have become a strong force for efficiency and fiscal integrity in government, and you should be proud of your contributions. President Bush recognized the important contributions of all federal workers earlier this month, when he signed the proclamation for Federal Employees Recognition Week. He said:

"Each and every American benefits daily, in numerous ways, from the work of federal employees....The recent success of Operation Desert Storm underscores our debt to the able and loyal work force of federal employees."

The American people share in that sentiment. In fact, this is a very proud moment for all the United States — a moment of unmatched patriotism and increasing confidence in the way Americans will prepare for the next century.

And the American people are responding to this sense of pride by mobilizing to take on the domestic issues that are troubling our nation — crime, education and the environment. They are all critically important. But, as the President said, "our first priority is to get this economy rolling again."

Americans have reason to be cautiously optimistic about our nation's economy. Most economists predict the recession will be relatively mild and brief — probably coming to an end by summer — and that we will return to a path of growth later in the year.

And we are taking other steps to secure future economic growth.

The Administration has submitted to Congress the federal budget for fiscal year 1992. The President's proposal keeps spending down — below the inflation rate and within the confines of last years's historic budget agreement.

Right now, the nation's bank regulators are taking coordinated action to ease the credit crunch that is hampering sound opportunities for growth and investment.

And the Treasury Department is submitting legislation to reform our nation's banking system. Secretary Brady's goal is to make financial institutions safer and more competitive. This is a critical step we must take to protect taxpayers and depositors — and to secure economic growth for the nation.

But effective financial management also plays an important role in protecting taxpayers and promoting economic growth. As a government executive and a former corporate CEO, I know the contributions and challenges of financial management.

The Joint Financial Management Improvement Program is the federal flagship of the critical task of making financial management efficient and effective. Under the leadership of Treasury, OMB, OPM and GAO, you are coordinating the management of our government's financial resources. All agencies are involved, and all taxpayers benefit.

And changes are happening to make financial management even more effective. In the future, for example:

- Program managers will have to work more closely with their chief financial officer.
- There will be more accountability for financial results. The day when accounting was used simply to restrict spending within appropriation limits are long gone.
- And, managers will have to manage assets and liabilities — as well as the delivery of programs — while demonstrating that program results are worth the cost.

Our challenge — the challenge of federal financial managers — is to make these changes work for the American people. And that means we must communicate financial and performance data so it can be understood by users who need to know and taxpayers who want to know.

We need to serve the taxpayers better with long-term planning to foster economic growth and international competitiveness. Already, we have a 5-year deficit reduction plan and a comprehensive national energy strategy.

Now, let's look at our financial management infrastructure. The 21st century is approaching fast, and we must do all we can to be prepared. All of our financial information will be automated, integrated and electronic.

We should have more precise information on our cash flows. We should only borrow what we need, when we need it. And we should know what we own and what we owe — at all times.

And more important than financial resources are human resources. We need to take care of our people — to recognize them for a job well done and empower them with authority to make decisions.

The financial managers here today have the opportunity to help make the system better. Yes, it will take hard work — some untangling and reorganizing — but if we work together, we can get the job done.

I look forward to working with all of you to achieve our goal of making the federal government more effective and efficient than ever before. Thank you.

Remarks by Constance B. Newman

Constance B. Newman
Director, Office of Personnel Management

Your theme for this conference, "Improving Program Delivery and Stewardship Through Modern Financial Management," is important because unless we improve program delivery and stewardship, the federal government will not be in a position to serve the public well. Unless the government institutes and implements modern financial management there is no real meaning to the goal of improving program delivery and stewardship. This topic raises in my mind four issues:

1. How can the federal government improve productivity? This is an especially important question in light of the financial constraints and challenges we are working under in recent years.

2. How can the federal government improve quality in its financial management as well as all activities?

3. How can the federal government improve its public image? The general public does not believe that the government is managing its business effectively and properly. A few bad news stories of improper controls and improper behavior have colored the way the public thinks about all of us.

4. Recognizing the changing work force, how can government manage this work force and still increase productivity and quality? The future offers federal managers the additional challenge of both a changing work place and a changing work force. With regard to the latter, the work force is aging and has a high percentage of new entrants who will be women, minorities and immigrants.

Unless the government institutes and implements modern financial management there is no real meaning to the goal of improving program delivery and stewardship.

One common thread that runs through each of the four issues I mentioned is people—human resources. We cannot improve productivity, we cannot improve quality, we cannot improve our public image and we cannot address the future *without* a focus on the people who do the jobs of government. The human resources in government will be the most important ingredient in our achieving our goals and objectives now more than ever before.

It is important for financial managers to be a part of addressing the four issues I identified. Financial managers must work hand-in-hand with human resource managers. The team of financial managers and human resource managers is key to ensuring that the federal government accomplishes its goals and objectives in an efficient and effective manner. Now more than ever before in the history of the federal government there must be serious and quality attention paid to accounting and financial controls. Now more than ever before there must be serious and quality attention paid to forecasting and long-range planning.

The human resources in government will be the most important ingredient in our achieving our goals and objectives now more than ever before.

You, the financial managers, have the expertise and experience which will be important to the management teams managing properly. It has always been expected of you that you be responsible for the maintenance of the financial records. But in this time of budget constraints, your expertise is needed to assist in the total management of the federal government's resources—including human resources.

I would like now to spend a few minutes on human resource management, an important part of the management equation and a part of the management equation that financial managers must participate in if we are to improve productivity and quality in government.

Now more than ever before there must be serious and quality attention paid to forecasting and long-range planning.

Improving productivity and quality

Many of the systems problems that must be addressed exist because we have had some difficulty in recruiting and retaining the best and the brightest for government jobs. Other problems exist because of inadequate concentration of resources for training and preparing the work force committed to quality and increased productivity.

Pay of government employees

I don't think I need to remind anyone in this room how federal pay has lagged behind other employers in recent years. And, I don't think I need to remind you how much more difficult it has been to compete with other employers for quality workers, thereby jeopardizing a work force committed to quality.

The problem got the attention of the highest levels in government —cabinet secretaries such as Secretary of the Treasury Nicholas Brady, Secretary of Energy Admiral James Watkins, and Secretary of Health and Human Services Louis Sullivan. They supported an administration initiative to develop a pay system more sensitive to the market.

After much work within the administration and on Capitol Hill, pay reform in the federal government is here—it is a reality. This landmark legislation improves our ability to use scarce payroll dollars in areas where we need it the most. It creates a new federal pay system which is more sensitive to local labor markets. This legislation also offers federal agencies a number of flexibilities—including recruitment and relocation bonuses, retention allowances for employees with unusually high skills or unique qualifications, authority to hire above the minimum rate at all grade levels, advance pay for new hires, and paid expenses for job candidates and new appointees.

The legislation also strengthens an important concept that we believe will go far in improving government productivity and that the public expects of its public servants—pay-for-performance. OPM is now establishing a pay-for-performance labor-management committee which will study the pay-for-performance idea and recommend guidelines and criteria for a system which will be flexible for the different needs of federal agencies. This presents government with an opportunity to establish a workable, efficient pay-for-performance system which works for our employees and works for the federal government. Again, improved productivity will be the outcome.

Training and development

Another human resource management activity critical to worker productivity and quality is training and development. The federal personnel community has always recognized the importance of training and development. Now, however, there is a need for a more sophisticated strategy for training and development of federal employees—at all levels.

Financial managers must recognize that many of the deficiencies in the financial management systems come about because the work force is not properly trained. And now we need to be in a position to take scarce dollars and invest them properly in human resources. "Best practices" need to be shared. And the federal government must be in a position to determine the cost-effectiveness of its training and development activities—an important element in justifying training expenditures in budgets.

Total quality management

All management must take seriously the need for total quality management. This is not a fad—it is a necessity.

Government must buy into a culture change built upon three principles:

1. We must determine and be responsive to our customers;
2. All tasks must be performed with excellence and must be done right the first time;
3. All employees at all levels must be made a part of the process of determining how to serve the customer.

This means real employee-management partnerships. This means real respect, trust and communication between labor and management about the job that must be done.

The "vision" for human resources management prepared by all Directors of Personnel with the Office of Personnel Management states :

> Human resources management throughout the federal government must be so effective in enabling agencies to recruit, develop and retain a quality and representative work force that:
>
> The public's expectations about the quality of government services, programs and operations are met and often exceeded and the public regards federal employees as knowledgeable, helpful, ethical and committed to quality;
>
> Federal employees regard the government as a great place to work;
>
> Agency managers cite responsive and cost-effective human resources management practices as a major source of support for their missions.

The team of financial managers and human resource managers is very important to achieving this vision for the federal government. Thank you.

Presentation of Awards

Gerald Murphy
Fiscal Assistant Secretary
Department of the Treasury

It is my pleasure and honor to preside over the awards portion of our program. In a few minutes, we will be announcing the 1990 Donald L. Scantlebury Memorial Awards for Distinguished Leadership to two outstanding financial leaders in the public sector. This award sponsored by the Joint Financial Management Improvement Program recognizes exceptional leadership in the public sector resulting in effective financial management improvements over a sustained period of time. Ten years ago, the JFMIP named its annual awards to honor and commemorate Donald L. Scantlebury, who made a profound impact on financial management both in the private and public sectors. At the time of his death in June 1981, he was the Chief Accountant and Director of the Accounting and Financial Management Division of the U.S. General Accounting Office and served on the JFMIP Steering Committee. Before we present the awards, I would like to ask the Honorable Elmer Staats, currently Chairman of the Federal Accounting Standards Advisory Board and formerly the Comptroller General of the United States, to say a few words about Don Scantlebury and JFMIP.

Remarks by Elmer Staats

Elmer Staats
Chairman, Federal Accounting Standards Advisory Board
Former Comptroller General of the United States.

I would especially like today to pay tribute to the part which Donald Scantlebury played in the work of the Joint Financial Management Improvement Program. First, however, let me give you a brief background as to how the JFMIP came into being.

When I joined the Bureau of the Budget in 1939, one of the early needs identified was to provide a cooperative basis for providing financial information for the three central agencies—the Department of the Treasury, Bureau of the Budget, and the General Accounting Office. The needs of all three agencies were well recognized but how these needs were to be met and the relative responsibilities of each had to be defined. Early on, a task force was established to address itself to this question. Edward Bartelt of the Treasury Department, Walter Frese of the General Accounting Office, and Joseph Pois of the Bureau of the Budget were designated as members of a task force to develop a common approach to the issue. The result was the Presidential Executive Order No. 8512 which was the basis for the working relationship for a number of years.

When James Webb became Budget Director, he felt the need for some more-systematic arrangement on a day-to-day basis to coordinate the respective efforts of the three central fiscal agencies. The Secretary of the Treasury was John Snyder and the Comptroller General was Lindsay Warren. Jim Webb likes to tell the story of how he invited Lindsay Warren to his home for dinner to discuss the matter. He found Lindsay was somewhat reluctant to systematize the efforts but, as Webb explains it, after walking around the block twice Lindsay Warren agreed to work out an arrangement. That was in 1949. In 1950, the Congress authorized this arrangement in the Budget Accounting and Procedures Act of 1950. This arrangement came to be known as the Joint Accounting Project. However, no staff was provided and the arrangement was less than fully effective. In the later 1960s, after I became Comptroller General, the three agencies agreed that there should be a joint staff and the project redesignated the Joint Financial Management Improvement Program.

Importantly, the Chairman of the U.S. Civil Service Commission was added as a fourth member and Connie Newman's presence here today attests to the continuing interest and importance of that decision.

A Tribute to Donald Scantlebury

It is a privilege for me to speak briefly in tribute to a good friend and colleague and one of the key individuals in making the Joint Financial Management Improvement Program the active and constructive organization it is today. Donald Scantlebury was a professional, a Certified Public Accountant, a skillful auditor and analyst.

Above all, he wanted to make government work better. He saw financial management not as an end in itself but a means to provide the information necessary for better management of governmental programs.

Don was innovative. He played a key role in bringing the "Yellow Book" into being—a veritable bible for auditors around the world. He played a similar role in establishing the Intergovernmental Audit Forums—National and Regional—which continue today as an important means for communication and collaboration of auditors at the federal, state, and local levels.

He was a missionary for improved financial management and bringing agency financial systems to a point where they met standards established by the Comptroller General. He saw this task, as we do today, as a responsibility of both the legislative and executive branches of the federal government, exemplified by the increasingly important role of the JFMIP.

Finally, Don was a true professional, a strong advocate of continued professional education, a former President of the Federal Government Accountants Association, the forerunner of the Association of Government Accountants. Public service came first in spite of recurring temptations to join the private sector at two to three times his government salary. He was dedicated to the GAO and the public service.

The Award today is a tribute to Don Scantlebury. There are few individuals to whom the terms "quality" and "excellence" could be attributed without equivocation but certainly Don would be so recognized by all who knew him.

The JFMIP, in making Awards today in his name, is also recognizing the many who are working day in and day out to improve the management of federal programs and enhance performance accountability.

Mr. Gerald Murphy:

This year, we are honoring two new recipients of the Donald L. Scantlebury Memorial Award who have demonstrated exemplary leadership in all aspects of financial management. As Treasury currently chairs the JFMIP, I'd like to ask Deputy Secretary Robson to join me and present the awards.

Back row: Gerald Murphy, Chairman, JFMIP Steering Committee; Scantlebury Award winner Tom L. Allen; Special Award winner Jeffrey C. Steinhoff; and Donald L. Chapin, JFMIP Steering Committee member. Front row: Virginia B. Robinson, Executive Director, JFMIP; Scantlebury Award winner Robert L. Yates with Mrs. Yates.

Tom L. Allen

The first awardee is Tom L. Allen, State Auditor of Utah, who is being recognized for his numerous contributions to the auditing profession and to the improvement of financial management at all levels of government. Tom's leadership has not only brought Utah to the forefront in financial management excellence, but it has also contributed greatly to the long term improvement of government accounting and auditing nationwide. Let me highlight some of Mr. Allen's significant accomplishments.

Mr. Allen identified the need for new laws or the modification of existing laws, such as the Uniform Fiscal Procedures Acts and the Fiscal Procedures Acts for Towns and Special Taxing Districts, to improve financial management in Utah. The legislation, which requires uniformity in budgeting, accounting and reporting, has greatly strengthened accountability in all levels of government in Utah.

Prior to 1985, Mr. Allen worked closely with the State Finance Department in revising the state's financial statements. Each year since 1985, Utah has received the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting, which has helped Utah to be one of only seven states to hold a Triple-A bond rating.

As the State Auditor, Mr. Allen has provided outstanding leadership in such matters as the Governmental Accounting Standards Board, the single audit concept, and peer review. To improve audit quality, Mr. Allen and his staff have written the State Compliance Manual that provides guidance to independent CPAs and government officials. The issuance of the manual has resulted in improved understanding by State agencies and their independent auditors about items to be tested for the state's largest grants and improved conformance with testing requirements.

Mr. Allen's accomplishments have already resulted in many substantive improvements in accounting and auditing functions within the State of Utah and in the profession, including higher quality and more comprehensive audits by independent CPAs, better property tax collection and administration, recognition of the state for excellence in financial reporting, and improved communication between state and local officials. Also, nationwide benefits—such as improved education in government accounting and auditing, improved peer quality reviews and the elevation of government entity auditing to a new level of importance—have resulted from his work with local and national professional organizations. These are only several examples of the major accomplishments achieved through Mr. Allen's leadership. It is with great pleasure that we now present the Donald L. Scantlebury Memorial Award to Mr. Tom L. Allen in recognition of exceptional and continued leadership in improving financial management through auditing and accounting in the State of Utah.

Robert L. Yates

Our second awardee is Robert L. Yates, Vice President and Treasurer of the Tennessee Valley Authority, who is being recognized for his outstanding leadership in significantly reducing operating costs and implementing financial management initiatives that have greatly increased the efficiency of accounting operations and systems. Mr. Yates played an important part in getting his agency, probably the largest electric utility company in the United States, to undergo dramatic changes since 1988. First, let me share with you some background prior to 1988. TVA had increased its electric rates an average of 10.4% per year for the last 22 years and was facing the prospect of additional rate increases. TVA management was determined to remain competitive and continue their commitment to the economic development and welfare of the Tennessee Valley region by controlling costs. Mr. Yates played an integral role in this cost control program. Since 1988, TVA has reduced its operating expenses by a quarter of a billion dollars per year, trimmed its work force from 37,000 to 28,000 and lowered its interest expense by $170 million annually, while increasing its output (the amount of kilowatts-hours produced) by 8 1/2 percent.

More specifically, under Mr. Yates' direction, optimization analyses of the decommissioning fund for TVA's nuclear power plants resulted in reducing the annual interest expense by $18 million, starting in 1991, with similar reductions in each of the next 25 years. The net present value of this reduction is $195 million. Another initiative involved establishing a commercial bank account using controlled disbursements, which will save TVA between $3-4 million per year, after expenses. The savings resulted from TVA being able to optimize the use of disbursement float through the controlled disbursements accounts.

Mr. Yates initiated a credit card program for small purchases at remote locations, such as TVA power plants. In fiscal year 1990, TVA had paid approximately 110,000 bills using a cumbersome mechanism for payment, which cost $9.00 per transaction. By using credit cards, TVA has better controls and at the same time, the cost associated with each transaction is $1.00, resulting in a net annual saving of $880,000.

Mr. Yates was intimately involved in TVA's return to the debt market, using a technique called an "insubstance defeasance" to extinguish $7.5 billion of its high coupon debt. In the fall of 1989, TVA sold a total of $8 billion in debt in the public market, one of the largest agency debt refunding programs ever undertaken. As a result, TVA was able to reduce its 1990 interest expense by $105 million. The net present value of the savings associated with this refinancing is estimated by TVA at over $1 billion. Mr. Yates played a vital role in dealing with the underwriters, rating agencies, underwriters' counsel and others involved in the refinancing.

In the mid-1980's, when Mr. Yates was the Controller, he standardized the account number structure, implemented a standard general ledger and consolidated and improved various financial management systems within TVA. We are honored to present Mr. Robert L. Yates the Donald L. Scantlebury Memorial Award in recognition of exceptional and continued leadership in improving financial management through cost control and other initiatives at the Tennessee Valley Authority.

Jeffrey C. Steinhoff

This year, the JFMIP is making a Special Award for Distinguished Leadership to Jeffrey C. Steinhoff, Director, Civil Audits, Accounting and Financial Management Division, U.S. General Accounting Office. Mr. Steinhoff is being recognized for his continuous outstanding leadership and personal commitment in helping to enact major financial management reform legislation.

Mr. Steinhoff was a major influence in the enactment by Congress of the Chief Financial Officers Act of 1990. He prepared testimony on many occasions for hearings on the issue over the last 5 years, guided congressional committees in considering and drafting financial management reform legislation, and mustered support for such legislation through discussion and debate in the federal financial management community.

Mr. Steinhoff has been a catalyst in helping promote effective implementation of the Federal Managers' Financial Integrity Act (FMFIA) since its passage in 1982. His leadership has produced several governmentwide reports and congressional testimonies evaluating agencies' progress in implementing the Act and making recommendations for improvements. He has worked cooperatively with the Office of Management and Budget, the Department of the Treasury, and other federal agencies to streamline the FMFIA process and make it more effective.

Mr. Steinhoff also worked with the Congress and OMB officials on the Debt Collection Act of 1982, which substantially increased the government's collections while reducing the budget deficit. Since that time, he has led GAO's work to help establish better governmental debt collection operations, directed reviews of credit assistance and insurance programs, and made recommendations to improve federal loan management operations.

After he directed the reviews of bill-paying operations that showed that the federal government was not doing a good job in this area, Mr. Steinhoff was instrumental in formulating the Prompt Payment Act of 1987. After enactment, he assisted the task force developing the OMB circular to implement the Act. More recently, he led GAO reviews which disclosed that agencies were not fully complying with the Act. He testified on proposed revisions to the Act and worked closely with congressional staff on the passage of amendments.

Mr. Steinhoff also assisted in developing and testifying on the Cash Management Improvement Act. He worked with the Congress and the

State/Federal Cash Management Reform Task Force on legislation that would address long-standing differences regarding intergovernmental financing. We are pleased to present this Special Award for Distinguished Leadership to Mr. Jeffrey C. Steinhoff for sustained leadership and significant contributions to major financial management reforms enacted during the past decade.

In a private meeting, Secretary of the Treasury Nicholas F. Brady, a JFMIP Principal, met with awardees. At left, with Robert L. Yates. At right, with Jeffrey C. Steinhoff.

Chapter 3

Panel Session Summaries

Ronald Young

Federal Accounting Standards

Ronald Young, Staff Director, Federal Accounting Standards Advisory Board (FASAB), the moderator of this panel, described the organization and agenda for this newly established Board. Three users' task forces are being established:

- defense establishment needs,
- budget needs, and
- other (cross-cutting the entire federal government).

The task forces will help identify the users and their needs for standards and decisions. The Board can then move to establish reporting objectives, develop a financial reporting model, and develop accounting standards.

Mr. Young introduced the individuals representing the panel, all members of the FASAB.

Dr. William L. Kendig

Dr. William Kendig, Director of Financial Management, Department of the Interior, provided the civilian agencies' perspective to the Board. He indicated the audience might have two basic questions:

1. "If standards are so important, why haven't we done more than we have until now?"
2. "What needs to be done in the standards area, particularly from the perspective of the civilian agencies?"

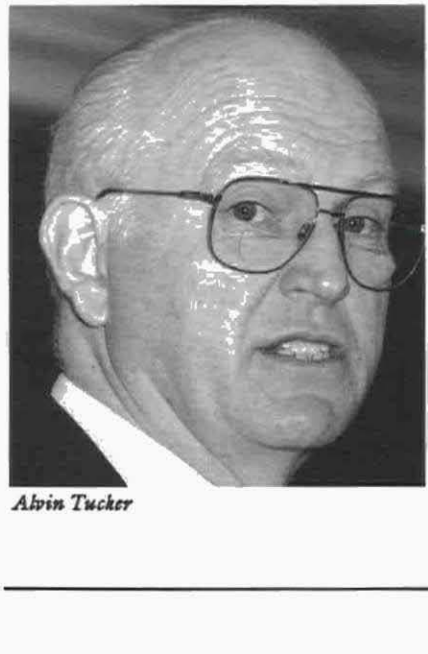
Dr. Kendig said that the first question was provided a catastrophe to prompt its answer, for it is the budget deficit that is driving the current interest in improving accounting standards. To this time, no one outside the financial community was very much concerned with standards and, because financial information was not universally used in making ***operational*** decisions, there was less pressure within government to improve the standards. He contrasted the practices with the private sector, where companies function in ways that require all executives to learn to use financial information.

Historically, the emphasis has been on resource acquisition—basically budget formulation, and not on the way resources are used. The accounting emphasis was on funds control, rather than application. But cognizance of the current budget deficit brought changes, demanded more and better attention to accounting numbers, doubted the validity of those accounting numbers, and questioned the bases upon which they are structured. At present, the emphasis is changing from that of providing external reports and staying within appropriations to generating and analyzing management reports. The reports must be based on consistency and the information must be based on a set of standards for both accounting and reporting.

Dr. Kendig observed that costs are inputs; that what needs to be emphasized are the outputs or what we are delivering to the public. He stated that valid performance indicators are a precursor to better reporting and analysis, and that the CFOs Act requires the CFO to be involved in their development.

Turning next to the statement of financial position, with the exception of commercial-type activities, the government owns assets that are not meant to generate revenues or profits as the definition of asset is constituted in the private sector. Assets described as a flow of future revenues or profits is a definition that does not work well in the public sector. Dr. Robert Mautz, a theorist in this area, suggests that an asset of this type (such as the Washington Monument) would be reported on the balance sheet, but would never be depreciated. The category represents assets that the government never plans to dispose of; under Mautz's theory, these assets could be considered negative assets or cost centers or liabilities. Denoting this type of asset would move us beyond the depreciation question. Further, in terms of liabilities, we have a responsibility to discuss intergenerational shifts of costs; to identify which generation will pay for today's benefits. Standards will have to be developed by FASAB to address these issues, and Dr. Kendig noted Frank Hodsoll's concern for expecting performance too quickly by FASAB.

In conclusion, Dr. Kendig expects the coming changes to lead to a different type of workforce in the financial area. There will be more emphasis on the ability to analyze financial statements and on the ability to recommend how to do things differently. He suggested that civilian agency financial managers should give their thoughts and recommendations on FASAB undertakings to their representatives on the Federal Financial Managers Council.


Alvin Tucker

Alvin Tucker, Deputy Comptroller, Department of Defense, represents the defense community on the FASAB. Mr. Tucker began by discussing the historical reasons for the FASAB and for the long time period over which the federal government considered the preparation of auditable financial statements. Indicating he believed his answers differed from Dr. Kendig's, he agreed that for many years both federal managers and legislators took the position that much of the accounting information and accounting conventions developed for financial statements in the private sector were irrelevant to the federal government. He commented that historically the efforts of the profession in the private sector were toward ensuring that third parties—banks, creditors, stockholders, and government regulatory agencies—were given an accurate, reliable, and fair picture of the financial operations and condition of the reporting entity. Fundamental assumptions were relied on, including the going concern concept, proper matching of revenues and expenses, disclosure of future liabilities, and identification of the sources of equity. He said the idea was to permit outside users and analysts to use the financial reports to determine how well the entity compared with the past and with others, as well as to help predict its future.

In using those concepts and objectives for federal government operations, however, the third parties are the Congress, taxpayers, banks, creditors worldwide, and creditor nations. After discussing the interests of each, he concluded that financial legislators and managers are the main users of accounting data and financial statements. Congress is interested in control over key decisions related to programs and funding; wants assurance that the accounting systems and financial statements adhere to and accurately report on these controls; and will continue to be absorbed by data on obligations incurred, limitations placed on spending and programs, and "scorekeeping"—which, he indicated, has nothing to do with accounting.

Mr. Tucker explained that "scorekeeping" involves the estimates of outlays and determining whether the estimates should be in or out of budget estimates for future years, and in or out of deliberations that involve those estimates. He said that accountants and accounting systems have limited input in this regard, especially when big issues are discussed.

Considering the defense community's interests, Mr. Tucker said that the Department's past position was that its use of many private sector accounting principles would add little to the effectiveness of operations and to the public's understanding of them. While managers of the Department's business-type areas (some $70 billion annual expenditures—maintenance and repair, transportation, and acquisitions) do adopt and rely on private sector conventions, other managers in DOD, such as leaders of combat units, see neither need nor usefulness of some concepts of accounting. These combat leaders, for example, reject the notion of depreciation for combat equipment, as a depreciation schedule does not tell them the life expectancy, effectiveness, replacement cost of successor equipment, or the life cycle costs of maintaining or operating the equipment. Agreeing in concept, he indicated he hoped the FASAB would consider the differences of combat vs. business unit operations.

Further, Mr. Tucker discussed the DOD's internal acquisition community as an important user of financial information. These individuals who manage programs to buy major equipment like ships, aircraft, tanks, and weapon systems are vitally interested in obligations incurred and adherence to statutory limitations—the kinds of financial data that rivets the attention of the Congress. Mr. Tucker observed that FASAB might consider how to reflect these total future costs as contingent liabilities on financial statements; adding that while DOD has systems and methods for predicting how much will be spent overall for a system, including current and future costs, those systems and methods are not part of its internal accounting system.

The DOD's research and test community, which controls distribution of program funds to the public and private recipients, considers such accounting standards as when to capitalize research costs and when to expend costs.

In summary, Mr. Tucker indicated that the DOD has established a task force to let the FASAB know what financial information is important to its financial managers. In his view, the FASAB should consider the underlying assumptions of our accounting standards and resulting statements and determine how well they serve Congress and federal managers—the primary users of the data. The FASAB should also consider whether mission needs and benefits dictate use of different accounting standards for different types of government entities.


James Blum

James Blum, Assistant Director for Budget Analysis, Congressional Budget Office (CBO), is one of the legislative branch representatives on the FASAB. He expressed the belief that both budgeting and accounting concepts are in a state of flux and sees the FASAB's establishment, together with proposed legislative actions affecting the budget process, as a great opportunity to make significant progress in financial accounting and reporting.

Indicating concerns about the content and structure of the federal budget, he cited questions including:

- what is on budget and what is off budget?
- should a capital budget distinguish expenditures from operating expenditures?
- does the present structure create a bias against needed infrastructure investments?
- which of three deficits (CBO's? Old, unified—including Social Security and Postal? Economist's—unified, but without deposit insurance?) should the budget address?

Mr. Blum expressed the view that the budget treatment for credit assistance programs will be changing in the next fiscal year. Congress will be looking at the subsidy cost basis for providing credit assistance, direct loans, and loan guarantees to the private sector, rather than just looking at cash flow. He thinks that the budget document will incorporate an accrual type concept that will be much more useful in controlling credit costs; he indicated that the CBO and the OMB are considering the budget treatment for deposit insurance.

Since enactment of the Budget Enforcement Act, Congress has changed budget emphasis from trying to reach specific deficit targets to that of staying within ceilings for discretionary spending and limiting changes of taxes and mandatory spending on a pay-as-you-go basis. In response, this has led to a number of "scorekeeping" issues (a concept discussed in Mr. Tucker's remarks above). From the view that while scorekeeping, now more prominent in the Congressional budget process, has resulted in a more rational and flexible process, Mr. Blum stated he did not know how long this would last and that he expects the Congress will rethink this process after the next election. In any event, the state of flux in the budget process parallels what is going on with federal accounting and reporting.

Mr. Blum questioned the value and use of consolidated agency financial statements, saying he could find no one who uses them for any purpose. He posed the question of whether a balance sheet, with assets and liabilities, is a meaningful concept for the federal government. Commenting on the remarks of the other panel members, he indicated the feeling that the Congressional emphasis on financial statements—included in the CFOs legislation—was primarily directed to commercial type activities.

In concluding his remarks, Mr. Blum indicated his hope that the FASAB will emphasize reporting to Congress and to the public; attempt to meet unique needs of agencies; focus on financial reports and accounting; avoid managerial accounting for internal use but at the same time consider whether there should be performance information in financial statements; and reconsider the desirability of consolidated statements.

Dennis J. Fischer

Technological Developments

Dennis J. Fischer, Deputy Assistant Secretary, Finance, Department of Health and Human Services, introduced this session by emphasizing that financial managers, implementors of financial management systems, auditors of the financial systems, and auditors of the results from operations are increasingly called on to consider where technology can be used to increase the efficiency and cost effectiveness of agencies.

He then introduced the four panel members to discuss different aspects and applications of technology.

Susan Graham

Susan Graham, a partner with Price Waterhouse specializing in the development of financial management systems for government clients, started her presentation by asking the question "How can technology support some of the issues and management problems in federal programs?" The goal is to support the objectives of the CFOs legislation by applying new technology to specific federal program management needs. One must first identify the critical needs of federal program management and then identify new technologies which will be relevant to addressing those needs. Ms. Graham discussed the types of technologies available and which types of agencies would find them most useful.

Ms. Graham characterized federal program management as divided into three basic elements to help identify areas of particular need in light of the CFOs legislation. These three areas include:

- Participant service—the capture, storage, and retrieval of participant data;
- Program financial management—focuses on data integrity, compliance with legislation, generally accepted accounting principles, and federal standards; and
- Performance Assessment—operational and strategic data analysis, monitoring and planning.

She discussed and provided examples of each element and each type of technology that would useful. The three types of technology reviewed were expert systems, electronic data interchange, and document imaging. These three technologies were then discussed in more detail by the other panel members.

Harry Reinstein

Harry Reinstein, chairman of the board, AION Corporation, highlighted the advances in "expert systems/inference based technologies." Those technologies were derived from laboratories, universities, and government research activities. The technologies are applied in solving problems, and, instead of being research technologies, they are real, deliverable, and in use today at thousands of locations. Mr. Reinstein then provided examples of expert systems, told where they are being used, and explained the results of their applications. One example given was payroll. It was provided in order to illustrate the primary characteristic of this technology in building software applications.

Entire payroll programs are not being built with this technology. Instead, only parts that are very complex, because of factors such as union negotiation and allocation of costs, are the focal areas for this technology. Amoco Oil Corporation and Yale University have augmented their payroll systems utilizing this technology.

For expert systems, Mr. Reinstein pointed out that one doesn't talk about applications in terms of programming languages or underlying technologies, but one talks about applications in terms of the elements of the application. For payroll it is about forms and facts, such as "net pay = gross pay - deductions" or "gross pay = base pay + overtime." These are things about which people can agree when designing the application. It also includes rules and the logic of application. For example, "if an employee's status is exempt, overtime will be zero." Simple and understandable, the logic of an application clearly is part of what has to be represented.

The natural consequence of this technology is an economic advantage achievable in building programs. Programs are established 5 to 20 times faster, simply because they are built by description and not by programming.

Mr. Reinstein concluded that expert systems technology should be used and is going to play an increasingly important role in the automation of enterprises. It will improve the effectiveness and productivity of the organization's staff .

Michael D. Serlin

Michael D. Serlin, Assistant Commissioner of the Financial Management Service (FMS), Department of the Treasury, spoke about electronic data interchange (EDI) and how it is used in the federal government and the FMS. In these changing times EDI is reshaping traditional approaches to business and to financial management.

There are various ways to describe EDI. One definition is the electronic transmission of business documents in a standard format. Handling and processing of conventional paper documents lowers the quality and increases the costs of service. Mr. Serlin indicated that FMS has started to eliminate paper from its financial operations and provided some examples of automation using EDI. He discussed two types of EDI, traditional and non-traditional.

Traditional EDI is sometimes refer to as "big EDI." Traditional EDI is the transmission of data, in standard syntax, between buyers and sellers. In government terminology, these fall under the procurement cycle. An example of traditional EDI is the Department of Veterans Affairs' successful implementation of electronic invoice and payments under the Vendor Express program. Electronic delivery orders are planned for November 1991.

Non-traditional EDI applications are sometimes referred to as "little EDI," although the size and impact of many of these applications are huge. In the less traditional sense, it is more then just buying and selling; it is also the elimination of paper and types of transactions. Examples of non-traditional EDI are the IRS's program for electronic filing of the 1040 tax returns and offer of direct deposit for refunds. Last year there were 3.3 million direct deposits through electronically filed tax returns. This year, as of March 1st, there have been 4 million direct deposits and the number is still growing.

In conclusion, Mr. Serlin stated that financial managers have direct responsibilities to reduce costs and increase efficiency in their agencies. Through EDI, this can be accomplished, for it represents opportunity to raise awareness and bring the appropriate people together.

Roy Morrison, Systems Accountant, Department of the Interior, provided an overview of the implementation and use in the Office of Surface Mining of the technology of document imaging. This Office is currently improving the effectiveness and efficiency of its debt management operations. This initiative includes a project to image delinquent debt and related files to decrease the time required to locate and research debtors' files.


Roy Morrison

Document imaging is the conversion of paper documents into a electronic format which is stored on an electronic media. The imaged pages are indexed utilizing a database format which can retrieve page files utilizing a variety of index retrieval requests. These documents then can be viewed as a file on a computer screen, printed on laser printer, or transmitted as a fax.

Implementation of an operational prototype for the document imaging system provided opportunity to review existing documents, revise processing and maintenance procedures, and document operational procedures. The prototype effort identified which documents to image, the order in which the documents would be imaged, priority of file imaging, and indexing of documents for retrieval. Cost information was also developed to support future expansion, mass storage requirements, database linkage, and identification of other imaging applications.

The project is expected to take approximately 12 months to image existing historical documents needed to support current operations. All new debt files and documents will be imaged as they are received. The availability of documentation on-line is expected to reduce the research time of the debt collection specialists and improve overall response time for inquiries.

The benefits expected from the application include the reduction of two full-time equivalent (FTE) personnel, reduced costs for file retrieval, and easier case review. Additionally, the file maintenance time is expected to be reduced by approximately two FTEs. Space requirements for file storage is also expected to be dramatically reduced by 1500 square feet.

Intangible benefits include eliminating problems with lost, misplaced, and misfiled documents. Immediate access will be available for all documents; greater security will be provided and the records kept in safe storage.

Jimmie Brown

Robert E. Faust

Improving Operations through Better Financial Management

Jimmie Brown, Deputy Staff Director, Federal Accounting Standards Advisory Board, and panel moderator, observed that these are interesting times in federal financial management due to various new developments. He cited these developments as passage of the Chief Financial Officers Act; establishment of new groups such as the Federal Accounting Standards Advisory Board, Comptroller General's Quality Standards Advisory Council, and Federal Quality Institute; and accomplishments in accounting systems and cash and credit management. He said that while there are both differences and similarities between the needs of the federal government and the needs of the private sector or other governments, who are represented by the other panelists, we are not so different that we cannot learn from the accomplishments or ideas of each other.

Robert E. Faust, Vice President and Controller, Westinghouse Corporation, discussed the importance of quality improvements to the corporation's worldwide operations of 120,000 people and $13 billion in sales. Quality improvement at Westinghouse is a never-ending process that has resulted in improved customer perceptions, strong financial performance, and ultimately increased shareholder value.The first Corporate Productivity and Quality Center was established by Westinghouse in 1981, and the company has been a finalist every year since 1988 for the Malcolm Baldridge National Quality Award when its Commercial Nuclear Fuels Division became the first winner of the award.

Mr. Faust focused on the quality improvements of the Westinghouse Finance Organization - a support group of 7,200 personnel worldwide - which he equated to the types of service organizations represented by those attending this conference. He said the Finance Organization's total quality performance measures are both qualitative, such as results measured by improved customer satisfaction, and quantitative, such as those which demonstrate cost reduction. The major tools and improvements created by Finance to improve quality, productivity, and profitability are:

- A systematic financial technique, Value-Based Strategic Management (VABASTRAM), is used which provides the capability to allocate scarce resources and create stockholder value by comparing the relative value of strategic alternatives, projects, or programs as a means to prioritize and allocate limited capital resources.
- Information corporatewide was standardized through use of finance systems and human resources reporting for more effective information and control of the business. A standard general ledger system that uses a standard chart of accounts

corporatewide serves as a comprehensive accounting and financial reporting system that produces the financial statements and supports local accounting operations. An online payroll/human resources information system is used to manage payroll, benefits, and professional development data.

- Information is readily available to all levels of management through various corporate data banks which make possible the consolidation of financial information in real time. The Management Accounting and Planning System makes consolidation of nearly 700 separate ledgers at the corporate level possible by gathering financial information monthly from 470 worldwide locations. The books are closed monthly and over 2.5 million lines of financial information reported annually. A Financial Information Service system allows financial managers at 1,400 plant locations access to the information. An Executive Information System enables managers to access significant financial information on competitors and other areas by personal computer.
- Computer operations were consolidated and centralized (80 percent of the mainframe computer power over the past 3 years), with significant reductions in both personnel and software costs. Total savings from eliminating duplicative hardware and reducing the number of software vendors is estimated to exceed $50 million over the next few years.

In addition to these finance systems and improvements, the corporation has an internal Total Quality Fitness Review program whereby a confidential 5-day review of a site's operations is conducted by a review team led by a Productivity and Quality Center representative and comprised of a team of managers from various Westinghouse organizations, outside vendors, and even customers. The team assesses the operations against 12 conditions of excellence for total quality, such as customer orientation and accountability, and compares results to an ideal total quality operation. Followup action plans are prepared in response to recommendations.

In summary, Mr. Faust said these systems and techniques constitute the Westinghouse total quality effort which over the past few years has resulted in efficient, quality operations and savings of hundreds of millions of dollars.

George Labovitz

George Labovitz, President, Organizational Dynamics Inc., discussed his firm's work with many corporations and government entities on use of the total quality management (TQM) concept. He said that TQM is the first concept that actually works and that this outcome is due to the commitment of senior management and because it extends down through a process to ensure that critical parts work the way they are supposed to work every time.

TQM is different because it is value driven. The main elements of TQM are service, attitude, and profit. It involves commitment to customer satisfaction and overall improvement. It involves total involvement of all the people who work for you and commitment to measuring results. It expands on the profit incentive and it requires attitude and analysis together. He said TQM is the best investment a company can make.

Mr. Labovitz stated that the federal financial managers are in the best position to prevent disasters and to direct actions that are of most benefit to their agencies. He cited the Westinghouse's presentation as a good example where the finance organization implemented total quality improvements that had significant beneficial impact on all operations.

Peter Allum

Peter Allum, First Secretary (Economic), British Embassy, discussed financial management reform in the British government for the past 10 years as a means of ending public sector inefficiency by emphasizing the importance of the private sector and reducing the size of government, and introducing a new ethos into the public sector in terms of requiring that the quality of output and cost-effective use of resources be measured. As a result of the reforms, the publicly owned industrial sector, for example, was reduced to less than one third of its size in the 1970s, and government expenditures as a share of the national output dropped to 1960s levels. There are indications that progress has been made toward putting all government operations on a quality, cost-effective footing.

Mr. Allum characterized the reforms as evolutionary in that the first measures focused on specific areas of government activity and on procedures rather than on management style or abilities. When it became apparent that further improvements in productivity would require changes in management practice, a Financial Management Initiative was undertaken. Later, steps were taken to establish new government agencies because of the difficulty even in divisions with functionally separate work, to obtain real operational autonomy within large departments. Specifically, the initiatives undertaken were:

- A member of the Board of a British retailing group with a strong reputation for effective management was recruited to initiate efficiency reviews of the public sector, with the results summarized in short reports to the ministerial level.

- The Financial Management Initiative was implemented to provide guidelines for public sector departments on how to reform their internal structures and processes to maximize efficiency and value. It was implemented on a decentralized basis and resulted in many departments designing and implementing computer management information systems; a process for setting long and short term objectives annually for each level of government down to the individual employee level; employee work plans that are developed in consultation with management and reviewed at least annually; and performance that is reflected in an employee's performance rating and salary which enables an outstanding employee to leapfrog increments and earn more than the ceiling of the employee's pay scale.
- Quasi-autonomous government agencies were established out of larger departments in order to provide for more efficient and effective delivery of such public services as employment services, printing and publishing, and issuing the national currency. Each of these agencies is expected to produce annual public reports and accounts on the performance of services and costs. Thirty-four agencies have been established and are required to set financial and nonfinancial targets and to improve efficiency by at least 3.5 percent annually by combining better financial performance with an improved quality of service.

In addition, each department is being permitted to decide whether to relocate from London, based on such factors as access to labor markets and cost/benefit considerations; and greater pay flexibility has been introduced to respond to skill and regional labor scarcities and staff retention.

In summary, Mr. Allum said the British reforms appear to be more ambitious than U. S. reforms because bold steps were needed to deal with a British government that was more oversized and interventionist in the private sector than the U. S. Government. Compared to the U. S. reforms, he saw the British reforms as aimed at providing managers with an array of additional information to assist in identifying whether departmental objectives are being achieved, intended to improve efficiency throughout the civil service, and applied to work practices of the departments.

Derek Gill

Derek Gill, Counsellor (Economic), Embassy of New Zealand, addressed the wide-ranging financial management reforms ongoing in the New Zealand government since 1986. Reform occurred in two phases: first, government trading enterprises were removed from the core public service and replaced by State Owned Enterprises (SOE), and second, the industrial relations and financial management system of the core public service sector became the focus for reform. He said it is too early to draw conclusions on the reforms of the core public service sector that began in July 1989.

Phase I reforms were legislated to separate the commercial activities of government from the social functions, and establish an accountability system modeled like that of private firms. The SOEs have operational autonomy, each is monitored by a Board of Directors, the Boards are accountable to Ministers, and financial performance is monitored against agreed upon targets. Benefits, though hard to measure, have been evidenced by increased productivity, improved financial performance, and gains for consumers. For example, sales tonnage per Coal Corp employee more than tripled over the period 1987-90 and individual household wealth increased $1,500 between 1987-90 from increased performance. Further, the government has sold 12 of the businesses for about $4 billion and significantly reduced its risk in the banking and finance, transport, and tourism sectors.

Phase II reforms, initiated as a result of legislation, enabled Ministers to act on the results of monitoring the performance of departmental chief executives, and established the criteria for monitoring performance. The reforms led to a new system of financial management with main elements including setting clear organizational objectives, clarifying accountability, and reviewing performance against objectives and applying appropriate rewards and sanctions.

The major changes to the structure of the government from the reforms were:

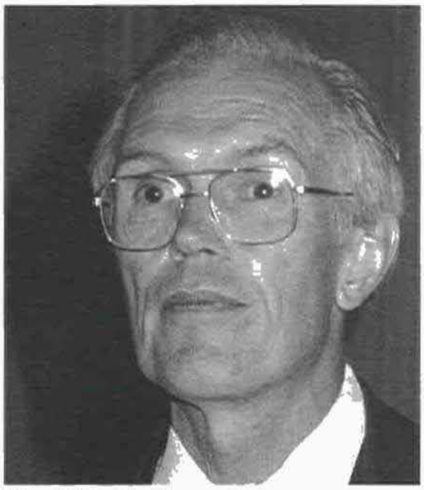
- Separating commerical and noncommercial operations,
- Transferring State Owned Enterprises to the private sector and creating a corporate-like environment for SOEs remaining in the Government,
- Reorganizing departments along functional lines, and
- Abolishing old departments.

The major changes to the processes of the core public sector from the reforms were:

- Abolishing public service in terms of replacing heads of departments with chief executives and requiring departments to function as employers,

- Introducing output budgeting and abolishing input controls such as staff ceilings, by deciding what outcomes or objectives are wanted and then selecting the outcomes or programs to meet those outcomes,
- Decentralizing operational autonomy down to managers of the SOEs,
- Introducing accrual accounting, capital charges, and other measures, and
- Requiring that financial reports (balance sheets, operating statements, and cash flow statements) be prepared in accordance with generally accepted accounting principles to overcome a major drawback to monitoring the activity of departments.

Meeting the Requirements of the CFOs Act for Financial Analysis



Donald H. Chapin

Panel moderator Donald Chapin of the General Accounting Office opened the session by discussing the role of performance measurement in complying with the Chief Financial Officers Act of 1990 (CFOs Act). One of the requirements of the CFOs Act is that agency CFOs submit an annual report to the agency head and the Office of Management and Budget which will include not only the agency's financial statements and relevant audit report, but also a description and analysis (D&A) of the status of financial management within the agency. In order to meet this requirement, managers will have to begin building the tools needed to perform financial analyses of agency operations.

GAO recently developed a conceptual framework to assist in analyzing federal agency financial statements: ***Financial Reporting: Framework for Analyzing Federal Agency Financial Statements*** (GAO/AFMD-91-19). The framework is built around three key components for analyzing financial statements:

- attributes—distinct financial aspects of an agency or program,
- measures and indicators—quantitative gauges of attributes, and
- analytical techniques which can be applied to the analysis of financial statements.

The report also includes a case example of how the framework can be put into practice to reliably measure and express program or agency outcomes.

Dennis Duquette

Dennis Duquette of GAO discussed what agency D&As should contain. The D&A should be presented in a form that is easily understood by those who do not have the time or expertise to understand the more detailed information found in the financial statements. Two steps are required in preparing the D&A. The first step involves applying the set of attributes, measures, and techniques discussed in the conceptual framework. The second step involves summarizing the application of the framework in a narrative form. The resulting D&A should

(1) discuss the most important aspects of an agency's financial operations,
(2) relate financial data to other measures of performance,
(3) discuss the causes of trends, and
(4) inform the Congress and other organizations with oversight responsibilities of future funding needs and potential problems.

The first issue which should be considered when preparing financial analyses is selecting the elements of information on which the analyst should concentrate. A proper focus ensures that the analysis provides information relevant to the needs of its users—the users of an agency D&A include members of Congress, agency planners, budget staff, and program managers. Information should be provided to

- enhance users' understandings of government operations;
- supply a common database for analyzing and debating policy positions;
- establish plans, budgets, and spending proposals; and
- evaluate efficiency and cost-effectiveness.

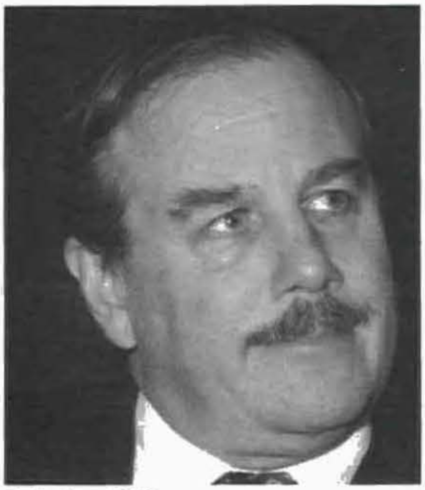
Financial analysis is useful in interpreting operational results at both the program and agency levels. Managers may choose to break their analyses down to the program level if the agency is particularly large. Also, many programs are managed as distinct units for budgetary and operational purposes and are viewed as cost centers within a federal agency.

Relevant financial attributes can differ according to type of program or agency. For example, if managers were analyzing a public service program, they may want to review the results of the program in terms of operating costs. If managers were analyzing an entitlement program, future liability information may be one of the most important measures of financial performance.

After selecting relevant financial attributes, the analyst should develop measures and indicators which can both express the financial attributes in quantitative terms and fit the specific analysis being prepared. One set of measures and indicators is not necessarily appropriate for all agencies or programs, and analysts must select measures and indicators on a case-by-case basis.

GAO analyzed the Department of Veterans Affairs financial statements for fiscal years 1986-1989 and prepared a D&A for case study purposes. One of the many attributes chosen was that of the operating cost of programs. Operating cost can be measured by subtracting program revenues and reimbursements from total expenses; such a measure can provide a picture of the net cost of the program to the taxpayers.

After the financial attributes of an agency or program are properly quantified in terms of measures and indicators, financial statements should be further analyzed to produce a comprehensive evaluation of program and agency attributes. The analysis would attempt to determine if a financial measure or indicator changed in recent years, and, if so, by what degree. Conclusions related to these and other questions will help users of financial statements better evaluate historical data and make better predictions about future operations in their planning, budgeting, and program evaluation decisions. Four common ways of analyzing attributes are trend analysis, cross-sectional analysis, structural analysis, and causal factor analysis.



S. Anthony McCann

S. Anthony McCann, Department of Veterans Affairs (VA), provided a viewpoint on D&A reporting and the CFOs Act from the perspective of agency management. He indicated that agency managers have to begin developing ways of measuring performance. The final focus in development of these methods should be toward obtaining satisfactory program outputs and outcomes rather than on the processes used to obtain those results.

Financial and program managers should work together in establishing which measurement tools are most useful. Currently, there is limited interaction between financial managers and program managers. Agency managers should also work with the Congress and the OMB to ensure that performance measures are meaningful to government operations and not mere carryovers from performance measures used in the private sector. Mr. McCann indicated that he hopes the audit community will support the development of fair and meaningful standards.

Regarding the CFOs Act, the OMB and the agencies must carefully describe the scope of the CFO's authority and what portions of that authority can be delegated. One of the CFO's roles should be to establish financial standards for the statistics used in measuring performance and making management decisions. For example, in the past, the VA was building medical facilities based on the number of patient appointments. VA managers and the Office of the Inspector General analyzed this statistic and found that patients did not honor their appointments 20 per cent of the time. VA management then began measuring patient visits as an improved performance and management measure.

Use of program statistics to measure and analyze performance also will require working with management information systems. Agency managers will have to determine what kind of data, both financial and nonfinancial, is in their management systems and whether the data is accurate.

Chapter 4

Award Winners

Special Award for Distinguished Leadership

1990
Jeffrey C. Steinhoff
Director, Civil Audits, Accounting and Financial Management Division,
U.S. General Accounting Office

Donald L. Scantlebury Memorial Award Winners

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
Budget Director, Fiscal Affairs Division, 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 & 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 Asst. Secretary (Comptroller)
Department of Defense

1985
C. Morgan Kinghorn
Comptroller
Environmental Protection Agency

Edward J. Mazur
State Comptroller
State of Virginia

1984
Clyde E. Jeffcoat
Deputy Commissioner
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
Department of the Army

Roland W. Burris
Comptroller
State of Illinois

1981
David Sitrin
Deputy Associate Director for National Security
Office of Management & Budget

Thomas W. Hayes
Auditor General
State of California

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

John P. Abbadessa
Controller
Atomic Energy Commission

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