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**THE ELEVENTH ANNUAL  
FINANCIAL MANAGEMENT  
CONFERENCE**

The "Lean Budget" -  
A Challenge To  
Financial Managers

Reference

THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

March 22, 1982

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The Proceedings of  
The ELEVENTH ANNUAL  
FINANCIAL MANAGEMENT CONFERENCE  
THE "LEAN BUDGET"--  
A CHALLENGE TO FINANCIAL MANAGERS

March 22, 1982

## FOREWORD

Each year, the Joint Financial Management Improvement Program sponsors a Financial Management Conference to enhance the spirit of cooperation among Government agencies and to share new ideas and developments in financial management. The Eleventh Annual Financial Management Conference, with the theme of "The Lean Budget--A Challenge for Financial Managers," was held on March 22, 1982 in Washington, DC.

These proceedings are being published to share the experiences and ideas that the speakers presented on coping with the lean budget. We unequivocally agree with one of the speakers who stated that the period of austerity requires more and better management. With tightening of the budget, financial managers are constantly challenged to manage their resources more efficiently and effectively. The only way of life in the foreseeable future is to do more with less. These are trying times and require herculean management efforts, unlimited resourcefulness and extraordinary drive. We hope that the information contained in these proceedings will provide hints, suggestions and even answers to improving Government operations while facing budget cuts in the future.

Part I includes the welcoming address by Charles A. Bowsher, Comptroller General of the United States, and the opening keynote address given by Denis Karnoski, Deputy to the Under Secretary for Monetary Policy Analysis in the U.S. Department of the Treasury.

The luncheon session was devoted to the presentation of the Donald L. Scantlebury Memorial Awards for distinguished leadership in financial management improvement. Gerald Miller, Director, Department of Management and Budget in the State of Michigan gave the afternoon keynote address. These addresses are presented in Part II.

Highlights of the four workshops are given in Part III. The topics of those workshops include:

- The Administration's Emphasis on Financial Management Improvements
- Improving Productivity Through New Techniques and Technologies
- Financial Aspects of Intergovernmental Relations
- Lessons Learned in Closing Down or Scaling Down Government Operations.

We would like to acknowledge the tireless efforts and the significant contributions made by the speakers, participants and conference coordinators and express our appreciation to them for making this a successful conference.

Susumu Uyeda  
Executive Director

## ACKNOWLEDGEMENT

We gratefully express our appreciation to the following individuals for their contribution in making this conference so successful.

### Awards Committee

Fred Heim, Chairman	Department of Commerce
Fletcher Lutz	Association of Government Accountants
Ron Lynch	Arthur Andersen & Company

### Conference Arrangements

Elaine Harvey	Office of Personnel Management
Sandy McDonald	Joint Financial Management Improvement Program
John Edward Murphy	Office of Personnel Management

### Conference Program Coordinator

Doris Chew	Joint Financial Management Improvement Program
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### Recorders of Workshop Sessions

Judith Boyd	Department of the Treasury
James Rothwell	General Accounting Office
Ellen Todres	Department of the Treasury

### Photographer

Jack Myers

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PART I - PLENARY SESSION

WELCOMING ADDRESS

CHARLES A. BOWSHER  
Comptroller General  
of the United States



As the Chairman of the Joint Financial Management Improvement Program, it is my pleasure to welcome you to this Eleventh Annual Financial Management Conference. With outstanding speakers and topical workshops, the conference will provide a valuable learning experience and a golden opportunity to share and exchange ideas and viewpoints.

When I became the Comptroller General, I was informed that I was the Chairman of the Joint Program. The Chairmanship is rotated every two years among the Principals and in October of this year, I will be turning it over to the Director of the Office of Management and Budget.

Now, as most of you know, the Joint Program is a cooperative undertaking of the Office of Management and Budget, the Department of Treasury, the Office of Personnel Management and the General Accounting Office, working in cooperation with each other and with operating agencies to improve financial management practices.

Activities aimed at improving and coordinating financial management policies and practices throughout the government include:

1. Reviewing and coordinating central agencies' activities and policies to avoid possible conflict, inconsistency, duplication and confusion.
2. Reviewing the financial management efforts of the operating agencies and serving as a catalyst for future improvements.

3. Undertaking special projects of a Governmentwide nature to resolve specific problems.
4. Acting as a clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.
5. Providing advisory services in dealing with specific financial management problems.

The Joint Program plays a key role in mobilizing resources and coordinating cooperative efforts in the improvement of financial management practices. It relies on the active participation of Federal agencies to be successful.

Since its inception in 1948, the Joint Program has had a long and impressive record in improving financial management in the Government. It has pioneered the cash management study, recommended the letter-of-credit procedures in paying contractors and grantees, proposed the single audit approach for auditing grantees, performed an extensive study on the roles and responsibilities of certifying officers and has been in the forefront of efforts to improve our internal controls.

Furthermore, the Joint Program has provided a forum to discuss and learn from other Government agencies, thereby avoiding the reinvention of the wheel over and over again.

The conference today, as well as the many publications the Program issues, are certainly good examples of these efforts. But the success of the Joint Program cannot be continued without the enthusiastic support and assistance of the financial management community you represent.

I thank you for the strong support in the past and solicit your continued assistance in the future.

Now, today at the luncheon session, you will be honoring two outstanding financial managers who have shown unusual leadership and made significant contributions to the financial management community in the public sector.

At the same time, you will be honoring an individual whose name appears in the title of the award, Donald Scantlebury, who passed away, unfortunately, last June. He was the Chief Accountant and Director of the Accounting and Financial Management Division of the General Accounting Office. He was also the Chairman of the Steering Committee of the Joint Program.

With his passing, we in the financial management community have experienced a great loss. I personally lost a great friend, a dedicated professional and a warm person.

So when we witness the presentation of the Donald L. Scantlebury Memorial Award, let us not forget the professional legacy and the vision that Don has left behind, the legacy that guides us to excellence in financial management.

Don was a great person. I regret very much that a prior commitment prevented me from being here at lunch time today to make that award, but I think that it is a great honor and a great pleasure for us at the General Accounting Office to see this award now being given in Don's memory.

ADMINISTRATION'S VIEWPOINT ON THE ECONOMY

DENIS KARNOSKI  
Deputy to the Under Secretary  
for Monetary Policy Analysis  
Department of the Treasury



I would like to discuss with you the philosophy that lies behind lean budgets and the pressure that you may face. For without understanding the philosophy, it is very difficult for you to have much of an idea as to what type of options you are going to face as events evolve in the near future.

This Government has tried to implement a four-point program. The four points are quite simple.

1. Cut the growth of Government spending.
2. Reduce the tax burden by reducing tax rates.
3. Impose an anti-inflationary monetary policy.
4. Implement regulatory reform across the board.

Any one of those four, in and of itself, would have been a major break from the trends which had developed over the last 20 years. The four of them together are a monumental change. The problem is that you cannot have just one, two or three of them, but the four parts should all go together. Any three without the other one give you much less than three-quarters of the program.

Take for example monetary policy. The popular conception is that there is a basic conflict within the program between monetary policy and fiscal policy, i.e., monetary policy is tight and fiscal policy is easy. The tightness of monetary policy is measured by the level of interest rates. The ease of fiscal policy is indicated by the size of the budget deficit.

You cannot have a tight monetary policy, unless you have tight money. And tight money is the decreased availability of money. Do we have tight money? No, we do not, especially since the prime rate was 16.5 percent last week.

Tight money also refers to the availability of credit, the amount that you can borrow or the amount that you are willing to lend. It says absolutely nothing about the availability of money.

When we talk about money, we are talking about currency or dollar bills. The problem in the United States is we have too much currency floating out there. We have a situation of easy money and too little credit. We have been printing bills as substitutes for real production and to finance budget deficits.

Money is what monetary policy is about, and the supply of money is what the Federal Reserve controls. Let me give you an analogy. The Robert F. Kennedy Memorial Stadium is sold out every week during the football season. The fact that it is sold out means there are more people who would like to enter and watch the game than there are seats available.

If we want to call that an economic problem, what is the problem? Is it a shortage of tickets? Could we solve the problem of there being more people who want to watch the game in person by printing an extra 5,000 tickets every week? Certainly more people would get in, but 5,000 of them would find someone else sitting in their seats. What would happen to the value of the tickets, if they kept on printing extra tickets each week. If you knew that you had a ticket that did not guarantee a seat, what would be the value of that ticket to you? You would value it less.

Likewise, printing more currency bills to solve the monetary problem is similar to printing tickets for nonexistent seats for the football game. The problem in the economy is that we have a 55,000 seat stadium with 75,000 tickets, an excess of 20,000 tickets. The job of monetary policy today is to reduce the supply of those tickets back down to 55,000 to match the available seats. As long as the number of tickets exceed the number of seats, tickets are not tight, but they are easy to obtain.

As long as the amount of currency we have in circulation exceeds the amount of resources that stand behind it, money is not tight, but it is easy.

The Federal Reserve is confronted with a large task which is going to take several years to accomplish. The task is to bring the large supply of money down to the demand for it. The Federal Reserve began to do this in 1981, and now there is less excess money than before.

Going back to my analogy, if there are only 70,000 tickets printed instead of 75,000, then the excess supply of tickets has declined relative to the number of seats. However, there still is an excess of 15,000 tickets.

As long as there is excess money in this country, we are going to have inflation. When they eliminate the excess supply of money over the next several years, then the problem of inflation will effectively be gone. But between now and then, we can say that money is tightening, and not that it is tight.

The Federal Reserve is now in the process of trying to bring both the money supply and inflation back into line.

Does the Government need money to finance the deficit at the same time that the Federal Reserve is restricting the money supply? The answer is no. The revenue which is required to finance your operation does not reflect the need or a demand or a requirement for money. Money is a convenience; it is just the thing we use to exchange with each other. We do not really have to use money, we could just use a barter system.

The problem concerning the deficit is the amount of credit which the Federal Government would be absorbing. Credit is not money, and the fact that money exists does not mean that credit exists.

Take the very simple case of borrowing to buy an automobile. After you borrow money from the bank, you take the money and buy a car. Then the car dealer deposits the money right back into the bank. As far as the bank is concerned, nothing has happened on the money side. It now has more loans outstanding. But what have you done? You have received a car today, and you have promised to pay out of tomorrow's income. That is a credit transaction. You are giving up real resources, what you could buy with your income tomorrow in exchange for a car today.

Credit is a transaction involving goods and resources. If I loan money to you, I do it on the expectation that some time in the future I will get the money back, or something of equal value. However, we really do not need money to complete this transaction.

Trying to get rid of the deficit is another problem. The Government today absorbs part of the resources which are available for the private sector to borrow with the deficit. We currently have a deficit situation, which is a credit market problem. Why do we have a deficit? It is due to the recession and tax cuts. We have cut the growth of tax rates more than we cut the growth of spending. Spending has continued to rise relative to how much revenue is being generated at these lower tax rates. We are starting from a recessionary base, so we are starting off apart. Now it is a question of when and how fast will they come together in the future.

What do you do about the deficit? Assuming that the deficit resulted from the tax cuts, would you raise taxes to reduce the deficit? You cannot answer that question yes or no without asking some qualifying questions. Going back to the analogy, if you have a deficit, the Government has to absorb 15,000 seats in the football stadium. However, factors which caused the deficit, i.e., the decrease in taxes, are expected to result in 30,000 seats being added to the stadium. Therefore, instead of a 55,000-seat stadium, we have an 85,000-seat stadium. When the seating capacity was 55,000 the Government had none to absorb, but with an 85,000-seat stadium, the Government has 15,000.

Likewise, we have a deficit primarily because of the recession. Everyone would prefer that we not have a deficit. You cannot judge, however, whether deficits are good or bad in a black and white sense. You have to also ask, "What is the alternative to having a deficit?"

The Administration does not favor the alternative of increasing taxes that is proposed by some people. By raising taxes again and continuing the spending trends of the past would be more disastrous for the economy and would not help us out of our current economic situation.

The alternative, from the Administration's point of view, is to cut spending, since the problem of the deficit is mainly a problem of spending. The Administration and the Congress are currently trying to find out which programs should be cut. There is also a disagreement on the origin of the deficit and what should be done to eliminate this problem.

The Administration sees the deficit as part of a larger picture. It is considering the economic impacts of several alternative measures or means for correcting it.

If you think that deficits are bad and that we have to reduce deficits by raising taxes, there are some logical fallacies in your thinking.

First, you are not reducing the burden on the private sector, but you are moving it. When we borrow to finance a deficit, we go into the credit market, which in turn, increases competition for credit and tends to raise interest rates. The alternative of increasing taxes would take away resources from someone else. You are again not reducing the total burden, but you are moving it around.

The Administration first wants to reduce the total burden, and to do this, we must have an incentive program to expand our ability to produce.

The Administration program has proposed explicitly to raise expected returns from investment projects and from savings. The program wants to encourage saving and to discourage consumption. In other words, it wants people to save a larger portion of their income and consume a smaller portion.

By cutting the tax rates you allow people more money to save. However, since we also have inflation, this has prevented people from saving. They must use more of their money to buy the same number of goods.

If you are going to stimulate the economy with taxes by reducing the tax rate, your ability to have any effect is magnified many times over, if at the same time you can put the economy in a noninflationary situation. Both aspects are needed to get us out of this economic situation.

You may perceive that the major problem faced with this type of a program is that the situation is so bad that the short-run costs are so heavy that we cannot pursue the long-term goals. The Administration does not accept that, because the problem is not that the short-run costs are extremely high, but it is that the cost of the alternative is even worse. The alternative is a steady erosion of employment, standards of living and growth.

We thought we could get out of the problems that we started to face seriously back in the mid-1960's when we tried to expand both Defense and non-Defense activity of the Federal Government. We tried to get out of that by not raising taxes and having the Federal Reserve pay for it by printing money.

In the 15 years prior to 1965, the inflation rate averaged about 2 percent, in spite of several severe recessions. Real growth in the economy was almost 4 percent per year, through the ups and downs of the Eisenhower years, with 2 percent inflation. The next 15 years after 1965, the inflation rate went to 5 percent in the first 5 years; the next five, to 6 percent; and the last five years to 7 percent.

What has happened to our ability to produce? What has happened to the growth of goods and services in the economy? On average, it grew 3 percent, which means more inflation and less production.

The average unemployment rate used to be approximately 4 percent. It was very difficult to drive it below 4 percent, since there were structural factors such as people quitting their jobs, the rise and fall of various industries, changes in tastes and preferences, and changes in different skill levels and educational levels. Now, I think we will find it difficult to get the unemployment rate below 7 percent for the same reasons.

If we do not go forward with the Reagan plan, but change it in midstream, I think that the economy will erode even greater. Projecting with crude estimates that we currently have, this economy will stagnate with an average zero growth rate by the year 2000, if we return to our old ways of spending. Productivity growth would be zero. We are hoping to get the growth rate back up to 3.5 or 4 percent.

The true measure of the cost of the program is to compare the current cost in terms of unemployment, in terms of the housing industry, in terms of the interest rate--against the transitory costs, which are permanent costs that go on year after year.

The comparison is overwhelmingly in favor of stopping these trends which have developed over the past 20 years and putting things back on a noninflationary pro-growth track. The one thing which stands in the way, apparently, is the deficit.

When the President first presented his budget proposal to the Congress, he revealed that the increase in Government spending was 19.3 percent of nominal Gross National Product by fiscal 1984. However, current projections now estimate that to be over 23 percent, which is 4 percentage points higher. If the economy in 1984 is going to be around a \$4 trillion economy, then 4 percent of \$4 trillion is \$160 billion. The size of the projected deficit is \$150 billion. If we do not go over the spending target, the budget is balanced.

PART II - LUNCHEON SESSION

PRESENTATION  
of the  
1981 DONALD L. SCANTLEBURY MEMORIAL AWARDS



DAVID SITRIN  
and GLORIA SITRIN

Deputy Associate  
Director for  
National Security  
Office of Manage-  
ment and Budget



THOMAS W. HAYES  
Auditor General  
State of California

PRESENTATION OF THE  
DONALD L. SCANTLEBURY MEMORIAL AWARDS

WILBUR D. CAMPBELL  
Chairman  
JFMIP Steering Committee



It is indeed a pleasure for me to be here today to honor and present the Donald L. Scantlebury Memorial Awards for distinguished leadership in financial management improvement to two outstanding financial leaders. Before I do that, however, I would like to first pay tribute to a man that we in the financial management community have admired and respected.

Donald L. Scantlebury made a profound impact on financial management both in the private and public sectors. At the time of his death last June, he was Chief Accountant and Director of the Accounting and Financial Management Division in the United States General Accounting Office. Don was a dynamic leader in promoting financial management improvements throughout the public sector and a true innovator, always at the forefront of the professional frontier, setting high standards for all of us to follow. As a continuing tribute to Don, the Joint Financial Management Improvement Program renamed its annual financial management improvement awards to honor and commemorate him.

It is my honor and privilege to present this award to two individuals, who truly have demonstrated outstanding and distinguished leadership in improving financial management practices at the Federal and State government levels.

The first recipient of the 1981 Donald L. Scantlebury Memorial Award is David Sitrin. Mr. Sitrin is the Deputy Associate Director for National Security in the Office of Management and Budget, and he is being commended for his outstanding leadership as a senior executive for national security matters at OMB. His contributions over a period of 19 years have covered virtually

all areas of financial management including the development of innovative management strategies for improving Defense operations, advances in the Defense planning and budgeting process, and improved accounting and management control techniques.

Mr. Sitrin has insisted on a vigorous formal process to provide decisionmakers needed information in a timely manner. He has demonstrated the flexibility to adopt useful process changes and the willingness to oppose changes which would undermine the effectiveness of the process.

Through Mr. Sitrin's guidance, better business management practices have been introduced, including:

- Budgeting for future inflation,
- Cost-based accounting,
- Increased productivity-enhancing investments made by the Defense Department, and
- Greater use of commercial products to avoid the cost of developing and supporting products unique to the military.

Mr. Sitrin has initiated and directed many studies that have resulted in savings of millions of dollars for the Defense Department. For example, savings of over \$100 million were achieved by Defense in 1981 from increased competition on Defense purchasing practices.

We are happy to present this award to David Sitrin which reads: "In recognition of exceptional and continued leadership in financial management in the Office of Management and Budget, especially in improving Defense Department's planning, budgeting and operations."

Our second awardee is Thomas Hayes, Auditor General of the State of California. He is receiving this award for his distinguished and dynamic leadership in improving auditing at the State and National levels.

Under his leadership, his staff now better services the needs of the legislature by supplying accurate information within strict time frames. Many of his staff's audit recommendations have resulted in dollar savings for the State government. Specifically, some of his achievements have included:

- Installing an investigative audit division to identify fraud, waste and abuse in the State of California.
- Implementing one of the Nation's most advanced audit quality control systems, which was recently given an

unqualified opinion during a quality assessment review conducted by the National State Auditors Association.

On the National level, Mr. Hayes has been very active in furthering the auditing profession. Specifically, he has worked to coordinate audit efforts among the 50 States and has acted as a liaison between government and the private sector. Mr. Hayes has been active in the Western Intergovernmental Audit Forum since 1979.

During this past year, Mr. Hayes has also been a member of the Single Audit Steering Committee sponsored by the Federal Government. As one of two State auditors in the Committee, he represented the States' interests as well as shared his experiences concerning single audits. As a result of the committee's efforts, the roles of the Federal Inspector General and of the State and local auditor have been clarified. Also, implementation of OMB's Circular A-102 has been advanced significantly.

These are but a few examples of his accomplishments through his dedicated and dynamic leadership. It is with great pleasure that I present the 1981 Donald L. Scantlebury Memorial Award to Thomas W. Hayes which reads: "In recognition of exceptional and continued leadership in financial management, especially in improving audit techniques and coordination at the State and National levels."

A STATE GOVERNMENT'S EXPERIENCE UNDER LEAN BUDGETS

GERALD H. MILLER  
Director  
Department of Management  
and Budget  
State of Michigan



I want to express my appreciation for the opportunity to be here today to talk with others who deal with the day-to-day issues of public financial management. The concentration of expertise and experience of these occasions always provides new thoughts and ideas to bring to bear on the many issues that accumulate on our desks these days.

I doubt anyone in this room has gone without his or her share of challenges during the past year as a result of lean budget, nor lacks for an additional supply of challenges during the remainder of this year. These are times in public management that our thoughts sometimes turn to more secure ways of earning a living.

Our condition is graphically illustrated in a comment from Governor Jay Hammond's budget message to the Alaskan Legislature earlier this year, when he spoke of a time when "All interests competed for whatever juices might be rendered from a pretty stringy carcass."

Governor Hammond's penchant for metaphor may seem strange in the land of budgetary lexicon, but it does underscore the circumstance under which we find ourselves operating today, whether it be at the Federal, State or local level. The competition is becoming more intense every day and the pickings are becoming slimmer and slimmer.

These are not good times for the traditional, carefully laid budget process including the orderly steps of identifying problems, establishing public policy objectives in response to the

problems, developing program alternatives, and choosing the most acceptable solution. This has all changed. In these days of the shrinking revenue dollar, it is a case of patch and sew, patch and sew.

In short, we have had to abandon the orderly movement toward Zero Base Budgeting in favor of the Zero Sum Game.

I am sure you are aware of what this involves--that for every change involving an increase, a decrease must be found.

As a result, it is a time of unparalleled opportunity. It does more than our sophisticated financial information systems or consulting efficiency experts could ever hope to attain. The nature of the political process, of course, nurtures the growth of the public budget. The support of one program begets support for another, and inevitable expansion results. But when the economy turns off the dollars, decisions that could not have been made before are made with increasing frequency. I have had more than one college and university president say to me in recent months that they have been able to get rid of programs under lean budgets that should have been eliminated long ago, but had survived because of partisan or academic politics.

We have been finding that priorities which had been assigned earlier on a somewhat perfunctory basis are now important management tools that means life or death for once well insulated programs.

One guideline throughout all these circumstances is most important. Under nongrowth situations, the margins of error and flexibility are very limited. Managers must pay special attention to detail if they are to manage effectively, a focus that must begin at the start of the budget process. It is the early budget briefings and hearings which provide the opportunity to learn each program's strengths and weaknesses and which help provide information to back up future decisions.

At this time I would like to discuss in some detail the experience we have been through in Michigan with perhaps the most constrained budget problem in the nation--an experience, unfortunately, that has not entirely run its course.

As background, I would like to cite two statistics. Automotive production dropped 40 percent in Michigan in 1980. Unemployment rose above the double digit mark in January of that year and has remained there for 26 straight months. We do not expect it to drop below 10 percent before the end of 1983, that being the fourth straight year of double digit unemployment rate.

The unemployment rate in February was 16.1 percent in Michigan, compared to the national rate of 8.8 percent, seasonally

adjusted. That means that in Michigan there were 684,000 persons unsuccessfully seeking work, the highest total in the history of the State.

In fiscal 1979-80, which begins on October 1 and ends on September 30, like the Federal fiscal year, Michigan was able to draw on an innovative source of money, the recently created Budget Stabilization Fund, to ease the pinch of declining revenue and sharply increased caseload expenditures. Approximately \$275 million was available, but it was still necessary to reduce spending by \$158 million to balance the general fund budget at \$4.8 billion. Two statistics illustrate the squeeze during the year. The Aid to Families with Dependent Children caseload jumped from 210,000 to 242,000. At the same time our three major sources of revenue--the individual income tax, the sales tax and the single business tax--increased a bare 1 percent.

But 1980 was only a warm-up for what was to come. In the 2 years since that time, Michigan has operated at a level of spending 6 percent in current dollars below the 1980 level, a record unmatched by any other State. In the process we have been one of the few States that has not raised taxes. That has meant these past 2 years have been a continual succession of spending cuts. Michigan's present spending level of 6 percent below 1980 stands in sharp contrast to the Federal government record, where budget cutting has attracted national attention. After 2 years of severe restraint on Federal spending, Washington's spending this year is still 24 percent above its 1980 level.

While the reduction in nominal dollars has been about 6 percent, the State budget has dropped nearly 18 percent in real dollars. In specific program areas there has been an even greater impact. For instance, nominal dollars for universities and colleges are down 16 percent in the current year compared to 1980, but in real dollars that is a 29 percent drop. Community colleges are down 23 percent in nominal dollars, 35 percent in real dollars. Aid to our K-12 school districts is down 16 percent in nominal dollars, 29 percent in real dollars. For the recipient of Aid to Families with Dependent Children support, the monthly support check has dropped 7 percent in nominal dollars over the same period, which means that same family today has 27 percent less buying power than it had 2 years ago.

Clearly, these are not good times for the people who are served by public dollars, nor for the managers who try to stretch those dollars as far as possible. It is not just a simple shortage of revenue. A number of other complicating factors enter the picture. They include:

--The economy has not responded to the best economic forecasts.

- Inflation has not responded in a manner that shows proper respect for dramatic national measures.
- Interest rates have responded to two masters--they rose because of a reduced growth in money supply, and because an increasing money supply portended a future restraint on growth was coming.
- In Michigan, as I mentioned, caseloads and unemployment were rising at an alarming rate while the means to pay for them were declining at a rate that was just as alarming.
- One form of revenue, however, was increasing. The property tax, responding to the inflationary increase in property values was rising at a rate sufficient to stir up vocal protest groups reminiscent of a "Proposition 13" or "2 1/2." We have voted on 6 different property tax relief plans in the past 5 years, and face the prospect of one or more on the ballot this fall, although Michigan already offers the largest property tax relief plan in the United States.
- Added to these factors are the uncertainties created not only by the economy but by decisions in Washington. We estimate that the combined impact of the 1982 Federal budget and the proposed 1983 budget will cut support of our State budget programs by \$500 million. That does not take into account an even greater amount of reductions in funds going directly to individuals and local units.

While the 1980 budget was a warm-up for what was to come, the real test came in 1981 and 1982 fiscal years.

As the 1981 budget moved through the year-long course of the legislative session, it had to undergo five major revisions as the result of changing assumptions. Matters were so unsettled as the new fiscal year neared October 1, 1980, that the legislature gave the budget director unprecedented power to manage a continuation budget for 3 months while it recessed for the November election and finally returned to adopt a full-year budget in December, 3 months after the budget year had begun. Even at that, 1 more spending reduction was required, bringing to more than \$1 billion the aggregate cuts for the year.

And we now find ourselves in a very simliar situation in the current fiscal year, beset by a recovery that is about a year late in arriving. It has meant another \$270 million reduction last fall and the need to close a \$566 million gap. After surviving all this time without a tax increase, Governor Milliken has concluded that essential State institutions and programs cannot survive additional cuts without severe damage and has asked legislative approval for tax increases to produce about a fourth of the means to close the gap.

That issue has not been resolved.

I recite these facts and figures, because I believe that they give a better understanding of the circumstances under which Michigan fiscal managers were required to operate in the past three years. The State government has been hardest hit, but much of this has been passed along to local units of government and schools. It has not been a simple process, and each new crisis was met with a different set of options until finally we have run out of options.

A few of the management tools that were brought into play are worth repeating here:

- Outright layoffs were avoided where possible, but more than 5,500 State employees were laid off in the past two years as total classified work force was cut from a peak of 72,300 in mid-1980 to the latest count of 62,600, a 13.5 percent decline.
- A unique program of six one-day layoffs was instituted last year, in effect shutting down State government for each of those days except for the most essential services, such as mental health hospitals and correctional institutions.
- Almost as successful financially was a voluntary pay reduction plan in which more than 9,200 employees agreed to work up to 10 percent less hours or to work full time and draw up to 10 percent less pay. In the latter case the employee received an equivalent increase in vacation time.
- We are currently in the midst of negotiations to win concessions for additional payless days this year and to roll back a 5 percent pay raise scheduled to begin October 1.
- Two years ago we instituted a requirement that each department prioritize its programs, a practice which provided an excellent tool in reducing costs and determining where cutbacks would be made when the time came.
- This year we have had to resort to eliminating fourth quarter payments to colleges and universities, community colleges, schools and local units of government. It is our intent to restore that \$260 million at the start of the new fiscal year, but it represents an important cash savings this year at the expense of disrupting financial affairs at the local level.
- We have postponed capital outlay projects and reluctantly turned to bonding to carry them out, unfortunately at a time when long-term tax exempt bonds find little interest in the market place.

--In most instances we have had to let Federal program reductions go through without being replaced by State dollars.

--We have had to reduce subsidies to education to the point that Michigan now has one of the highest tuition rates in the nation.

--Programs have been reduced throughout State government, and field offices and parks closed. At one point State troopers were laid off, but have since been called back to work. We have even resorted to having State employees empty their own wastebaskets at central collection points to reduce the need for janitors. We are charging State employees for the use of State cars for home to office travel.

In the process we have shifted from a cash to an accrual accounting system, following generally accepted accounting principles. This meant a period of balanced budgets, but, unfortunately, changes in our cash flow has begun to create problems with our credit.

The concept of cash flow is a fairly sophisticated concept, but I am convinced that the Michigan legislature and a sizeable portion of the voting public now understand it, because of the tremendous implications it holds for Michigan.

It is a circumstance of which all money managers need to be wary. Although Michigan's cash flow situation was well in hand, the impact of the lengthy recession and the decisions that were required to contend with it had intensified the problem. Legislators now understand it, because unless corrective steps are taken, the State's short-term borrowing power is jeopardized. If the State cannot obtain short-term notes during the year, payments to local units of government and educational institutions will be postponed, and chaos will result. Another factor that draws attention to the problem is the \$85 million in interest payments added to current year budget costs. Fortunately, there is general support for increased revenues to ease this problem and to retire these notes.

A fortuitous result of inflation and high interest rates has increased revenues earned by our retirement funds. As a result, acting within conservative actuarial limits, it has been possible to establish new assumptions for inflation and interest earned, with the result that nearly \$100 million less in annual funding from the State budget is now required.

This is by no means a complete list. But it is interesting to note that economies have been accomplished during these difficult times that are appropriate and reasonable, but which

could not otherwise have been possible without the shortfall in revenue to bring the issue into sharp focus.

Some conclusions need to be emphasized in managing under the unpleasant conditions that we have discussed here.

The importance of paying attention to detail, the importance of knowing the strengths and weaknesses of each program, and knowing the point beyond which they should not be cut cannot be emphasized enough. It is important to clarify priorities in terms of how each program affects an agency's mission, and it is important to understand the political repercussions that changes in a program might produce.

Any organization, of course, whether public or private, has a natural impetus for expansion, growth and advancement. Even in the most constrained budget years, a command of the detail involved in the issues is vital to identifying unwanted growth before it takes root.

Timing, of course, is important. A decision made today, as difficult as it may seem, is far simpler than the complications of postponing it two or three months in the vague hope that something may turn up. Stated in another way, the longer a reduction is postponed, the more severe are the consequences, because the amount of time over which to spread the reductions is limited.

It is far better to select the top priority programs and run them in an effective and efficient manner than it is to try and muddle through with all programs at, say, half speed. This clear-cut wisdom is given very little chance to function in the entanglements of rules and regulations, political maneuvers, constituent support and a helter-skelter economy.

In fact, to spell out a list of rules to deal with a budget crunch would provide only a false sense of security, if that. Each situation must be addressed on its own terms, and they are different in each case. There is no substitute for starting early to get a handle on all issues and monitoring them from start to finish. Simply put, managing with less means much, much more management.

I need to emphasize one very basic ingredient of the non-growth budget management syndrome--the element of surprise. Nongrowth means a very narrow margin for error. Because it comes at a time of a depressed and freakish economy, just about anything can happen.

So the nongrowth manager, after doing everything he can to bring his program into line with the demands and restraints of his budget, must always be ready for the other shoe to drop, whenever and wherever that may be.

## QUESTIONS AND ANSWERS

QUESTION: Did you make your budget cuts across-the-board or by pinpointing certain programs?

DR. MILLER: We clearly did not make our reductions across the board. We basically used our budget process, evaluated the minimum operating level programs and required prioritization by the departments. Then, the Governor makes his decisions, based on this information.

QUESTION: Would you give us an example of how you tested that minimum operating level?

DR. MILLER: We had several department directors state that the minimum operating level is what they are now doing, and that anything below that would be unbearable. However, we persisted and they have come up with lower figures. In the last go-round of cuts, we eliminated approximately 180 programs.

QUESTION: With all the budget cuts you are facing, is there anything set aside for creativity, and the development of prudent management methods?

DR. MILLER: Yes, we are still setting aside funds for making improvements. Michigan has one of the better payroll/personnel systems and we have been able to expand the system. We also implemented an on-line inventory system. My office has been able to sell the legislature that saving a little money for improved management, even in these difficult times, is necessary for the future.

QUESTION: What is the impact of the New Federalism and his proposal to swap programs or turn back programs to the States?

DR. MILLER: I think that there are two issues: First, the impact of the 1983 budget and what the cuts in this budget are going to mean for State and local governments. Second, the impact of New Federalism proposals. They are not the same issues, although they are related.

Referring specifically to the New Federalism proposal, I respond generally fairly favorably to the proposals but with a big "IF" and that big if has to be that responsible people can sit down in a responsible manner, discuss the issue and come up with reasonable solutions.

The idea of transferring Medicaid back to the Federal Government is good. Medicaid can be better managed at the Federal level. Hospital costs are basically driven by factors that are outside of the control of State governments. So the Federal Government taking over Medicare and Medicaid will be a major plus.

How the States will deal with Aid to Families with Dependent Children is a more complex issue. We think that this should remain a Federal program along with other income-support programs. We knew that the State probably could not run them as well as or better than the Federal Government, but having controls over these programs will be a trade-off.

PART III - WORKSHOPS

WORKSHOP #1

ADMINISTRATION'S EMPHASIS ON FINANCIAL MANAGEMENT IMPROVEMENTS

WORKSHOP LEADER: John Lordan  
Chief, Financial Management Branch  
Office of Management and Budget

PANELISTS : Thomas McBride, Inspector General  
Department of Labor

Theodore R. Britton, Jr.  
Assistant Secretary for International Affairs  
Department of Housing and Urban Development

Richard B. Willett, Partner  
Alexander Grant and Company



JOHN LORDAN



THOMAS McBRIDE



THEODORE R. BRITTON, JR.



RICHARD B. WILLETT

JOHN LORDAN identified those financial management improvement issues that this Administration considers to be of greatest priority at this time. They are:

- (1) Audit (includes single audit and audit followup),
- (2) Internal Control,
- (3) Cash Management, and
- (4) Debt Collection.

THOMAS McBRIDE provided his perceptions of the audit issues facing this Administration and the Executive Branch agencies. When this Administration began, the value of the old unresolved audits stood at about \$1.65 billion. A Presidential memorandum required agency heads not only to resolve all audits within a 6-month period but, more importantly, to appoint a high level agency official as the person accountable for the accomplishment of this objective. Accountability for audit resolution has finally taken hold. By September 30, 1981, the Federal Government had reduced unresolved audits to \$218 million. This is an indicator of the energies that were unleashed throughout the Executive Branch agencies on the issue.

At the Department of Labor, it was necessary to administratively reorganize and make audit resolution the full-time job of sufficient numbers of people so that backlogs were reduced and not allowed to build up again. Basic management information systems were put in place which tells the auditors what the universe of audit resolution, questioned costs and administrative findings is. The auditors now focus on long-term performance of the large grantees. Some grantees did not automatically receive Federal funding this year because of demonstrated records of poor financial management. Finally, it was realized that they had to make some cost-benefit allocation of audit and program resources so as not to experience the vast audit resolution backlog again. Mr. McBride believes that an audit organization today in the Federal Government has to devote easily one-quarter to one-third of its audit resources to the problems associated with audit resolution.

He also thinks that as we move into a single audit environment, the allocation of sufficient resources will become even more critical. As cognizant audit agency, the Federal auditor is going to become much more a quality control manager, a trainer, a liaison, and a "tiger" at the audit resolution.

Some of the issues facing auditors today include:

- (1) The major task to right the balance between dollars and administrative findings, and to look more closely at administrative controls and management process.
- (2) The quality of the resolution process itself. Shoddy resolutions made just to meet the 6-month statutory period for resolution must be avoided.

Citing the politics involved in audit resolution among grantees, congressional delegations and cabinet members, Mr. McBride stressed that there should be clearer signals from the Administration's leadership as to what should happen once costs are disallowed and how collection should be enforced.

He also pointed out that the single audit environment will place some unique responsibilities on the Federal cognizant audit agencies and on the various governmental units and public accounting firms doing the audit work. The same "will" that the Executive Branch has begun to demonstrate in the area of audit resolution has to permeate the audit community throughout the country so that public and private parties involved are genuine partners and allies in an effort aimed at quality audit resolution.

MR. THEODORE BRITTON chronologized the events that have taken place over the past year on initiatives to improve Government's debt collection, especially those made by the Department of Housing and Urban Development.

In March 1981, the Secretary of Housing and Urban Development (HUD) appointed a task force, to deal with the problem of delinquent debt within the Department, which was approximately \$1,639 million at that time. The task force, headed by Mr. Britton, was keeping tabs on 52 different debt centers within the Department. In their efforts to clarify the magnitude of the problem of delinquent debt, they were finding people to be very defensive of their responsibilities and performance, very close about what information they shared regarding their operations, and in general not knowledgeable of the cash management implications of the procedures and practices of their departments.

In September 1981, the task force held a HUD Symposium on Debt Collection. The symposium was primarily for top management and was attended by the Secretary of HUD, the Undersecretary, most of the Assistant Secretaries and representatives of the General Accounting Office and the Office of Management and Budget. This was the first time attention had been given to debt collection at this level of management.

In November, the Office of Management and Budget required submission of a schedule showing an aging of delinquencies. At HUD, approximately two-thirds of the delinquencies were well over a year old. These findings were finally attracting the attention and concern of top management. In an effort to make all HUD personnel, at all levels, aware of the importance of the responsibility of the individual to liquidate all debts incurred, the Secretary issued a memorandum to the staff which might have been called "Debt Collection Begins at Home." He said that the obligation of Federal employees to pay their debts applies to all debts, including private debts. Failure to live up to these standards or to meet their just obligations could result in some kind of personnel action against them.

Mr. Britton observed that there is a definite need to apply private sector tools in Federal debt management, such as:

- (1) Debtors with delinquent and defaulted debts should be reported to credit bureaus;
- (2) Private debt collection agencies should be used as a supplement to internal agency efforts;
- (3) Agencies which still do not charge interest on delinquencies must make arrangements for doing so; and
- (4) Contracts for the sale of Government goods and services to the public must include definite payment dates and additional charges for payments after the due date.

RICHARD WILLETT discussed how his firm assisted in an internal control review of operations at the Patent and Trademark Office within the Department of Commerce. The project team consisted of representatives from the Office of Assistant Secretary for Administration, the Office of Inspector General, the Patent and Trademark Office in the Commerce Department, and the contractor.

In doing the vulnerability assessments on this project, it was first necessary for the contractors on the team to get to know the agency's operations. Then, on a macro basis, the team determined what the general control objectives for the agency should be. And, as the study progressed, a set of specific control objectives was developed for all of the transaction cycles, both administrative and functional, in all Patent and Trademark activities. Based on these specific control objectives, a list of "risks to be avoided" within each of the activities was developed. The transaction cycle approach is recommended in the draft OMB guidelines on how to go about doing an internal control review.

He pointed out that vulnerability assessments should be done periodically, because the initial assessments of vulnerability are subject to changes as the internal control reviews are performed. Areas that, at the outset, presented great risk situations may, in fact, be under control, and vice versa. Vulnerability assessments should also be kept on a material level and at an appropriate level of detail.

In reporting the results of an internal control review, steps should be taken to ensure that the document can be easily understood by management and that the positive and negative findings as presented are fairly balanced. The report should emphasize deficiencies that require management's attention. The major conclusions that the project team reached in its review should be presented, and these should be followed up by specific recommendations for management as to what changes should be made in policies

or procedures. Most of the recommendations have been included in the "management by objectives" of the appropriate managers.

JOHN LORDAN concluded the workshop by pointing out the importance of top management's interest and involvement in the three issues that had been discussed. He said the Administration has placed a priority label on audit, debt collection and internal control. It is now up to the Federal managers to find the ways to get the job done and to do it.

WORKSHOP #2

IMPROVING PRODUCTIVITY THROUGH NEW TECHNIQUES AND TECHNOLOGIES

LEADER : John Scott  
Deputy Assistant Comptroller of the Air Force for  
Accounting and Finance  
Air Force Accounting and Finance Center

PANELIST: Major Dennis Samic  
Chief, Comptroller Plans Office  
Air Force Accounting and Finance Center

Kenneth Furlow  
Chief, Plans, Administration and Budget Branch  
Western Area Power Administration  
Department of Energy

Thomas Tresslar  
Productivity Principal  
Manpower and Organization Division  
Air Force Accounting and Finance Center



JOHN SCOTT



DENNIS SAMIC



KENNETH FURLOW



THOMAS TRESSLAR

JOHN SCOTT began by emphasizing that improved productivity can be accomplished by using the latest automated data processing technology. The costs of computer hardware has decreased dramatically in the last 2 or 3 years which makes computer technology available for more uses by large and small organizations. Savings result from both increased productivity and reduction of personnel performing manual functions.

The panel members discussed new uses of minicomputers and microcomputers to improve productivity in accounting and budget systems. Specific subjects they discussed included the use of minicomputers in networks for accounting and payroll systems and other computer-assisted techniques such as electronic worksheets for budget analysis, work stations for programmers and micro-graphic computer-integrated systems for storage of documents.

MAJOR DENNIS SAMIC discussed several new systems being developed at the Lowrey Air Force Base for the Department of the Air Force that will use minicomputers and microcomputers. He first addressed the use of minicomputers by base-level accounting and finance offices. The base-level system with minicomputers will allow the Air Force accounting and finance offices of the future to maintain local records on cash, accounts payable and accounts receivable and to write checks. It will also form an integrated network with the Air Force Accounting and Finance Center. The system is expected to save about 4 percent of 400 people currently performing those functions.

The next system being developed is the use of a microcomputer for budget functions at Air Force bases. The use of electronic spread sheets will allow for more detailed analyses of more budget alternatives. This would not only reduce the number of people but also should improve the quality of the budgets.

A system in the early stages of development is the payroll data collection network for its military employees. This will be an on-line system using a minicomputer to edit and update payroll data for military employees by the Air Force bases. The system should save about 150 positions currently used in manual processing of data.

The programmable work stations will be used by data processing managers to schedule jobs for data programmers and other data processing personnel. Currently, the Air Force pays for time sharing, and with the use of these minicomputers, they expect to save \$3.6 million over the next 4 years.

Major Samic also pointed out that it is not cost effective with today's decreased hardware costs to use the same approval procedures for procuring main-frame and micro computerized systems. System requirements and hardware are rapidly and continually changing. Many of the present procurement procedures

were needed when computers cost millions of dollars, but these burdensome and time-consuming procedures are now preventing prompt procurement of mini and microcomputers that could save millions of dollars.

KENNETH FURLOW discussed a computerized network of the Western Area Power Administration that uses minicomputers and a central main-frame computer. In 1977 the Western Area Power Administration was transferred from the Department of the Interior to the Department of Energy, losing its computer support in the process. The organization is spread over 15 States including district offices, area offices and headquarters. Thus, is needed a flexible system that could be set up rapidly.

The Power Administration went out on contract to set up and implement a distributed processing network. The system is a Star Network that allows up to 48 computers to function independently or interrogate any other computer in the network. This allows each local office computer to maintain unique data on billings, costs, property, and inventories. For example, if one office needs a specific item or part to repair a pump, it can interrogate all the other local offices to find out if the part is in inventory. This part can then be obtained from the office where it is available, rather than purchasing a new part. Also, area offices need the ability to calculate billings based on hundreds of contract rates negotiated locally. This information can then be entered into the centralized main-frame which summarizes the data for all offices on the network. This allows for a much more efficient and flexible system that is responsive to local managers needs.

The network was set up rapidly, because the minicomputers were not expensive (about \$200,000 per office). Also, the modular system concept was simpler to design and program in comparison to a large complex system used by a main-frame computer. In the future, this modular system will allow the flexibility to increase or decrease the number of sites in the network without major programming modifications or large hardware expenditures.

THOMAS TRESSLER discussed how micrographics can be integrated with a computer system to increase productivity, reduce costs to store and maintain documents, allow for faster retrieval of data, save office space, and control access to the system. Specifically, he described a new Air Force system that combines micrographics and a minicomputer. The Air Force Accounting and Finance Center currently pays over a half million military retirees and annuitants. To do this, they process about 80,000 pieces of paper each month answering questions or correcting data used for payments.

The system was designed so that documents can be filmed in random order and key data can be entered into files for immediate

reference. Actual copies of the documents are referenced and may be retrieved when needed. The file is interfaced with the main-frame computer which automatically checks file data against the main-frame computer files. The system eliminates the need for most hard copy files and expects to eliminate four personnel positions that were used to manually store, process and control the paper records. In addition, information should be updated faster and correspondence answered more rapidly providing a more efficient operation.

WORKSHOP #3

FINANCIAL ASPECTS OF INTERGOVERNMENTAL RELATIONS

LEADER

David Dukes  
Deputy Assistant Secretary, Finance  
Department of Health and Human Services

PANELISTS

Henry G. Kirschenmann, Jr.  
Deputy Assistant Secretary for Procurement,  
Assistance and Logistics  
Department of Health and Human Services

Kenneth M. Winne  
Senior Project Director  
Joint Financial Management Improvement Program

James P. Thomas, Jr.  
Inspector General  
Department of Education

Edward J. Mazur  
State Comptroller  
Commonwealth of Virginia

LEADER



David Dukes

PANELISTS



Henry G. Kirschenmann, Jr.



Kenneth M. Winne



James P. Thomas, Jr.



Edward J. Mazur

DAVID DUKES pointed out that this workshop could not have been more timely as a means to discuss some of the financial aspects of intergovernmental relations during these times when great fiscal stress and sweeping changes are taking place at all levels of government. He commented briefly on the Administration's efforts to cut red tape and reduce the overhead costs of Federal assistance programs through the block grant programs; the need to improve cash management at the Federal, State and local levels by utilizing new technology and techniques for cash transfers; and the roles and responsibilities of audit groups among the Federal, State and local units of government as related to the single audit concept prescribed in OMB Circular A-102.

HENRY KIRSCHENMANN provided an overview of the provisions of the Omnibus Reconciliation Act of 1981 (Public Law 97-35) and how the Act will affect program administration at the Department of Health and Human Services. The Act made a number of changes which affect eligibility and benefit levels for entitlement programs and consolidated numerous categorical programs into a small number of block grants. The block grants transfer primary responsibility for the administration of the programs to the States and confer substantial discretion on the States as to the use of the funds.

The Department of Health and Human Services will not burden the States with definitions of permissible and prohibitive activities, procedural rules, paperwork and recordkeeping requirements, or other regulatory provisions. The States will, for the most part, be subject only to the statutory requirements, and the Department will carry out its functions with due regard to the limited nature of the role that the Congress has assigned to it.

The block grants at this Department will be exempt from the usual grant administration requirements, which are based on OMB Circulars A-102 and A-87. Instead, the Department is establishing a fiscal and administrative standard which will provide maximum discretion to the States and place full reliance on the States' own laws and procedures governing the expenditures of their own revenues.

Mr. Kirschenmann also commented briefly on the audit implications of the block grants. The States are primarily responsible for conducting audits of the use of block grant funds. The Act also confers certain responsibilities on the Comptroller General of the United States for evaluating the propriety of State expenditures, and on the Secretary of Health and Human Services for investigating the use of the funds. In fulfilling its responsibilities under the Act, the Department will rely on State audits to the maximum extent possible, if the audits have been conducted in accordance with the Comptroller General's standards for audits of governmental organizations, programs, activities and functions.

KENNETH WINNE discussed the study of Federal cash management in State governments that the Joint Financial Management Improvement Program (JFMIP) is currently conducting. The study was undertaken primarily because the current administration is extremely interested in cash management and its impact on the Federal Government's \$100 billion annual interest payment. The study is intended to either confirm or deny the rumors that there is Federal cash on hand in State treasuries in excess of their needs.

The study approach has been to select the larger federally funded programs, to look at controls for those programs at the State level to minimize Federal cash on hand, and to conduct detailed analyses of Federal cash flow and balances on hand. Analyses were performed to study the Federal cash position per State agency records based on checks written and the delay of drawdown basis. Under the latter method, drawdowns of Federal cash are timed as closely as possible to the time State checks or warrants clear the State's bank accounts. Thus far, the project team has studied the States of Tennessee and New Jersey.

Specific findings and conclusions reached to date are tentative, because the reports have not been cleared with the States or Federal program agencies involved. Some of the general findings include: wide variances in the timing of drawdowns, from daily to every two months; many State agencies drawing down when checks or warrants were mailed to recipients; and some State programs drawing cash without knowing the Federal cash balances on hand.

Late billings by the States forced the States to use millions of their own dollars to finance Federal programs that are funded on a reimbursement basis. In other cases, State agencies drew millions in excess of immediate needs to fund programs under letters of credit. State officials thought that if Federal cash needs "net out" for all programs, there is no problem. However, cash should be managed on a program by program basis, and States should not overdraw on one program to finance another program or leave good cash management to chance.

As evidenced by the problems that have been uncovered by the study team in the States' procedures and policies on drawing Federal cash, it appears that Federal agencies may need to improve the monitoring of States' cash management practices related to Federal funds. In addition to a separate report for each State a composite report may be issued after the study is completed. The report will include recommendations to Federal agencies for correcting any cash management problems attributed to Federal policies and procedures and for ensuring that States correct their cash management procedures, as necessary.

JAMES THOMAS dealt with the single audit concept. He reviewed with the audience the background of the concept, some

of the issues that have come up with regard to its implementation, and the approaches that were taken to deal with these issues.

The basic requirements of Attachment P to OMB Circular A-102 are that the audit should be both a financial and compliance audit, be performed on an organizationwide basis, be conducted by independent persons or organizations and be done at least every other year.

In the past, audits have been conducted on a grant-by-grant basis and the exposure to Federal audits among recipients varied greatly. Mr. Thomas explained that in an organizationwide audit, the person or entity performing the audit would audit all funds at that entity without regard to the source of those funds. At the local level, a single audit would cover all funds from all sources--Federal, State and local.

Since there were problems in implementing the single audit concept, the JFMIP established a Single Audit Steering Committee, consisting of three Federal Inspectors General, two State auditors and two municipal auditors. The Steering Committee is to recommend solutions to major implementation problems, to serve as a clearinghouse for information, results and experiences, and to monitor and assist implementation by dealing with the upcoming issues.

Several issues were addressed by this Steering Committee. One concern was the inconsistencies in the principal documents--GAO "Red Book" and OMB Circular A-102, Attachment P. As a result, a draft single audit guide will soon be issued and, when finalized, will take the place of the GAO Red Book. Other issues include audit reimbursement; the role of the cognizant agency; compatible Federal, State and local criteria for single audits; and small business and minority participation in auditor selection.

Mr. Thomas then discussed the "cognizance" concept and the recently issued "Orange Book" entitled "Cognizant Audit Agency Guidelines Under OMB Circular A-102, Attachment P." OMB regulations call for organizationwide audits to be made under the supervision of one Federal "cognizant" agency. The Guidelines were developed and approved by the Federal Inspectors General and issued by the Joint Financial Management Improvement Program. The document provides guidelines to Federal cognizant audit agencies for uniformly carrying out their responsibilities under the single audit approach. It is intended to facilitate a clear understanding of the responsibilities of cognizant audit agencies and to inform recipients and non-Federal auditors of these responsibilities.

EDWARD MAZUR provided a State's perspective on intergovernmental relations and addressed the topic in terms of a multitude

of issues and elements. He explained that, through understanding and appreciating the interrelationships and cumulative complexity of these issues and elements, we gain a perspective on the short and long range significance of current events, the value and necessity of patience, and the need for actions that provide self protection and ensure survival.

Through the use of graphs, he illustrated how the Federal, State and local governments are interrelated. Intergovernmental relations are constituted on interactions between major governmental units, and many people participate in this interaction at each level of government, from the President, governors, and mayors, to the individual citizens. The mass of people involved accounts for a considerable portion of the complexity of inter-governmental relations.

Intergovernmental relations is defined by elements and Mr. Mazur discussed a representative sampling of the elements of interaction emphasizing financial elements. Financial elements can be broken into direct and indirect elements. Examples of direct financial elements are: the amount of funding by period; amount of funding by program; rate of increase in funding, particularly as it relates to inflation and general economic conditions; rate of decrease in funding, which guides decisions regarding cuts in services or increases in taxes; timing of the flow of funds, i.e., cash management; amount and type of tax revenues and changes in tax regulations; accounting procedures and internal controls, which are very important to the single audit concept; amount of borrowing, which relates not only to the flow of Federal funds but also to the debt policy that may exist at the State or local level; and financial reporting, which gives a governmental unit credibility and uniformity and is the essence of how governments communicate with each other.

There are also indirect financial elements of interaction, such as the general economy, which affects general revenues at all levels of government; the interest rates on borrowings and investments; and the auditability of governmental units. There are also elements dealing with management, organization and operations which affect relationships. Some of these are: the location and authority of taxing bodies; the location of principal program responsibility; the frequency and magnitude of emergency measures; productivity programs and improvements; and program reporting and compliance requirements.

Two other elements that have a great impact on relationships are "creativity" and "risk taking," especially when dealing with the effects of budget cuts and emergency measures. To maintain an emphasis on development, change, and improvement in light of limited resources is a real challenge to managers today. And, where risk taking does not exist, there is very often indecision. He also spoke of the elements of trust, confidence and credibility, which are required if the relationships are to be maintained at the proper level.

Mr. Mazur then focused on the status of the elements of interaction in Virginia. He offered some examples of how the financial elements are currently responding to conditions: revenue sharing has stopped; increases in the 82/84 biennium budget are down; and Federal funding in 82/84 biennium is down.

Relating to the elements of management, organization and operations, there has been a considerable impact in the program areas from the \$190 to \$250 million net reduction in Federal funds for the upcoming biennium. Virginia is active in planning for the acceptance of block grants and in implementing the supportive systems and procedures, hopefully in a way that will have minimum impact on clients. The State has also been reviewing and giving greater consideration to the "SWAP" concept and is also looking at the "turnback" of categorical programs.

At all levels of government there is a need to keep in mind the tremendous complexities in the relationships between governmental units. All those in government should attend to the elements within time frames appropriate to them. Mr. Mazur believes that we should do the "basics" better, by relying more on the fundamentals rather than program specific policies. Prevalent among these "basics" should be a reliance on annual accountability and improved financial reports and financial management.

WORKSHOP #4

LESSONS LEARNED IN CLOSING DOWN OR SCALING DOWN

GOVERNMENT OPERATIONS

LEADER

K. William O'Connor  
Inspector General  
Community Services Administration  
Office of Community Services  
Department of Health and Human Services

PANELISTS

Dwight Ink  
Former Director  
Community Services  
Administration

Morton Henig  
Senior Associate Director  
Human Resources Division  
General Accounting Office

Richard Strother  
Assistant Administrator  
Office of Fire Protection  
U.S. Fire Administration  
Federal Emergency Management Agency

George H. Bohlinger  
Former Acting Administrator  
Law Enforcement Assistance Administration  
Department of Justice

LEADER



K. William O'Connor

PANELISTS



Dwight Ink



Morton Henig



Richard Strother



George H. Bohlinger

DWIGHT INK, the former Director of the Community Services Administration, pointed out that the foremost attention during a closeout operation should be given to the personnel within that agency. He stated that managers should be extremely careful in dealing with their employees. Advance notifications of the scaling down or closing down of units of operation are imperative. He also stated that management should work with the labor unions and inform them of the closeout plans. One way to help the employees during this stressful and traumatic period of time is through counseling and training sessions. Classes on writing or updating a resume and filling out a job application form (SF-171) were held at CSA. These sessions taught employees how they should emphasize their functional skills rather than the specific program they managed or worked on. Functional skills are marketable; whereas, similar or identical programs may not exist elsewhere. Job clubs were also established among groups of employees.

Another way that CSA helped to boost employee morale was to involve the staff in a series of important tasks, which help counter the perception of being rejected. He also pointed out that management should appeal to employees' professionalism in completing the difficult tasks during a closedown operation. In spite of these different ways to uplift employees morale, total closedown is nonetheless a very traumatic experience for which we have not yet developed adequate ways in which to deal with the more serious personnel problems.

In addition to the people problem, Mr. Ink emphasized that it is imperative to have a solid plan, adequate funding and sufficient time to ensure an orderly and efficient closedown of a Government agency.

MORTON HENIG, discussed the General Accounting Office's review of the closedown operations. He emphasized that there were lessons to be learned from CSA's experience in closing down which could be invaluable to other agency officials when future strategies for the termination of other programs are developed. The Congress should ensure that sufficient time and resources are made available to the Executive Branch in a closedown situation. This allows an orderly phaseout which safeguards the Government's interests and assets. There is also a strong need to have a central plan agreed upon by all participating agencies, in this case, Community Services Administration, Department of Health and Human Services and the Office of Management and Budget. In addition, the General Services Administration and the Office of Personnel Management played essential roles in the closure and transition processes.

There is a need for the organization to have a strong and flexible leader to make hard decisions and to implement them through the closeout process. Other levels of managers must also participate and assist in planning and following a schedule for phasing out.

According to the Reorganization Act, legislation must be passed before an agency can be officially terminated. Immediately after that, the organization head must also request additional appropriations to fund the closeout operations, including severance pay and accumulated vacation pay for employees.

RICHARD STROTHER discussed the initial stages of planning for closedown of the U.S. Fire Administration of the Federal Emergency Management Agency. He also stressed advanced planning was needed to assure an orderly and systematic closedown of this organization. Such planning would assure that adequate attention is devoted to the concerns of the employees affected by the close-down, and that any adverse effect on employees is minimized. The closedown plans of the U.S. Fire Administration involved three phases.

The first phase required immediate action including (1) analyzing which Request for Personnel Action (SF-52) should be continued, (2) identifying and approving methods to be used for implementing closedown, and (3) conducting meetings with employees to inform them of the actions being taken.

The second phase involved (1) revising position descriptions to emphasize general skills and functions which are transferable to other programs and deemphasize the program they worked on, (2) assisting employees in updating and rewriting their job application forms (SF-171), (3) preparing skills assessment of employees to determine potential for reassignment to other FEMA functions, and (4) establishing working groups to assist in implementing closedown activities.

The third phase included (1) preparing a detailed plan for completion of closedown, (2) assessing and evaluating Congressional direction and intent concerning the closedown, (3) reviewing the plan to assure it is compatible with Congressional intent, and (4) completing closedown operations, including reassignment of remaining personnel, implementation of reduction in force, etc.

GEORGE BOHLINGER, former Acting Administrator of the Law Enforcement Assistance Administration, highlighted the final stages of closing down a Government operation. He addressed two issues during this stage--fiscal management and audit. Many questions have been raised on who has the responsibility for following up on recipients' grant funds for a Federal organization that has closed down. He emphasized that resources are needed to assume the oversight of Federal grant funds after they have been issued. He also pointed out that there were many regulations to consider when an agency is closing down. This is particularly true when the organization has had responsibility for granting funds. These issues must be addressed before the agency officially closes down.

K. WILLIAM O'CONNOR, the workshop leader, gave the Inspector General's perspective on closing down an agency. He stressed that the organization requires a good financial management system to insure the orderly transition of a function from one organization to another. CSA financial and data systems were neither reliable nor effective. His office also advised agency management to implement changes needed to insure fiscal accountability in the accounting system for grant funds. CSA had problems with its data base management system. In the midst of its closedown process, CSA attempted to take action to strengthen its financial management systems. For example, a concentrated effort was begun to resolve questioned costs disclosed by audits and to assure audits were performed when they were delinquent. Staff audits disclosed frequent and significant problems with CSA management. In addition, the excess cash in the hands of grantees was identified and management recovery action commended. The FBI assumed a major role in CSA's closedown to be sure that criminal referrals were properly received into the criminal justice system.

The CSA Inspector General, in his current role at HHS, is to report on the effectiveness of the closeout of CSA grants with special emphasis being placed on unresolved audits, delinquent audits, and recovery of excess cash and duplicate payments in the hands of grantees.

It was pointed out that the Office of Management and Budget had drafted two checklists for planning and implementing cutbacks in Federal programs. The first checklist is aimed at the planning that should be performed when substantial cutback requirements--in the range of 20 percent or more--have been imposed. The second checklist relates to the implementation of plans for retrenchment by identifying the actions and concerns that must be addressed once the cuts have been targeted on particular programs, organizational units or facilities. Limited copies of the document, entitled "Managing Cutbacks in Federal Programs--Checklists for Planning and Implementation," are available by contacting JFMIP.

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