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The Proceedings Of

The Tenth Annual Financial Management Conference

Financial
Management--A Key
Element Of
Total
Management

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Joint Financial Management Improvement Program

1981

WHAT IS JFMIP ?

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices. The Program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General, and was given statutory authorization in the Budget and Accounting Procedures Act of 1950.

The overall objective of JFMIP is to improve and coordinate financial management policies and practices throughout the Government so that they will contribute significantly to the effective and efficient planning and operation of governmental programs. Activities aimed at achieving this objective include:

- Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.
- Acting as a clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.
- Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.
- Undertaking special projects of a Government-wide nature to resolve specific problems.
- Providing advisory services in dealing with specific financial management problems.

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

PROCEEDINGS OF THE
TENTH ANNUAL
FINANCIAL MANAGEMENT CONFERENCE

FINANCIAL MANAGEMENT--A KEY ELEMENT OF TOTAL MANAGEMENT

March 23, 1981

JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

FOREWORD

The JFMIP sponsors an annual Financial Management Conference to keep managers informed of the current state of the art in financial management and to enhance the spirit of cooperation among financial managers throughout the Government. On March 23, 1981, the Tenth Annual Financial Management Conference was held in Washington, D.C., with the theme of "FINANCIAL MANAGEMENT--A KEY ELEMENT OF TOTAL MANAGEMENT."

The conference proceedings are being published to share the experience and information that the speakers discussed on financial management. We hope that some of the information will be helpful so that you can initiate improvements in your own organizations.

Both of the conference's keynote speakers, Joseph Wright, Deputy Secretary-Designate, Department of Commerce and Dale McOmber, Assistant Director for Budget Review in the Office of Management and Budget, emphasized that more improvements should be made in financial management. Their remarks are detailed in Part I of the proceedings.

The luncheon session was highlighted by an appreciation testimonial for Elmer B. Staats, former Comptroller General of the United States and the presentation of the 1980 Financial Management Improvement Awards. The luncheon addresses are presented in Part II.

Part III presents summaries of the following workshops:

- Internal Control
- Financial Management Techniques--State of the Art
- Performance Measurement--Budgetary and Managerial Application
- Financial Management Information System

We would like to express our appreciation to the speakers and participants for making this a successful conference. Their presentations were thought-provoking and challenged financial managers to truly become a key element of total management. They emphasized that we must work hard together to win and achieve that status.

Susumu Uyeda
Executive Director
April 1981

ACKNOWLEDGEMENT

The support and hard work from the following individuals are acknowledged and appreciated.

Conference Arrangements

Sandra McDonald	Joint Financial Management Improvement Program
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Awards Committee

Chairman: Gilbert Simonetti	Price Waterhouse & Co.
Fred Heim	Department of Commerce
Ray Long	National Association of State Budget Officers

Recorders of Workshop Sessions

Thomas Fisher	General Accounting Office
Joseph Neiberger	Office of Personnel Management
Graham Schatz	Department of Labor
Kenneth Winne	Joint Financial Management Improvement Program

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"FINANCIAL MANAGEMENT INITIATIVES UNDER
THE NEW ADMINISTRATION"

JOSEPH R. WRIGHT, JR.
DEPUTY SECRETARY-DESIGNATE
DEPARTMENT OF COMMERCE



I have some comments that will show a little bit of the experience I have had with the Joint Financial Management Improvement Program, as well as bring some insights, from my perspective, in terms of what the Reagan Administration is going to do and what it has to do in the next four years.

Some people think that good financial management in the Federal Government is almost like painting stripes on the side of a hippopotamus--meaning that "painting" and "talking" are words describing actions without purpose or meaningful results.

This does not have to be the case. But, it is the interpretation that occurs in the outside world, and in many cases up on Capitol Hill, at the Office of Management and Budget and in the departments and agencies.

One of the things I am going to concentrate on is verbs, trying to instill a positive attitude in each and every one of you as individuals and as a group that you now have a unique opportunity to concentrate on verbs rather than sitting around and using words without purpose or meaning. I think that it is important for you to take advantage of this opportunity.

I think that the JFMIP has a strong purpose, because it brings a discipline which is used to a certain extent in the real management of the Federal Government. How well you employ that discipline as an individual and as a group will

tell how well the Government is managed. How well you push each other toward better management in an environment in which we are going to be spending less dollars on administrative services and more dollars on programs will have a lot to do with whether we do or do not improve the management of Government. That is the key thing I want to focus on today.

Now, it appears that, at Commerce as well as at other agencies, there is a large group within the career establishment that is waiting and watching to see what the new Administration is going to do and what direction it is going to take. They look at the President's economic message, but say they will wait to see how the new Administration will run the Federal Government.

There is no reason to guess how we will run the Government. I have never seen a clearer message given by any Administration as to what management policy for the Federal Government will be.

What can we expect from the new Administration's policy? You have heard the President's economic policy from his budget message. I think that most of the proposed budget cuts will be passed by the Congress. More important than the numbers is the cooperative attitude of the Executive Branch and the Legislative Branch. I have never seen both Branches working so well with one another. I believe that this environment is healthy, and I think after the next Congressional election, it will build even further.

The President's economic program calls for a \$44 billion reduction in budget authority and 43,000 fewer full-time employees next year. You, financial managers, should pay more attention to improving your financial management systems, internal controls, and other goals. It looks like the Congress will mandate that you focus on these areas. You will also find that you can receive top management support, because your Cabinet Officers are more interested in management matters, such as internal controls, now more than any previous Cabinet Officers in Washington. In your workshop sessions, I suggest that you try to focus on those areas in which you can accomplish improvements relatively quickly. You may be able to implement significant changes, because this is a unique time. If you do not take advantage of it now, you may lose it.

By the end of next year, the Commerce Department must reduce its full-time employment by 2,400. There is some concern by the people in administrative service areas as to whether or not we can meet this goal. I do not have the

slightest concern that we can make it. As a matter of fact, I think that we will beat it. We currently have 5,800 people in administrative functions. That is approximately 12.5 percent of the Department's total workforce which is considered average for Federal agencies.

I would like to see more top level Government officials compare their organizations to large companies in the private sector. I will continually compare what we are doing in Commerce with how large organizations in the private sector run their businesses. On the surface, we may not appear to be alike since business does not have to cope with the different concerns of 535 Senators and Congressmen. However, they do have to deal with varying viewpoints from stockholders and other external parties such as creditors and governments.

One point that I would like to make is that you do not need a large administrative staff in an organization. In fact, administrative costs in organizations should be kept to a minimum. When I was at Citicorp, the company had a staff of 2,300 people with 120 administrative people. That is only approximately five to six percent of the company's workforce. I think that the Government can also achieve this goal of having between five to six percent of its staff resources in administrative functions. I also believe that the Government does not need any more resources than that.

How do you make these improvements in the Government? One suggestion is to centralize your administrative activities. In the mid-1970's, I was the Assistant Secretary of Administration in the Department of Agriculture. Let me point out some of the improvements that they made. The Department of Agriculture consolidated its accounting functions several years ago. Their top executives were innovative and concentrated on the "verbs." I think that they did a tremendous job by centralizing the accounting and payroll functions.

Let me give you a little background on what happened. The Department of Agriculture is like a holding company, as are most of the Departments in Washington, in which everything was done in a decentralized manner. Performance, as well as financial and personnel responsibilities, were decentralized. I was responsible for centralizing the activities involving financial management in the Department of Agriculture by establishing a National Finance Center in New Orleans.

First, they centralized the payroll and personnel reporting system. We also plan to centralize these functions first in Commerce. Commerce has six different payroll systems at six different sites. We will consolidate these into one system at one location.

The Agriculture Department then centralized its billing and collection functions. Most of program managers were glad to be relieved of this responsibility. A huge sum of money is spent and wasted in the Federal Government because a large number of departments and agencies have separate accounts payable and accounts receivable operations. I would like to see Commerce centralize its billing and collection systems.

Once you have taken care of payroll, personnel reporting, and payment and collection operations, then you look at the computer support systems. Now, you can look at what resources to cut, since you will have a centralized system. By centralizing, Agriculture closed 170 payment centers and reduced the number of people on its administrative staff--by 41 percent. During this Administration, we will have to reduce the number of administrative personnel. We should not have 12 percent of our people in administrative activities.

This group of financial managers should take the lead. You have some of the best financial accounting and management systems anywhere. You have the resources to do it. You are going to have Cabinet Officers who are going to be paying attention to you, because personnel reduction is now a very big issue.

If we have a 41 percent administrative staff reduction at Commerce, we would reach our personnel reduction goal without any changes on the program side.

At Commerce, we will streamline and reduce our administrative operations. I suggest that all of the other departments and agencies do the same.

By consolidating financial management functions, I think that we will get a much higher level of efficiency, better program operations, and improved delivery of services. I have set a personal goal of 25 percent reduction in administrative staff by 1983, and I think we can do better. As I mentioned previously, we will centralize payroll first. Then we are going to centralize accounts payable and accounts receivable.

We will start consolidating the payroll systems immediately. We want to centralize this function in record time.

The target implementation date is January 1, 1982. We are not making any changes to existing payroll systems except those mandated by external requirements.

Although "program" computer systems will remain as they are with some changes to the smaller Commerce agencies, the "administrative" computer systems will all be consolidated. The multiple personnel processing systems within the Department are going to be consolidated, all offices will then feed data into payroll system in a consistent way.

Then we are going to start right down through the process. We will bring some of Agriculture's people over, and we will take advantage of their experience. We will use whatever system designs that are available. In fact, if the Agriculture's payroll system can handle our entire payroll, we will let them. By having another agency do our payroll, we can save money and time.

After we consolidate the financial operations, we will look at information management, publications and procurement systems. I think you will find other Cabinet level officials using the same strategy, because we are interested in better management in the Federal Government and better financial controls.

There is a very heavy business influence in this Administration--from the President on down. You will see that they will run a tighter ship. There will be changes in the way we manage as well as how we get things done.

At Commerce, Secretary Baldrige and I discussed how we will handle the "management by objective" system within the Department. I have never seen a "management by objective" system that really worked. Under the "management by objective" systems that I am familiar with, the Cabinet Officer rarely works with the Assistant Secretaries and the agency heads to make sure they know exactly what they are expected to accomplish that year. Under a properly operated "management by objective" system, officials, who make commitments to the Congress and to the President, make sure that these commitments are fulfilled. Agency officials are then held personally responsible for this performance. We will do this at Commerce.

If you come to Commerce next year, I expect that you will find a strength in our "management by objective" process, because we are going to do year-end appraisals and we will be reporting on them. We will run Commerce like a business. As a group of financial managers, you

should continue to push for improving financial management in your Departments and make our top level executives aware of their responsibilities. This is the best time you will ever have to do this. Let us not lose this opportunity!

QUESTIONS AND ANSWERS

QUESTION: What is your assessment of the impact of consolidation on the human resources in Commerce?

MR. WRIGHT: Most people take pride in themselves and their work, as well as the work done by their co-workers. I think it is going to be a better work environment with the centralization of functions. People will have more responsibilities and more pride in what they are doing. There will be fewer people, but the remaining workforce will be satisfied with more challenging work and feel a sense of accomplishment in doing their jobs.

QUESTION: If you are going to centralize payroll and other accounting systems, why stop at your Department level? Why not expand to include other Federal Departments and agencies?

MR. WRIGHT: I would like to see a proposal from any agency to take over the Department of Commerce's payroll system. There is no reason to stop at the Department level if the system can handle it. However, the centralization can only take place if you do not adversely impact your agency program missions and delivery of services. You are going to come to a certain point where it does not make sense to expand the use of the system.

I learned from the Department of Agriculture's experience that there can be an implosion--that is letting something grow big enough and all by itself, it will cave in from within. For example, if you are talking about one centralized payroll system, you need to have a reliable backup system, because more than one Department would be affected if the system went down. If we could get some agencies working together, that would be a major step.

Another area that can be centralized is collection of monies. I know that the Economic Development Administration has a better record than the Small Business Administration. We should be able to combine the best parts of both of them and make an efficient and effective collection system.

QUESTION: If the private sector is so well-managed, why does the Federal Government have to bail them out?

MR. WRIGHT: The Federal Government has no obligation to assist these companies. I do not think that the Federal Government should have aided these companies. I would be disappointed if we have any major bail-outs during the next few years.

I oppose giving assistance to companies that are in trouble because of poor management and planning. If they totally miss their market place, let the unions get too far out of line, or do not make the right decisions involving their international versus their domestic position, then they should take the consequences instead of having the Federal Government come in and bail them out.

However, I must emphasize that there have been a greater number of Federal agencies bailed out year after year than private American companies which received assistance. We need to manage some Federal agencies more efficiently, or we should let them sunset.

QUESTION: The Federal Government has many interests and is being pulled in many different directions by different people. It is often difficult to know what the proper direction is. I think that the Reagan Administration is giving us a sense of direction, but it is not as clear a direction as in the private sector, where the bottom line is profits. Would you comment on this?

MR. WRIGHT: We have never seen a clearer direction than the one which the Reagan Administration has provided. There is a consensus between the Congress and the Executive Branch on cutting the budget deficit. Both the Congress and the Executive Branch are interested in reducing the cost of the Federal Government, maintaining good management policies and monitoring operations with better controls. This is a very constructive environment, and we, as a group of financial executives, should take advantage of it.

QUESTION: How do you plan to overcome the problem of a larger budget and staff for the Office of the Secretary after you centralize accounting functions?

MR. WRIGHT: In Commerce, we plan on taking a lead agency concept, instead of centralizing every function in the Office of the Secretary. One of the ways we can consolidate is to let whichever agency in Commerce whose performance is best in processing payroll or performing other accounting functions handle these functions.

SOME HERETICAL THOUGHTS ABOUT FINANCIAL MANAGEMENT

DALE R. McOMBER

ASSISTANT DIRECTOR FOR
BUDGET REVIEW
OFFICE OF MANAGEMENT AND
BUDGET



In a new book on Fiscal Stress and Public Policy, Naomi Caiden has included a fascinating paper. The title of the paper is "Negative Financial Management: A Backward Look at Fiscal Stress."

In her paper Naomi Caiden discusses the fiscal stress that most European states experienced over that long period between medieval times and the early 1800's. She uses the French monarchy as the example. By the end of the 1500's, heavy military expenditures caused persistent deficits. Even in rare times of peace, government outlays kept spiraling as ransoms were paid, prices rose steeply and noblemen, deprived of the opportunities of war, had to be given money, land or official positions. Spending climbed and debts mushroomed.

At the same time, the ability of the king to tax was limited. The economy was based on agriculture subject to the vagaries of weather and opportunities to conceal the product. The authority of the crown was weak. Fiscal stress was very great with uncontrollable spending, an inability to borrow because of the low esteem of the credit of the monarch, resistance to higher taxes and inability to meet commitments. (Somehow some of this sounds familiar.)

But, Naomi Caiden says, in spite of these impediments, the crown found ways to get money and to tap the rising prosperity of France as manufacturing and commerce grew. The court came to live in luxury, soldiers were paid, and wars were fought. The state obtained the needed funds.

In a fascinating discussion, Naomi Caiden explains that the crown overcame its difficulties by the use of techniques that were often the opposite of the principles of good financial management as we see them today.

First, we like to believe that tax systems should be reliable and certain. Our principle is that revenue sources should not be fragmented. We argue that the cost of administration, the uncertain economic effects and the uncertainty require concentration of tax sources. We also aim to hold down the size of government to save money. However, the French monarch taxed everything from belfries to playing cards with little discrimination. He also greatly increased the number of offices of the crown so that they could be sold. (In fact, in one master stroke, alternates were created for each office, thereby doubling revenues from this venal system.) The state also sold specific taxes, blocks of offices and credit notes at a discount. This often meant that revenues could be obtained early at the cost of future ones.

Another of our principles of good financial management involves the use of a central, general fund. We argue that earmarking revenues is bad. It distorts priorities and interferes with a logical budgeting process.

But the French monarch found that by earmarking local taxes he could improve the revenue flow. The offices of local tax collectors were sold. They operated as private businesses, in effect. The offices had a considerable incentive to collect taxes because the officeholders could take their fees from the top. These "tax farmers" could collect taxes at irregular intervals. But the crown's revenues became more certain because the rich officeholders could pay the crown's share in advance of collection.

We rely on a predictable cash flow. But the French system counted on revenues from a huge number of earmarked funds. The crown did not know how much it might receive in any one period. But this enormous problem was turned into an advantage. Debts were simply assigned to a particular revenue fund. The crown satisfied its debtors regardless of whether the cash arrived on time or whether it arrived at all. Books did not have to be kept. Of course, this system was characterized by enormous inequities, regressivity and outright cheating. But if the purpose of a government's financial system is to get enough money, the system worked.

I am not suggesting that we use any of these historical techniques today. From the point of view of the whole

society and an economy, they were bad then and they would be even worse today. But the account is fascinating because the approach from an heretical point of view permits a fresh way of looking at financial management. I also wish that there were some fresh viewpoints about financial management.

Next, I will discuss that favorite subject of all current financial management discussions - WASTE, FRAUD AND ABUSE. You can not tell me that you do not have a little heresy in you about this subject. I will bet that nearly every person in this room has had at least a fleeting desire that people would stop talking about "waste, fraud and abuse."

Those words have become one well-worn cliché. The words are not alliterative, but they fall almost "trippingly on the tongue."

Waste, Fraud and Abuse.

But I would also be willing to guess that it is not the triteness of the phrase that makes you wish it would go away. I suspect that nearly every person who works for the Government in this room finds himself wincing a bit when the words are mentioned. Have you not been doing a lot of wincing in the past year or two? Does this subject not come too close to our work and our reason for existence?

A friend of mine from a previous administration made the fact even more pointed when he once wrote about being against "waste, fraud and bureaucrats." And, of course, it is true. The public is opposed to waste, fraud and bureaucrats all together. The cliché has become so widespread that we can equate waste and fraud and Government workers. It has become so accepted that an appropriations committee can propose a specific line item cut for "W.F.A." And the deliberative processes of that august body, the Congress of the United States of America, can adopt the action.

Indeed, we have received some suggestions from time to time that the budget itself include a general offset to the totals for the elimination of "W.F.A." Of course, such an idea is totally at odds with the purpose of a budget. A budget is supposed to set forth a specific plan for precise dollar levels, program by program. If a program is not using the taxpayers' money in the most efficient, least costly way to accomplish an objective, then it is the duty of those who manage the program and the duty of the reviewers of the budget to suggest ways to overcome the inefficiency or to avoid the problem. This is particularly true if there is evidence of dishonesty or chicanery.

Let me remind you of the way I started this talk. I spoke of my fascination with the way Naomi Caiden looked at financial management historically in juxtaposition with existing financial management principles. Reading her piece suggested to me that one way to get a fresh view of matters that affect us routinely is to develop a bit of heresy. Therefore, I would like to be heretical about waste, fraud and abuse. That is, I want to suggest some opinions contrary to the generally accepted views of our financial management community.

Now why would I want to do that? It may be that it is because I am reaching retirement age and am developing the cantankerous nature of someone who has been around too long.

But what I would like to believe is that I am concerned about the creation of a cliché. The trouble with them is that they are words that have lost precise meaning in favor of stereotyped generalizations and create images to which we react predictably. "Waste, fraud and abuse" are words that have become so hackneyed they have lost their true meaning. But the image they give us is understood. It is bad; it is bureaucracy; it is Government.

The words have lost meaning, but they are meaningful. They have become a set of code words. And like code words in other areas, we recognize that the meanings they provide are hateful.

Now, how did "W.F.A." become a set of code words? Do not look outside this Government; do not look to those who criticize government with a little "g". Who is guilty? We all are, the people in this room, the Office of Management and Budget, the General Accounting Office, Congressional committees and Inspectors General.

Why are we guilty? Because we are "darkness cursers."

We send teams of people out to uncover "W" and "A" and "F". What is wrong that that? Nothing. Surely it is our constant duty to always search for improper use of the tax dollar. Of course, it is our duty. But what do we do when we get the information? We add it up and then we issue press releases.

What is wrong with that? Perhaps nothing at that initial point. It may be very important to get everyone's attention about a growing problem. But then we create the cliché by continuing to emphasize how terrible the situation is. We have "darkness cursing" contests. Four billion in

unresolved audit findings grew into \$25 billion in delinquent debts. Cheating is costing the United States \$10 billion. Or is it \$40 billion? I forget the numbers. But no matter, the larger number must be a better one.

It is better to demonstrate that Government is wasteful. Hundreds of cases of fraud, billions of dollars wasted, trillions in liabilities, and the chorus chants "waste, fraud and abuse."

But surely it is true that the Federal Government is wasting money and that we do not do a good job in collecting our debts and keeping track of money. It is true, but it may not be the whole truth. We are so anxious to emphasize how large the problem is that we seldom try to explain some fundamental points.

For example, some of those debts exist because this Government, in its wisdom, decided to provide credit to people and businesses who were credit risks in the private sector. The Government's purpose is not to make money with loan programs. Its objective aims to help a depressed group, or a depressed area, or depressed businesses. The objective of legislation redistributing money often deliberately avoids the safeguards that might exist in the business community so as to accomplish a public purpose. The line between a loan and a grant is not always crystal clear. As a government, we may choose to distribute funds or materials or services in emergencies or problem situations without adequate administrative controls as a deliberate policy, because we want to move fast or we want to avoid hiring too many bureaucrats. It may also be because we do not plan ahead very well. As a government, we may set up tax rules in such a complicated way that it is more and more difficult to avoid growing debts owed by taxpayers. We may even want to avoid having too many tax collectors since we are always concerned about the fine line between government harassment and an adequate and equitable tax collection system.

We do not do very well on those kinds of truths when we talk about waste in government, do we? But perhaps even more significant is the effect of all this looking at the half-empty cup. Dare I suggest spewing of information about the waste of government makes everyone a believer?

I think we know that if we continually tell someone that they are doing a bad job, they will believe it after a time. They may even quit trying to do a good job if we are able to destroy confidence. It is also true that an institution that describes itself as bad is hardly likely to be described as

good by those outside the institution. Could that be happening to us and to our institution? It is possible that we have emphasized waste so much that we have made it our main duty to search for waste? Have we forgotten that our second duty is the eradication of waste?

Have we also forgotten to look at how full the cup of Government really is? Do you know how much the Government collects each year?

In 1980, the Internal Revenue Service by itself collected over \$519 billion from all sources. But other agencies collected over \$200 billion, over half of which came from outside the Government.

May I engage in some rhetoric like the darkness cursers? Those figures make the U. S. Government the largest collection agency on earth, with the possible exception of the Soviet Union. Perhaps the comparisons are less than valid, but these figures suggest an extremely low ratio of uncollected debt to total debt.

I do not mean to denigrate the essential efforts that are now taking place to improve our debt collection process. It is clearly inequitable and unfair not to require payment of amounts that are clearly due. But what I am arguing is that we should place more emphasis on the task of doing a better job and less emphasis on press statements about waste. I will believe the effort is serious when OMB, GAO and Congressional committees begin to be more concerned about ways to resolve problems than about providing information on the huge amounts of waste that exist.

Now that I have embarked on this minor effort to shine some light in the darkness, I cannot resist throwing out a few other facts about the accomplishments of the Government of the United States. Do you know that:

--The Treasury Department handles over 700 million checks and other payments each year;

--We provide services to 31.8 million social security beneficiaries and 28.6 million medicare patients;

--We pay over four million veterans and four million Supplemental Security Income Program beneficiaries.

--The Government is printing over 34 billion stamps and over 4 billion currency notes, and minting 13 billion coins each year.

Most people would agree that on the whole these financial transactions and services are provided with efficiency. Huge volumes of transactions are handled well throughout this Government.

And while we are trying to drive out the darkness cursers, let us talk a little bit about improvement in financial management and its integration with total management.

I am old enough to remember when GAO and Treasury had duplicative central records; when the Bureau of the Budget, GAO and Treasury had different definitions of obligations and each insisted on conformance to its definition; and when there was a severe lack of accounting support for budget estimates. These problems were eliminated after the financial management agencies began to work together quietly and effectively in the Joint Financial Management Improvement Program. Let me mention just a few signs of continuing progress that occurred because of this kind of effective cooperation:

- GAO now performs its audit in the agencies rather than having the documents shipped to its home office.
- Agency accounting records were established as the official accounting records, central records were eliminated in GAO, and summary records are kept in Treasury.
- Organizational changes were made in many agencies to bring the working relationships of budget officers and accounting officers closer together.
- There is better integration of budget and accounting classifications than there was 10 or 15 years ago.
- Allotment structure was simplified and tailored along program and activity lines rather than by objects of expenditure.
- Agency accounting systems have been improved (though there is still a long way to go as evidenced by the large number of systems that have not yet been approved by the Comptroller General).
- Appropriation accounting has been vastly improved (as contrasted with the earlier days when OMB had problems reconciling agency annual budget figures with the Treasury monthly statement. Now it has been practically eliminated).

- Considerable improvement has been made in audit followup.
- Internal audit staffs have been established in most major agencies and more recently the Office of Inspector General has been established in 16 departments and agencies.
- Audit standards have been issued to guide the audit function.
- Major improvements have been made in the financial aspects of grant administration.
- The financial and other administrative requirements imposed on the recipients of grants have been standardized and uniform standards for determining costs under grants have been issued.
- The letter of credit procedure was instituted to simplify the financing of grant problems.
- Audit practices in grant programs have been streamlined.
- A standard audit guide was issued to replace approximately 100 separate guides which were in existence for State and local governments.
- Policy has been established for a single audit of all grant funds received by a given recipient. This replaces separate audits of each grant by different organizations.
- Audit cognizance has been established whereby one Federal agency will be responsible for performing or overseeing the audit of all grant funds received by a given organization.

Most of you know how these improvements have come about. They have occurred because of the initiative of good people who see a problem and move to get something done about it. The accomplishments are not carried out in speeches or committee hearings or in press releases. They get done because of long discussions over a conference table, quiet negotiation over a telephone, lengthy application of pencils to paper.

Debts are not going to be collected by issuance of press releases. Mismanagement of funds is not going to be

corrected by writing bills, or by counting telephone calls or by extrapolation of shaky data into big numbers. Mismanagement will also not be corrected by asking OMB to use its budget "clout" in some magical way. Good management cannot be created by fiat.

In the end, mismanagement is going to be corrected by the hard work of good people thinking, talking, writing and installing better systems, by poring over the long computer printouts, by the endless checking and comparing that goes on in an audit, and by the development of good and detailed budget plans before and after appropriations are received. Above all, mismanagement of funds is going to disappear when there is an atmosphere that recognizes the desirability of good management and when we recognize the best cliché of all--"Good managers create good management."

It is time to get to it.

QUESTIONS AND ANSWERS

QUESTION: What is going to happen with zero base budgeting (ZBB) under the new Administration?

MR. McOMBER: We are now beginning to work on OMB Circular A-11. Some of the recommendations that the staff will undoubtedly be making to the new leadership are:

1. Abandon the use of the title "zero base budgeting."
2. Retain the good aspects of ZBB. The most useful aspect is the ranking system. The determination of priorities using the ranking system seems to have forced an important discussion both inside the agencies, at the Office of Management and Budget, and at other Executive Offices.
3. Abolish much of the required paperwork now associated with ZBB; I do not know exactly how that will work as of now.

QUESTION: In so many cases, as managers, we find ourselves managing a very complex program in which the Congress has legislated about 30 compromises along the way, and which has an impossible implementation date. We try to develop a system, but we find that there is a shortage of staff resources and hardware. Then we start getting criticized for fraud, waste and abuse. Now it seems that the only "help" we are receiving is budget cuts. Have you any comments on this process which seems to be a no-win situation?

MR. McOMBER: I have some thoughts about it that tend to be, perhaps, contradictory.

First of all, it is true that there are strong arguments, for example, that we cannot collect all of the debts owed to the Government unless we have more people. There are arguments that we need more money to buy additional equipment.

In OMB, we have to take a cynical attitude about those kinds of comments. When we received information about the debt collection study in the middle of the last budget season, we saw all of the good features from the study and we talked about ways to decrease the budget.

After further analysis on the debt collection problem, we discovered very quickly that in order to save several billion dollars, we needed more people that we could not authorize. Since we are trying to reduce the number of people working for the Federal Government, we must find ways to save money and improve the productivity in government-- that is, try to find ways to do our work with fewer people.

QUESTION: I agree with your comment that good management can not be created by fiat. Yet, we do have a problem with our incentive systems, especially in keeping and nurturing better managers in the Federal bureaucracy. OMB destroys the incentive to go after greater productivity when it cuts the agency budget after productivity improvements are made as a result of good management practices. Have you any thoughts on the savings generated by productivity improvements being shared with Federal agencies, or some way to alter the climate which we are all creating so that better management can be perceived as having some rewards?

MR. McOMBER: I always have to ask a couple of questions when somebody asks me that question. That is, as financial managers do we expect to be rewarded for good management? And, I think the answer should be no. I would also like to ask the question: What are the incentives that have been removed by OMB because good management has existed?

I would like to suggest that we should alter the climate to put emphasis on good management and good people, and not put emphasis on monetary awards.

APPRECIATION TESTIMONIAL FOR



ELMER B. STAATS
Comptroller General of the United States
1966 - 1981

On March 3, 1981, Elmer B. Staats completed his distinguished 15-year term as Comptroller General of the United States. As Comptroller General, Mr. Staats was also one of the four Principals of the Joint Financial Management Improvement Program. His continual and dedicated support of the objectives of JFMIP has resulted in strengthening financial management throughout the Government.

Mr. Staats also held various positions in the Bureau of the Budget and served as the Deputy Director of the Bureau of Budget from 1950 - 1953 and 1959 - 1966. JFMIP is honoring Mr. Staats for all of his past achievements.



CONGRESSMAN JACK BROOKS
TEXAS

It is a distinct pleasure to have this opportunity to join with you in honoring one of the nation's most outstanding public servants--Elmer Staats who has had 41 years in Federal service. After 15 years as Comptroller General, it is fitting that the Joint Financial Management Improvement Program pay tribute to a man who has contributed so much to improving financial management in our Government.

During these years as head of the General Accounting Office (GAO), Elmer Staats has established an enviable record of accomplishments. He has guided GAO from traditional accounting roles to one of broad program reviews. In the process he diversified GAO's staff in bringing in other disciplines--economists, statisticians, lawyers and program analysts.

As a result, the Congress and the American people are better served by a more responsive GAO. As Chairman of the House Government Operations Committee, I can testify that the advice and the information provided to the Congress in the past 15 years has been invaluable and is deeply appreciated.

I have worked closely with Elmer Staats in his many efforts to curb waste, fraud and abuse, and to more effectively evaluate Government programs across the board. He has been a devoted and responsive public servant, and your presence here this afternoon stands as a tribute to his outstanding record of achievement.

As a friend I will miss him; the Congress will miss him for his many contributions to our nation. The new Comptroller General will be well advised to follow a course set by Elmer Staats.

Elmer, we wish you many years of productive life and enjoyment.



CONGRESSMAN FRANK HORTON
NEW YORK

It is a pleasure to be here before the Joint Financial Management Improvement Program, especially as you honor a very fine person, Elmer Staats.

I have known Elmer even before he became the Comptroller General, and being on the Government Operations Committee at the time that he was appointed Comptroller General, I have had the opportunity to watch both him and the General Accounting Office develop in the past 15 years.

As we all know, he has been involuntarily retired because his term expired. Although we would like for him to stay as Comptroller General, there was no way under the law for him to have been reappointed.

I have also worked with Elmer Staats on two commissions, the Procurement Commission and the Paperwork Commission. As Chairman of the Paperwork Commission and as a member of the Procurement Commission, I have had the opportunity to personally observe Elmer's performance. By having a daily working relationship with him while on these commissions, I saw him run an efficient operation.

I do not think I have ever met a person who has more ability and more knowledge, and who was more dedicated and more loyal to the position that he held as Comptroller General.

In a way, Elmer Staats, has blazed a trail for us, particularly in the Legislative Branch because the General Accounting Office is an arm of the Congress. His Office has been in the forefront in finding fraud, waste and abuse in the Federal Government and recommending ways to improve the efficiency and effectiveness of agency operations. The American public will be looking to all of us, members of the Congress, the General Accounting Office, the Joint Financial Management Improvement Program and all Federal agencies to continue this effort of eliminating fraud, waste and abuse.

One way to do this is through oversight, which we do in the Government Operations Committee with the help of the General Accounting Office, the Inspectors General, agency auditors and managers. Thus, Elmer Staats is the trailblazer for this whole movement that is going on today in America to cut budget costs and recommend ways to reduce costs by auditing Federal programs. The United States Government will save money by following his sound advice and the recommendations that are made in GAO reports.

During the past 15 years Elmer Staats has dedicated himself to excellence in financial management. His dynamic and outstanding leadership has broadened the responsibilities and functions within GAO. For the outstanding job as Comptroller General of the United States, I would like to congratulate you, Elmer. I also hope that you will give us the benefit of your advice and suggestions as you move into this different stage of your life.





DWIGHT INK

I would like to make some comments from a slightly different perspective--from those of us in public service. Elmer Staats, more than anyone else in Government, has given us reason to take pride in working in public service.

Today public managers, much more than our counterparts in industry, are plagued with public criticism. We are subject to tremendous growing criticisms concerning the burden of the Government, the burden of regulation, the burden of taxes. A manager is laden with all kinds of regulations, processes and procedures. The pay system is not exactly the best in the world. Federal managers are often told that he or she is slow and unimaginative compared to the private sector.

Today, the public manager has a very tough and important challenge to respond to what the people are expecting around the country.

I think it is very important to continue in some vein the kind of effort that Elmer Staats has tirelessly provided over the past, not 15 years, but the past 30 years, through which he has spoken out tirelessly on behalf of the public servant. He has contributed a better understanding of the problems faced by managers in trying to respond to legitimate public needs.

He has spoken out on the needs for recruitment and to select capable, experienced leadership in both the political and career levels of the departments and agencies.

He has stressed the responsibility and the necessary accountability of public managers for honest and efficient program administration--they being the first line of defense against corruption and inefficiency.

Over the last 30 years, I think that Elmer Staats has made more recommendations for better Government than that of the next ten runners-up. He is, of course, the key figure for broadening the concept of management audit from a narrow fiscal audit to a largely broadening management audit, which incorporates all different facets of the management field.

He has emphasized the importance of taking steps to prevent waste, rather than sitting around waiting for it to happen. Yet, during the period in which he has had a tremendously important time-consuming responsibility, both in the Executive and Legislative Branches, he has taken the time to provide leadership in pioneering the development of the public administration profession.

It is going to be very difficult to fill Elmer's shoes, since his broad leadership, which reached across the Legislative-Executive Branch arena, was demonstrated superbly throughout his Federal service. So, on behalf of the career public servants in this country, we would like to say thank you.



PRESENTATION OF FINANCIAL
MANAGEMENT IMPROVEMENT AWARDS

1980 AWARD WINNERS



MARCUS PUGH
Director of the Financial
Management Division
Environmental Protection
Agency

ROBERT CRONSON
Auditor General
State of Illinois



For exceptional and distinguished leadership in financial management in the public sector.

PRESENTATION OF FINANCIAL MANAGEMENT IMPROVEMENT AWARDS

DONALD L. SCANTLEBURY
CHAIRMAN, JFMIP
STEERING COMMITTEE



It is a pleasure for me to be here with you today to honor several outstanding financial leaders. For the past nine years, the Joint Financial Management Improvement Program has sponsored an award directed specifically to excellence in financial management. This is the only award sponsored by the Federal Government that recognizes exceptional and distinguished leadership in financial management in the public sector.

There are two winners this year and they demonstrate clearly the broad reach of the public sector financial management profession. One is being commended for his professional excellence and leadership in improving financial management systems at the Federal level while the other has demonstrated outstanding leadership in improving auditing at the State level. It is indeed an honor to introduce the two recipients of the 1980 Financial Management Improvement Awards.

The first awardee is Marcus Pugh, who is the Director of the Financial Management Division in the Environmental Protection Agency (EPA). Mr. Pugh's career with EPA began when the Agency was established in 1970. Through his ability to blend vision, innovation and dedication in his commitment to getting EPA off to a fiscally sound start, EPA designed and developed a financial management system, which is the primary tool with which Agency's managers control their resources. Fourteen accounting offices plus many satellite laboratories nationwide enter data and spontaneously update their master computer files. The system has the ability to

monitor grant activity by grantee, to interface with agency's budget and planning authorizations and the branch accounting controls to assure fiscally sound accounting data. Through Mr. Pugh's guidance and leadership, the EPA system is designed to measure performance and hold both regional and headquarter organizations accountable. The EPA's Financial Management System has been singled out by the Office of Management and Budget, Congressional Committees and GAO as a model for other agencies to adopt and many have.

In other areas of financial management, Mr. Pugh has also shown his extraordinary skills and leadership. Examples of his more recent achievements include:

- Reduction of millions of dollars in outstanding cash advances, that has improved the cash management program in his agency significantly. He effectively administered EPA's conversion from cash advance payments to letter-of-credit financing.
- Improved workload analysis and budgetary controls by integrating the full-time equivalency work years accounting concept in EPA's Financial Management System.
- Mr. Pugh's keen sense to perceive the outlook for financial management in the 1980's and to keep EPA in the forefront of efforts toward an automated office environment is exemplified by two innovative enhancements recently made to the agency's accounting system. The first enhancement allows a manager with little ADP background to produce a variety of tailor-made reports through terminals to suit their particular needs. The second computer application allows agency personnel to cross check certain information on contracts before entering the totals into the system. This new system reduces paperwork, expedites invoice processing, improves accuracy and effectively manages cash flow, as well as provides detailed financial information concerning the agency's contract program.

These are only a few of Mr. Pugh's achievements over the years. We are happy to present this award to Marcus Pugh for his distinguished leadership in developing and implementing innovative initiatives and techniques in EPA's financial management services and operations over the years.

Our second awardee, Robert G. Cronson is the Auditor General in the State of Illinois. For the past 25 years, Mr. Cronson has been an outstanding leader, innovator and

contributor in governmental fiscal administration. After Mr. Cronson's appointment as Auditor General in 1974, his primary objective for the office was to provide useful, timely, relevant information to the General Assembly and other decisionmakers, and not just to conduct audits. In pursuit of that objective, the office and its program have changed and grown dramatically during his tenure.

First, the scope of the traditional financial audit program was expanded to include compliance testing requirements mandated by law. As a result, changes in financial and compliance audit guidelines and instructions were promulgated by the office and these materials have served as a basic guidance for public accountants who contract with the office to conduct audits.

Mr. Cronson was one of the few State and local audit officials who, prior to the 1976 revenue sharing amendments, recognized and supported the necessity of greater inter-governmental audit cooperation and reliance. In 1974, the office undertook 19 audits specifically designed to satisfy Federal audit coverage needs. For the year ending June 1980, over 100 Federal-type audits were conducted and Federal cost sharing recovery rose from \$4,000 in 1974 to over \$400,000 in 1980.

Over the past six years, the findings and recommendations following from the financial-compliance audit program have had significant impacts on the operations of the Illinois State Government. For example:

- Fundamental improvements were made and deficiencies corrected in the statewide accounting system.
- Guidelines were established by the General Assembly for State colleges and universities regarding reversion to the general fund of excess locally held funds and controls over the fiscal operations of auxiliary enterprises.

In addition, Mr. Cronson created a Performance Audit Division that conducts program and management audits that have resulted in or contributed to changes in fundamental governmental operation systems or broad State policy choices. One example of this is the report on State debt management, which resulted in the creation of a temporary joint legislative committee that successfully introduced a series of bills to correct deficiencies identified in the audit. This legislation established new mechanisms for

centralized capital project planning and review enhanced legislative oversight for capital budgeting and oversight controls for general obligation bond indentures.

Because of Mr. Cronson's continuing personal commitment to the principles of government and auditor independence and professionalism, the office was a primary contributor in developing the Peer Review Process used by the Midwest Intergovernmental Audit Forum. He has continued to push to make the Office of Auditor General a model of sound agency management. Each year the General Assembly engages outside auditors to audit the Office of Auditor General. As a measure of Mr. Cronson's success in ensuring the soundness of the office's operations, the auditors have been unable to report any significant findings year after year.

These are but several examples of his accomplishments through his dedicated and dynamic leadership. It is with great pleasure that I present the 1980 Award to Robert Cronson for his outstanding and continuous leadership in improving financial management in Illinois and through the major contributions he has made through the Intergovernmental Audit Forum.



Pictured at left are:
William Carter,
Mrs. B. Lippart (Mr. Pugh's
spouse) and
Marcus Pugh.

Pictured at right are:
Donald Scantlebury,
Robert Cronson,
Mrs. M. Staats and
Elmer Staats.



AT THE AWARDS CEREMONY



Elmer Staats receiving appreciation gift from Donald Scantlebury.

Marcus Pugh receiving 1980 Financial Management Improvement Award from Milton Socolar, Acting Comptroller General of the United States.



Robert Cronson receiving his award from Milton Socolar.

WORKSHOP # 1

INTERNAL CONTROL

WORKSHOP LEADER: Thomas McCarty
Department of Defense

PANELISTS : Dave Gribble
Office of Management and Budget

John F. Simonette
General Accounting Office

James Thomas
Department of Education

THOMAS McCARTY began by emphasizing that internal control is a basic element of any organization and a key element of financial management. A combination of financial management and overall management and its system of checks and balances ensure that management goals and objectives are carried out.



He stated that the proposed bills in the Congress would require agency heads to certify that their internal controls are adequate and functioning properly. He added that the Executive Branch is also working on improving internal controls in the Government.

The panel discussed various aspects of internal control to answer the following questions:

- What are top management's concerns and priorities for internal controls?
- What are financial managers doing to insure that we are following good internal control practices?



DAVE GRIBBLE emphasized that we are at the crossroads with internal controls and now is the time to make a reevaluation on what should be done in this area.

He discussed some of the Federal Government's weaknesses in this area as evidenced by findings of different groups. The Cash Management Project reported that over a

billion dollars in savings is expected by accelerating collection processing, by controlling disbursements and reducing idle balances. The Debt Collection Project found deficiencies in agencies collecting funds owed to the Government, and recommended ways to implement controls in debt collection systems.

The General Accounting Office instituted a hotline that in its first year received over 14,000 calls concerning fraud and financial irregularities involving Government agency programs and operations. Fraud in Government programs is estimated in the billions.

Increased emphasis on internal control is evidenced by proposed legislation, such as the Financial Integrity Act which would require agency heads to certify that their agency internal control is adequate.



JOHN SIMONETTE discussed the actions needed to reduce the extent and cost of weaknesses in Federal agencies' internal controls.

He indicated that internal control weaknesses are widespread and serious. They permit losses through fraud, waste and abuse and most agencies are operating systems which are vulnerable to such losses. Such

conditions have been discussed in hundreds of GAO reports issued in recent years. One 1980 report, "Continuing and Widespread Weaknesses in Internal Controls Result in Losses through Fraud, Waste and Abuse," showed that billions of Federal dollars are lost annually through such irregularities and deficiencies. Good internal control concepts have simply been ignored in day-to-day agency operations.

The full cost of these widespread weaknesses in internal controls is not known, but the costs are great in terms of measurable monetary losses and the erosion of public confidence in the Government. A recently completed review found over 100,000 cases of fraud and related types of illegal actions in 21 major agencies over the 2 1/2 years ending March 31, 1979. These various types of cases amount to hundreds of millions of dollars.

There are also unacceptable amounts of losses resulting in waste and error in the Federal agencies, i.e., \$2.8 million in unrecorded receivables in one agency, \$700,000 in overpayment for travel, \$1.3 million in unrecorded obligations, and substantial losses in imprest funds due to lax controls.

These conditions have become so widespread because Federal agencies' top management has not, and does not place high priority on establishing and maintaining strong internal controls. GAO reports have not resulted in adequate corrective action by some agency management. Identifying problems and making recommendations for solving them does little good unless top agency management sets a high priority on corrective actions.

There is hope that these conditions will improve, this is evidenced by the following:

- The establishment of the Offices of Inspector General.
- The establishment of an Internal Control Task Force by OMB.
- The development of programs to combat economic crime and the establishment of a fraud training program by the Department of Justice.
- The proposed Financial Integrity Act to develop and maintain adequate internal control systems.
- Fraud, waste and abuse was a dominant issue in the 1980 Presidential campaign.

- The new administration's emphasis on selecting aggressive Inspectors General.

JAMES THOMAS discussed the internal control initiatives of the Inspectors General.



The Inspectors General Act of 1978 resulted in combining audit and investigation activities to promote economy, efficiency and effectiveness and to prevent and detect fraud and abuse in programs and operations. GAO has reported that 130,000 cases of fraud and other illegal acts against 21 major agencies were alleged by Inspectors General and other investigative units in a 2 1/2 year period and that these resulted from a lack of adequate internal controls. An additional cause was the bypassing of financial controls due to the emphasis on program accomplishment or production.

While audit and investigative functions support one another and relate together, there are many more individual cases of fraud and abuse than the audit, investigation, and legal systems can handle. Efforts to obtain a grasp on what is going on and to provide a deterrent to offenders must be continued, but it is clear that the key is to prevent fraud and abuse before it occurs, and the key to prevention is adequate internal control.

The Inspectors General are conducting several kinds of audits involving internal controls. They are:

- Internal financial and accounting reviews which focus strongly on the adequacy of internal controls.
- Economy, efficiency and program-type reviews of agency operations that include evaluations of the internal controls of the programs.
- Examination of internal controls during audits of records of recipients of agency funds.
- Spending more time on auditing the internal management of the agency.

Basically in a world of limited resources, they have selected for audit those areas which are in most need of review and in which audit effort can have the most substantial impact.

Vulnerability assessments and risk analyses are used to set audit or investigative priorities and recommend actions to management. Based upon the results of these assessments and analyses, the Inspectors General suggest ways to improve controls and initiate an audit of the program or activity.

Other Inspectors General initiatives on internal control focus on the fact that top management has the primary responsibility for adequate internal control in a system, not the auditors. There is a need to require operating officials to install and carry out internal controls. Efforts include making the program officials aware of their responsibility for good internal controls.

The Inspectors General are also reviewing agency regulations to prevent and detect fraud and abuse. These reviews indicate a need for agencies to revise regulations, procedures and handbooks to emphasize and strengthen internal controls.

An interagency task force led by the Office of Management and Budget has drafted a circular on internal control systems. If the circular is adopted, the Inspectors General will be specifically charged with reviewing internal control directives, systems, regulations and compliance. They will have to determine what constitutes an internal control system, identify them, and review them. Additional resources will be needed to perform all these tasks.

WORKSHOP # 2

FINANCIAL MANAGEMENT TECHNIQUES--STATE OF THE ART

WORKSHOP LEADER: Sheldon Chazin
Department of Agriculture

PANELISTS : Joseph Donlon
General Accounting Office

Roger Feldman
Department of State

Major Barry Baer
Department of the Army

SHELDON CHAZIN stated that all too often Federal managers have neglected financial management as an integral part of the total management process. They have treated it as a stand-alone process or function, instead of building bridges and creating a linkage between financial data and other resource information and program performance indicators.



The panel members discussed recent policy changes and how comprehensive and successful accounting programs of varying sizes provide an integral part of the entire communications and motivational network of their agency's management systems.

JOSEPH DONLON discussed some recent changes in financial management policy and techniques and GAO projects that will most likely have an effect on future financial management operations in Federal agencies. He first addressed the recent policy



changes to Titles 2, 6 and 7 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

Changes in "Title 2, Accounting" will allow Departments and agencies to capitalize property with a minimum value of \$1,000, if the property management system of the agency provides detailed item accountability and control for all items of furniture, fixtures, and office equipment costing between \$300 and \$999.

Two principal changes have been made to "Title 6, Pay, Leave and Allowances." The first emphasized that time and attendance forms must be signed by the supervisor after the end of the time period. However, exception reporting is still allowed, and GAO will now grant a deviation, on a case by case basis, to allow early cut-off on time and attendance reporting, if additional controls are present. The second change provides further guidance on time and attendance reporting requirements for alternate work schedules.

Some changes made to "Title 7, Fiscal Procedures" include:

--The reissuance of "Glossary of Terms Used In the Federal Budget Process" which includes numerous accounting, economic and tax terms. The revised Title 7 will use the definitions included in the new Glossary.

--The maximum dollar limitation for use of statistical sampling in the examination and approval of disbursement vouchers prior to payment has been raised from \$500 to \$750. This change was announced by the Comptroller General last November.

Mr. Donlon pointed out some new financial techniques used in several agencies. Fast pay procedures are designed to reduce the time involved in making payments to suppliers for small purchases. These procedures allow payments to be made to these suppliers prior to the receipt of the receiving report. The Department of Defense has used fast payment procedures since 1965 for purchases of supplies costing \$10,000 or less. Several other agencies are now testing fast pay procedures.

Fast payment and similar procedures aimed at accelerating payments can help agencies pay bills on time. It is essential, however, that agencies using such payment procedures have adequate internal controls to make sure

they receive what they pay for. Agencies must keep records to assure that what is paid for is received in the proper quantity and condition.

Nearly all new financial systems now use data base management systems. The advent of this technology has posed a new and challenging set of problems to managers, auditors and evaluators. To insure that controls are adequate in these systems, GAO is recommending that agency internal audit staffs actively participate in the design and implementation of them. The complexity of data base management systems clearly indicates the need for early auditor involvement.

The Office of Management and Budget included the approval of accounting systems as one area of concern in its Financial Priorities Program. Top level executives from OMB, GAO and the agencies have met to initiate actions to resolve financial management problems in these priority areas. Several improvements have been made, since several agencies have made financial management improvement a part of their Senior Executive Service contracts. GAO is considering several ways to speed up its approval of accounting systems. Congressman Brooks' proposed bill, "Federal Managers Accountability Act of 1981" requires a statement certifying that requests for appropriations be based on accounting systems that have been approved by the Comptroller General.

GAO is studying its system approval process. GAO now uses a two step approval process--(1) the approval of agency accounting principles and standards and (2) the approval of system's general design documentation. The study team proposed a new three step process:

1. Preliminary approval based on review of selected features of design concept and functional requirements documents,
2. Formal approval based on systems test and validation prior to implementation, and
3. Periodic revalidations of systems in operation.

GAO also has several other projects underway. One project concerns the determination of whether it is more advantageous to use fixed term or no-year appropriations to fund Federal programs. The findings to date indicate that no single funding method is best for most programs and that a determination requires a case-by-case analysis of the details in each program or set of closely related programs. To provide a framework for the case-by-case analysis, GAO has

tentatively established three common criteria to be considered in arriving at a decision. These criteria are related to:

1. Program management factors,
2. The need for adequate congressional program and budget control, and
3. The need for reasonable accounting economy and efficiency.

GAO is also studying whether additional controls over the use of "M" accounts and merged surplus authority should be established. The use of fixed term appropriations imposes extensive accounting requirements on agencies to control "M" accounts and merged surplus authority. However, recent findings showed that these accounts were improperly used in some Federal departments. GAO is in the process of determining what, if any, legislative and regulatory changes are required to eliminate the potential misuse of "M" accounts and related merged surplus authority to increase fund availability and obligational authority. This could occur when a department or agency tries to conceal an over-obligation or over-expenditure violation under the Anti-Deficiency Act or when they try to provide a funding source for items not specifically authorized by legislation.

ROGER FELDMAN discussed the State Department's approach for developing its new worldwide Financial Management System. This system will link the Department's 285 posts in 150 countries with operations in Washington, D.C. The Department has used a progressive and unique strategy in the design portion of its overall development effort.



A review of the existing systems in the Department showed some major deficiencies. Therefore, the Department decided to design a new worldwide financial system, instead of working on correcting the deficiencies of the current systems in a piecemeal manner. The Department has awarded two contracts, one to Price Waterhouse & Company and another to American Management Systems, Inc. to develop a system

design. Each will use their own technical approach and competitively conduct a requirements study and develop alternate conceptual designs and functional requirements documents for the new system.

The two contractors will be working in competition during the requirements stage, conceptual design and functional requirements definition. It is expected that this will take a little over a year. After this is completed, the Department will select one design and contractor for subsequent implementation. By using this approach, some problems were encountered, which included:

- Some firms would not bid on the contract, because they wanted to develop the system from beginning to end;
- Officials had to take additional time to explain the Department's policies, procedures and current systems to both contractors, and
- Additional time will be needed to evaluate two submissions of the new system design.

However, these problems are not insurmountable. The Department believes that a better end product will be developed because of the competition.

The system requirements specify that it will employ modern data processing and telecommunications technologies which will be available to the Department. It will have the capability to handle worldwide transactions through this high speed network. In addition to providing Department managers with needed information, the financial management system must be designed to provide data to satisfy the requirements levied upon the Department by various other Executive and congressional elements.

Both contracts were signed in May 1980. During the last nine months, each contractor has been performing a requirements study. The Department is currently reviewing the Requirements Reports from the two contractors. It is expected to take four years to install the total system.

MAJOR BARRY BAER discussed the redesign of the Army's Standard Finance System (STANFINS). The STANFINS project is not simply a redesign of the existing systems, but a new system which will utilize the latest automated data processing technology. The system will be responsive to the installation commander's financial management needs, replace labor intensive financial



applications where practical, and be consistent with the GAO's accounting principles and standards. STANFINS will be the single standard Army installation automated accounting and financial reporting system for all general and industrial funds entrusted to the Army. The system will be a commercial type accounting system with job order cost accounting and fund control. All assets, liabilities and capital will be under general ledger control which will provide the capability to measure performance in terms of efficiency of operations.

The new system will provide four major improvements over current systems. One major improvement will be better system responsiveness to local management. STANFINS will provide installation management with easily understood business-type reports that integrate financial data with productivity reporting. In addition, the maintenance of manual records which is very labor intensive will be eliminated. Reports will be simple and flexible, and an extensive inquiry capability will provide managers with more useable tools to extract financial information.

The new system will also provide cost accounting data. Costs will be identified and accumulated for organizations, specific cost centers and jobs within cost centers providing a means to isolate costs and evaluate performance.

General ledger control is the third area of improvement. To ensure the integrity of all financial information, each installation's general ledger will be the primary control over all resources. All reporting, both internal and external to the installation, will be prepared under the control of the general ledger trial balance.

Finally STANFINS will enhance resource management in the area of fixed assets. Under the new system, depreciation will be recognized as a cost of operations. All fixed assets will be under general ledger control. The property records will undergo periodic reconciliation with the general ledger asset accounts to ensure accuracy between the two sets of records. Excluded from the depreciation requirement will be tactical equipment in the hands of combat units.

In addition to the four major improvements discussed, the project will allow STANFINS to interface with other management information systems such as program budget accounting, civilian payroll, financial inventory accounting and reporting and integrated facilities systems. Several major benefits of the new system include:

- Economies of scale in the areas of development, maintenance and training,
- Automation of source data and reduction of manual input,
- Application of commercial accounting concepts to manage resources in a more business-like manner,
- Better cash management and control over Army assets, and
- Reduced time lag in obtaining financial information.

After the system is implemented, the Army will have a fully integrated, disciplined accounting and financial reporting system that will allow installation and industrial complex managers to determine their resource requirements, evaluate performance, and reallocate resources to accomplish their missions in the best possible manner. The system will also give managers information for justifying resource requirements to the Department of Defense, the Office of Management and Budget and the Congress. This system is also expected to achieve dollar savings and significantly improved functional performance. The system will be flexible to meet any future requirements and will provide an expanded resource management information system for the Army worldwide.

WORKSHOP #3

PERFORMANCE MEASUREMENT--
BUDGETARY AND MANAGERIAL APPLICATION

WORKSHOP LEADER: Roger L. Greene
Office of Management and Budget

PANELISTS : Blair Ewing
Office of Personnel Management

Robert Fagin
Department of Housing and Urban
Development

John Leitch
General Accounting Office



Pictured from left to right are:
R. Fagin, R. Greene, J. Leitch, B. Ewing.

ROGER GREENE discussed the role of performance measurement in the budget process. He noted that the budget process is likely to reflect fiscal restraint for a number of years. Never before has there been an overriding need for budget justifications to be presented in quantitative analytical style. Under zero-base budgeting,

agencies were urged to utilize specific measures of accomplishment. The goals of that process were quite valid and continue to remain so. These were to:

- Examine the need for existing programs as if they were being proposed for the first time,
- Allow proposed new programs to compete for resources on a more equal footing with existing programs,
- Focus the justification on discrete programs and activities, and
- Secure extensive management involvement in the budget process.

Performance measurement is one of the tools that budget examiners find extremely important. Almost all programs are capable of being measured. Although it is more usual for goals and measures of performance to evolve over time, we now have to develop these measures in a much shorter period of time.

In many situations, where agency staffs have not identified program goals and established measures, OMB frequently has set the goals and has used whatever measures of achievement that can be found. It is OMB's experience that in this environment, vague justifications based on emotional appeals or simple levels of effort are not very convincing. An agency has a better chance when it can measure and document its performance.

ROBERT FAGIN highlighted the features of the Department of Housing and Urban Development's experience with a performance measurement system, which has been in operation for approximately 11 years. He believes it has allowed HUD to fare better in budget and planning areas, because it assists in providing cogent quantifiable cases in support of management decisions affecting HUD programs.

The Operating Performance System uses current operating year priority objectives and commensurate resources. It quantifies all of the Departments field units, covering some 400 activities under 200 programs and subprograms. It is fully automated and integrated with other management systems such as budget, time reporting, work measurement and evaluation. A plan is issued in September and updated in January based upon budget changes and first quarter performance variances. With the decentralized operations in HUD, this system assists management in monitoring performance and holding managers accountable for the results.

Monthly, the Regional Administrators make an analysis of the current progress, identify associated problems and propose recommended solutions.

Some of the normal problems associated with accountability systems were encountered. In essence, the system was viewed as a work measurement system, and the work efforts involved thinking and deciding, which were viewed as unmeasurable. Generally, when something is produced, the associated effort can be measured. Trade-off analyses are made between the levels of detail measured and the cost for such a detailed system.

HUD's system development effort was evolutionary in nature. Starting with a small data base, the system expanded by integrating with other ongoing management systems, including the budget system.

With the current system, the entire activity of the field can be reviewed within six days after the month, thus providing a "real-time" management information base. It provides a clear audit trail of objectives and performance down to the work activities.

JOHN LEITCH stated that there is a need to know more about Government productivity. The differences between work measurement and productivity measurement were pointed out. Although both are considered efficiency measures, work measurement is efficiency against a standard, while productivity measurement is the current efficiency measured against last year's efficiency. He pointed out that many whitecollar workers in the Federal Government do not believe their work is measurable. Some of the myths concerning productivity measurement, are as follows:

1. The output of Government organizations can not be identified. Although there is a wide range of outputs, action can be taken to break them into components, or to group them into similar products.
2. Engineered standards or other detail data collection systems are needed to properly measure the organizations. Good standards can be developed by other techniques such as self reporting without using industrial engineering techniques.
3. The measure should be impressive. The true test is in the acceptance and use of the measure.

4. Everything should be measured. An analysis should be made on what should be measured; every activity does not have to be measured.
5. Comparing various organizations per se is wrong, because the methods used may be different. One reason why organizations do measure outputs is to find out which unit is more productive. Many organizations have similar functions and they can learn how to increase their productivity and reduce costs by exchanging information with one another.

BLAIR EWING emphasized how performance and productivity measurements can help agencies. A Productivity Measurement Task Force, sponsored by the Office of Personnel Management, General Accounting Office, Office of Management and Budget and Bureau of Labor Statistics, has over 15 agencies collaborating in an intensive manner, to develop measures in their own agencies.

OMB Circular A-11 states that agencies should prepare and compile productivity data on their activities. The number of agencies that comply with these regulations is small. Furthermore, the quality of data of those agencies that do has not been high. He also stated that the Civil Service Reform Act of 1978, requires that the performance appraisal systems of Senior Executive Service members reflect productivity of the executives and their organizations.

Mr. Ewing observed that agencies have negative attitudes towards productivity measurement because of a disincentive. That is, after an agency measures and reveals to OMB the productivity gains, OMB will cut its budget because the agency requires less resources to do the same amount of work.

This dilemma raises the question of what are the incentives to show productivity improvement. Some examples of incentive efforts are: the DOD Capital Enhancement Fund which provides for sharing of productivity savings, productivity bonuses for Naval Shipyard keypunch operators, and an experiment in the Social Security Administration dealing with a profit sharing system. However, Mr. Ewing believes the more fundamental incentive is the opportunity to help management deliver the required governmental activity with limited resources.

Mr. Ewing identified some examples of good measurement systems in the Department of Housing and Urban Development, the National Labor Relations Board and the Department of

Agriculture's National Finance Center. A more recent effort to measure productivity in finance and accounting offices of the Department of Commerce, has recently been tested and is working very well.

The panel discussed how unions have been responsive towards working for productivity improvement. In addition, good working relationships have been established with both management and employees, whether it is individually or through their unions. The employees feel that they are a part of the decisionmaking process to initiate improvements in their organizations.

The panel also considered that the quality of performance is as important as quantity. It pointed out that some measurement systems included quality factors, by measures, i.e., documenting the number of errors or rework efforts. An important point is for supervisors to convey the significance of quality to their employees. There should also be a standard established to identify what work is to be considered acceptable.

WORKSHOP # 4

FINANCIAL MANAGEMENT INFORMATION SYSTEMS

WORKSHOP LEADER: Eleanor Clark
National Technical Information
Service

PANELISTS : Lt. Colonel Jeffery Kahla
Department of the Air Force

Thomas LaBudie
Department of Labor

Jerome Miles
Department of Agriculture



E. Clark



J. Miles



Listening from the audience were:
Lt. Colonel Kahla, T. LaBudie and J. Murphy

ELEANOR CLARK gave a brief summary of various financial management improvements and major legislative changes affecting the Federal financial community since the turn of the century. She challenged financial managers today to develop fully integrated financial management information systems that will provide managers with useful and timely information. With modern computer technology, the dream systems of the past have become an attainable reality. The workshop panelists and Ms. Clark discussed various approaches toward achieving more responsive financial management systems.

JEROME MILES pointed out how the Forest Service in the Department of Agriculture has integrated program planning, budget, and financial accounting data to meet the needs of program managers. He explained that the Forest Service manages 187 million acres of forestry lands for multiple uses including among others timber production, wildlife preservation, protection of watersheds and recreation.

The Service has a \$2.2 billion annual budget, with annual receipts of about \$1.6 billion. Receipts are generated from program activities such as the sale of timber. The Service uses a highly decentralized management style. Whenever possible, decisions are delegated down to the District Forest Ranger level.

The Forest Service uses a comprehensive long-range planning system. By law, the Service is required to develop a fifty-year plan. Every 10 years, an assessment is made of outputs produced (e.g., board feet of timber) and expected demand based on population projections and demand data. During the assessment process, a supply/demand model is developed for the next 50 years. From this, a plan is developed for producing the outputs to meet projected demand. This assessment plan is updated every 5 years, and a management program is developed based on the long-range plan. The Service is also developing land management plans for every national forest which will be completed by 1985.

The budget process brings together the land management plan and the long-term plan into an annual plan. Annual planning decisions are based on outputs and cost to the extent feasible. Any budget cuts must be accompanied by corresponding decreases in output. Models are built into the system which consider long-range plans, the forest management model and the annual budget cycle. These models generate alternatives available for management at different budget levels.

All of the management and budget information previously discussed is brought into a single integrated financial management system. This system is called the Program Accounting and Management Attainment Reporting System. It identifies outputs and the cost of producing each output from the project level to the national level. The system also provides all the data needed by the Forest Service Regions to decide which specific projects should be funded to meet the objectives set forth in the annual budget.

After the Regions select specific projects for funding, the necessary data concerning these projects such as estimated dollars required and object classes to be charged, are processed at the National Finance Center. Each project is assigned a six-digit management code, which identifies the appropriations to be charged and other data relevant to the project. A project manager statement is produced monthly showing how much was spent and what was accomplished. From this, unit cost data are produced which are fed back into the budget system.

This system is a totally integrated management information system tied into the accounting system. It produces accounting information almost as a by-product. Common definitions are used and, therefore, many different types of financial reports can be generated to meet managers' needs. In summary, the system has been designed to provide program managers with the financial information they need to budget, plan, and account for their activities.

LT. COLONEL JEFFERY KAHLA explained how the Department of the Air Force is conducting sophisticated research to develop the "accounting and finance office of the future" and how they plan to further automate the central pay function. Their objectives are to increase productivity and reduce costs.

The Air Force has about 120 accounting and finance offices employing 11,200 people. The financial functions are labor intensive, and there have been a few changes to them in the last 20 years. The systems are now on computers but little interaction is possible among the systems.

The Air Force wants to modernize the 120 finance and accounting offices through automation. To do this, a team of specialists has been formed. The team consists of computer specialists, systems accountants and accounting technicians. A "live" research and development "laboratory" has been set up in a finance and accounting office where the team works along with accounting and finance personnel. The project

team's objectives are to design the optimum accounting and finance office by maximizing the use of automation, reducing costs and increasing productivity. They are trying to identify the needs of people as well as the needs of financial management systems.

The team identified 84 areas where they believe significant improvements can be made. These were ranked by the following factors: (1) how long it will take to implement the required improvements, (2) whether the function can be integrated readily with accounting, and (3) the potential savings (in people) by automating the function. The highest ranking areas were selected for initial development. These included accounts payable for commissaries and travel payments. The Air Force plans to demonstrate these systems on a minicomputer in the near future and ultimately implement them Department-wide. Although the "live laboratory" costs about \$275,000, annually, to operate, projected savings with mid-range attainment of project objectives are \$3 million to \$4 million, annually.

The Air Force also plans to further automate its central pay function. This plan calls for decentralization of some functions through automation. The present military pay system is centralized, but transactions get "hung up" in the pipeline causing accounting information to be obsolete, and there are other problems.

To overcome these problems, the Air Force plans to use minicomputers at 120 bases connected to a host computer in Denver using a Department of Defense communication system and dedicated communications lines. The minicomputers will be operated by accounting and finance office technicians. Small data bases will be maintained at each of the 120 locations to enable personnel to provide local payroll service. The data on the host computer and the minicomputer will be accessible using terminals. These interactive terminals will reduce turnaround time from the present 5 to 7 days to a maximum of 24 hours. Anticipated savings are 152 personnel spaces and life cycle savings of about \$3 million.

THOMAS LaBUDIE told how the Department of Labor automated many steps within their procurement process to reduce backlogs and increase productivity. They developed an automated and integrated management information system that generates management reports for procurement and interfaces with the Department's payment and accounting processing.

Agencies within the Department are delegated authority for processing their own procurement into the central processing unit. They use a minicomputer key entry system to input procurement requests. The system is an online, interactive system utilizing a variation of distributed processing. It employs formatted screens and prompts operators by indicating the fields to be entered. Editing and error corrections are performed at the point of entry. This system controls and schedules payments of all vendor bills and creates accounting entries for direct input to the Department's integrated accounting system, which has also been decentralized.

The system utilizes a "master vendor file." All vendors are established on this file and identified with unique identification codes. Subsequent procurement from a vendor on file requires only that the vendor identification code be entered. The vendor's full name and address are then automatically printed on the procurement document. Background material on each vendor is also maintained in the file. The addresses for shipping destinations of each agency are maintained on a file similar to the master vendor file and are automatically printed on the procurement document when a unique code is key entered.

To further reduce workload, the renewals of rental agreements and leases are also automated. Requisitions for rentals and lease agreements are produced automatically and sent to the appropriate offices for approval. When they are returned to the procurement office for final approval, the original procurement order record is updated and a new procurement order printed.

This past fiscal year, 3,600 procurement and rental documents were automatically produced by the system. Upon request, this system can produce reports on procurement by utilizing data already accumulated during the procurement process.

This system was difficult to implement, but it has reduced a prior three-month processing backlog to just a few days. The system brought together four functional areas--small procurement, contracts, voucher audit and payments, and accounting. The system has also integrated into one data base all of the activities related to the procurement of goods and services--the procurement request, the actual procurement, the receipt, and the payment and accounting processing.

ELEANOR CLARK described the National Technical Information Service's (NTIS) project to modernize their accounting and financial management system. The new system will make many improvements to existing systems, such as: (1) provide for accounting on the accrual basis, (2) provide internal budget data on a cost basis, (3) provide responsibility oriented reporting for management, (4) include performance standards, and (5) use automation to the extent feasible.

One of the major decisions in the early development of this system was the determination that the system would be a responsibility-oriented reporting system with better obligation control. It must also provide cost data for NTIS to recover the full cost of its products, since NTIS sells information products and services.

Lastly, the data being provided by the accounting and budget subsystems had to be made consistent. To accomplish this last objective, a Reporting Control and Analysis Division was organized. All reporting responsibility was centralized within this Division which receives all reports and assures their accuracy prior to their being presented to management. Through dialogue with management, an agreement was reached on which reports to produce and their recipients. All reports will show budgeted cost, actual cost, and cost variances, net income or loss, and related performance data. Top managers will receive summary program/ product information. Operating managers will receive summary and detail data by organization, product and cost category.

The NTIS Financial Management System utilizes a coding pattern which establishes a direct relationship between operating projects and the program structure used in budget formulation and execution. This facilitates progressive summarization from the lowest to the highest levels either on an organizational basis or a programmatic basis. Thus, the system utilizes common classifications for program planning, budgeting and accounting, and interrelates all transactions within this framework.

When the financial management system framework was developed and the requirements document was finalized, it became apparent that NTIS would need new financial subsystems and major revisions to existing systems to accomplish the established objectives. At this point management had to decide whether to "make or buy" the new system or subsystems needed.

Due to shortage of in-house personnel and expertise in systems development work, commercial software packages and software packages available within the Government were reviewed. The software packages were required to be: (1) adaptable in the total system concept and be able to interact with existing subsystems as necessary, (2) compatible with computer hardware, (3) reliable and meet the established requirements, and (4) flexible. In addition, maintenance support should be readily available, and operating and maintenance costs should be reasonable.

After evaluating these considerations, three software packages were recommended for adoption: the General Ledger, Accounts Receivable and Accounts Payable software packages. The next step is the acquisition of ADP equipment. When implemented, they are expected to make the system more responsive to management's needs.