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MAKING FINANCIAL MANAGEMENT WORK
IN THE FEDERAL GOVERNMENT

MARCH 9, 1988 GRAND HYATT HOTEL WASHINGTON, D.C.

THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM

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The Proceedings of
The SEVENTEENTH ANNUAL
FINANCIAL MANAGEMENT CONFERENCE

MAKING FINANCIAL MANAGEMENT WORK IN THE FEDERAL GOVERNMENT

March 9, 1988

The Joint Financial Management Improvement Program

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FOREWORD

The JFMIP annually sponsors a financial management conference to address current issues for improving financial management in the public sector. This year's conference on "Making Financial Management Work in the Federal Government" was held on March 9, 1988, in Washington, D.C. The publication of these conference proceedings is to enhance the spirit of cooperation and sharing of information among financial managers. The keynote speaker, Gerald Riso emphasized that financial management systems improvements should be continued beyond the end of this Administration. He encouraged Federal financial managers to keep the momentum going. His speech can be found in Chapter I.

Other speech presentations by private sector chief financial officers and Federal agency executives are included in Chapters 2 and 4. The luncheon session was highlighted by the presentation of the Donald L. Scantlebury Memorial Awards to two recipients for distinguished leadership in public financial management. The awards presentation address is included in Chapter 3. There were two highlight sessions with panel discussions on budget reforms and central agencies' agenda for improving financial management. There were also three concurrent workshops on various financial management topics in the afternoon session. Summaries of these sessions are included in Chapter 5.

We would like to thank all of the individuals who worked so hard in making our Conference a successful one. Specifically, we would like to acknowledge the following individuals, who worked behind the scene:

Recorders of Sessions

Pete Coy	General Accounting Office
Judy Fuerstenberg	General Accounting Office
Shirley Robinson	JFMIP
Otto Williams	JFMIP

Conference Arrangements

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Doris Chew	JFMIP
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CHAPTER I - OPENING REMARKS



Virginia B. Robinson
Executive Director, JFMIP

Good morning, ladies and gentlemen. It is a great pleasure for me to welcome you to the 17th Annual Financial Management Conference. I say a great pleasure for a very special reason, not just because we have some very special speakers scheduled to speak today, but also because many of the members of the financial management community have contributed to making the Joint Program truly a joint effort for 40 years.

Although not too many of us will admit being involved in anything for 40 years, it is the 40th anniversary of the JFMIP. A small group of dedicated persons from the Bureau of the Budget, the Comptroller General, and the Secretary of the Treasury, had felt compelled to pool their resources in 1948, and moved ahead to convince Congress to give a statutory basis to the Joint Program.

Under the Budget and Accounting Procedures Act of 1950, the Joint Financial Management Improvement Program was established. The Civil Service Commission, now the Office of Personnel Management (OPM), joined the program in 1966.

Walter Frese, who passed away earlier this year, and will be remembered by many as a real contributor to Federal financial management, provided the information for an early history of the Joint Program.

I find one of his recollections just fascinating, and I will read it to you verbatim, rather than paraphrase it. "Financial managers were engaged in a major step in the evolution from an archaic financial system to a contemporary system." No matter what your age is, I know that you've heard that statement many times, and it will ring a bell.

One of my predecessors, Sus Uyeda, wrote a foreword for Walt Frese's book, and I think it's most appropriate to share it with you on this 40th anniversary. "His personal attitude and methodologies provide food for thought for all of us who are striving to improve financial management in government." His thinking and approaches in the early days of the Joint Program were just as sound and valid as they are today. So much for history.

This is truly the year of numbers for us. The 17th annual conference on financial management, the 40th anniversary of the Joint Program, and big 22, the Washington Redskins' Superbowl victory.

I'm glad that you've had the opportunity to meet Mark Barnes, the OPM representative, and one of the newest members of the JFMIP Steering Committee. You will meet the other members of the Steering Committee during the luncheon session.

Many of our critical discussions about improvements needed throughout the government invariably come back to recruiting, training, and retaining qualified people in financial management, who have the appropriate background and the stamina to deal with the problems that we have with fiscal responsibilities.

In these days, when competitive entry-level salaries for accountants and auditors, budget professionals, and some others, are still just a figment of our imagination, we need OPM steering to make sure that we can have an impact.

When we broached the subject of position classification and training for accountants, we immediately think of problems. This is especially true for systems accountants, although we talk a lot about the importance of our financial systems. Too many faces register an expression--what is that?--when the title, systems accountant, is mentioned.

One of the things that I look forward to in my role as Executive Director is being able to highlight some positive things about government financial management. Contrary to what is emphasized all too frequently, there are some very fine accomplishments going on in government today. A couple of weeks ago, I attended a meeting of the Federal Executives Institute Alumni Association, with two outstanding program managers in the public sector. One was Barbara Gagel from the Health Care Financing Administration within the Department of Health and Human Services, and the other was William Sikes from the State of Ohio, who were being recognized for outstanding execution of government programs.

The part that interested me the most was the fact that the accomplishments were discussed, in both qualitative and quantitative terms, expressed in dollars, and proudly set forth in financial records and reports, so that anyone who's interested

can appreciate the importance of the interrelationships between program and financial management.

You'll hear about some other noteworthy examples later today. While it's gratifying to reflect on the positive side of government financial management, we fully realized that it's just as important to recognize the areas where improvements are needed, and that's what this program is really about today.

You'll hear about current financial management practices and concepts, and plans for the future from public and private sector chief financial officers. You'll also hear from policymakers as well as "movers and shakers" in program and financial management.

I think we have a record number of heads of Federal agencies who will be with us today, six in total. Five of them will be speaking to us and one will be here to see his nominee for the Scantlebury Award accept the honor. I understand that he's also here to show how much emphasis he places on financial management improvements, and the importance of financial management in our government.

Speaking of working towards improvements, I expect that many of you have already received the most recent JFMIP publication, the Core Financial System Requirements document for Federal financial management systems.

I do commend it to your serious reading, not just because it's deemed an important part of the Federal financial management literature, and should become one of our foremost training documents, but also because the JFMIP Principals transmitted it to heads of departments and agencies with the requirement that agencies start reporting against those requirements in 1989.

These are exciting times in government financial management. At JFMIP, we are receiving correspondence from the Congress, and public and private sector parties, who are interested in improving financial management in government. Some of the comments and suggestions make a lot of sense in today's climate, while others will require serious cogitation, and, "biting the bullet" to say "not appropriate."

I do expect that you will find today's program a very fine training experience. We have an impressive array of speakers. To be honest with you, I've been in this job too short a time to claim credit for today's fine program, but I'll think about it for a fleeting moment, because I know that if your impressions don't coincide with my expectations, I'll probably hear about that.

I especially invite you to actively participate in the question and answer sessions throughout the day, especially the afternoon workshops where detailed discussions will be held on technical subjects.

It's one way that you can be heard and also helps to make sure that the Conference follows the true spirit of the Joint Program. While I'm still on my honeymoon in this position, I'll take advantage of this opportunity to enlist your support to ensure that our joint endeavors--and I do mean collectively, all of us--are executed in a well-coordinated manner. Your suggestions and a reasonable amount of constructive criticism will be most welcome.



Gerald Riso
Associate Director
for Management
OMB and U.S. CFO

Let me begin by giving you some straight talk. Twenty or thirty years from now, when people look back at the last eight years, including the one that we're in the process of completing, I would hope that they will look at the advances that have been made in financial management within the government. There has been and continues to be debate about financial management practices, how to organize the function and who should lead it. Despite the debate, there is a record. I genuinely hope that people will look back at this Administration, and see our commitment to accomplishing improvements in financial management--something that has been talked about for many years in this town.

There is the need to strengthen financial management across the Federal Government. We need to do that not only for the program managers who are operating the bureaucracy, but for Congress and for the taxpayer.

I won't go through a litany of the problems we've had. Those of you who have heard me speak before will know that I have said, for 30 years, we have had a number of studies, all of which have the right perspective, been very precise and accurate, about the nature of the problems we have with our financial management systems, the quality of our structure and the absence of policy leadership. We are trying to do something about it.

We really have two challenges, and I want to talk about them today. One is, we've got many items on our agenda today. How do we conscientiously complete that agenda, so that by the end of 1988 there has not been a let up on what is an ambitious and aggressive schedule? I will talk about what I think has to be accomplished over the next 10 months.

Secondly, and more importantly, how do we take these advances and carry them forward into a new Administration, irrespective of which party holds the White House? How do we take the progress of the last 6 and 7 years, and keep it sustained so that you don't get that "stop and go" that takes effect when you do go through a transition?

We are very much aware that this is the first time since Eisenhower, that we will have a two-term President leave office. I don't know what that kind of transition will really be like, and how long it would take a new team to come into office. My concern is that today we plan on continuity for the future.

Let's talk about some of the advances that I think people have every right to be proud of. You've heard a great deal about the fight against fraud, waste, and abuse. Take a look at the last President's Council on Integrity and Efficiency (PCIE) report, which documents the substantial accomplishments of the Inspectors General (IG) working together within the PCIE.

It is a significant report, which outlines the number of prosecutions, the successful recovery of money fraudulently obtained from the government over the last several years. This is an impressive record that everybody involved should be very proud of, and, more importantly, worked very hard upon. We need to make sure that kind of emphasis continues on into the next Administration.

Those of you who have been involved in our 9-point credit program will know that we are taking this whole question of prescreening of loan applicants, account servicing, and collection of monies due the United States government very seriously. Last year, agencies bought over 2 million credit reports as they processed approximately \$30 billion in loan applications, hopefully, making better judgments on who will and who won't get money.

We have conducted in 1987, three successful loan asset sales. There was undue emphasis upon the receipts that were collected, and whether or not this represented something less than 50 cents on the dollar.

Two important things to remember about the loan asset sales.

1. It was more than 50 cents on the dollar. To the degree that there was a discounting which in some part reflected the quality of loans that the public sector

does make as a matter of public policy. I'm not quarreling with that policy, but we do occasionally disguise grants as loans, as you may know.

2. More importantly, one of the objectives of the loan asset sales was to force us to look at our loan documentation, and the accounting systems behind the loans, to determine whether or not we are running these systems efficiently, and whether or not the data coming out of these systems was allowing us to aggressively, but appropriately pursue collection.

As we got ready for the loan asset sales, we found out the sorry state of some of the accounting systems.

We paid substantial amounts of money to organizations at the 11th hour, to go in and update addresses, phone numbers, correct spelling of names. The error rates in some of those files were disgraceful.

We have successfully moved the processing of those loans from the public sector, where they were being managed in poor systems, into better disciplined, more competent private-sector systems.

So the benefit of the loan asset sales was not the receipts--it is getting smart about what needs to be done about our systems by which we keep track of loans. One of the advantages we will have in the proposed 1988 sale, is having learned how bad the systems were in 1987, we will document these problems as we go along. One of the byproducts of the loan asset sale will be, at the conclusion of that sale, a plan for resolving these problems on the loans we still retain.

We are doing many things in the cash management area. Thanks to Commerce, we now have a demo project which is being expanded, whereby the Federal Government will use credit cards for purchases of less than \$2,500. This project started in Denver, and it will be expanded nationwide. The reduction in paperwork alone is substantial, and we are indebted to the Commerce Department for implementing it.

Treasury has been expanding the network whereby the government would accept credit cards from private individuals for payment of gifts they might buy in a gift shop, entry fees, and such. It's only the beginning of the use of the credit card as a collection mechanism for the Federal Government.

By March 15, I am to receive an inventory from all agencies of proposed applications for the use of credit cards for the receipt of revenue. Our goal will be to have initially five or six installations, on a pilot test, then have one in every department, and have one or two agencies within every department

use it. We should have about 40 or 50 applications into the planning stage by the time we leave.

We've made strides in strengthening the internal control process. OMB Circular A-123 was revised to make it more of a management responsibility than a paperwork exercise. About 77 percent of all reported weaknesses are now corrected, and there are plans to address the others.

The point is--and I would give this advice to a new Administration--it's a management responsibility. Don't turn it over to the technical people. The plans for improving internal controls are going to be as good as the time that top managers spend on them and take responsibility for the adequacy of these controls.

Talking about internal controls, there are 20 of the 23 major agencies now in compliance with Section 4 of the Federal Managers' Financial Integrity Act (FMFIA). Over 1,000 instances of non-compliance have been identified. About 60 percent of them have been successfully addressed. They were approved plans for each department that addressed this particular area, and we expect most departments to be in compliance by 1988. There are also a few agencies that will be in compliance by 1991.

You should read the 1989 President's Management Report. In that report is a schedule which lays out, department-by-department, the schedule for completion of the installation of the standard general ledger and when their primary accounting systems will be installed. Departmental plans cover the interfaces between their subsidiary and program systems with their primary systems, and will comply with Section 4 of the FMFIA.

This is an impressive accomplishment, since it has been done at the agencies, and not at OMB, OPM, and GAO. The work of government takes place in the agencies and within the field. So when these changes take place, while central management agencies have an interest in having them done, they're going to get performed by those in the field.

If you look at that implementation schedule, the good news is that there are substantial numbers of agencies that are well underway in upgrading and consolidating systems. Those agencies that will not be doing substantial amounts of work by the end of 1988, will complete it in 1989. I also have a commitment from Defense that they will have it done by 1992.

One of the things that has happened is the JFMIP project on uniform core requirements for Federal financial systems. This was a joint effort, not only by OMB, GAO, and Treasury, but also program agencies as well. The transmittal letter was signed by (Secretary of Treasury) James Baker, (OMB Director) Jim Miller, and (Comptroller General) Charles Bowsher.

We started this project because we were looking to develop a basic ordering agreement by which more agencies could purchase off-the-shelf software rather than take on substantial internal systems development efforts.

The project took longer than I think we had originally planned. We have the basic ordering agreement "Request for Proposal (RFP)" out there, and expect that there will be some agencies who can piggyback on that basic ordering agreement, and buy off-the-shelf software without quite the attenuated procurement process that some of the other agencies had to go through. The plan is to award the contract in May. That will be a benefit. A statement of requirements has been a byproduct, which may even supercede the benefit of having off-the-shelf software procurement accelerated.

I might add that in the process, the acceptability of off-the-shelf software is becoming more universal throughout the bureaucracy. In 1985, when I was at Interior, we addressed the question--can we get off-the-shelf software, or do we have to make a substantial internal systems development effort for ourselves to meet our needs? We did not find very many off-the-shelf packages that would meet our requirements. These circumstances changed substantially in less than 15 months, and we went from there being none in late 1984 or early 1985--to as many as 6 or 7 vendors proposing when Interior did buy an off-the-shelf package in early 1987.

That is the pace at which things in this business are changing. Equally important is the acceptability within agencies of the idea that you can buy off-the-shelf software, adapt it, and save a great deal of time and money. Commerce saved about 90 percent of what it thought the cost would be for a customized system.

The schedule on the standard general ledger and the primary accounting systems is near and dear to my heart. It is the single-most important thing we have to do over the next year.

There are three things that have to be recognized, if we're going to be realistic. Earlier on, we had hoped to do this by 1988, and there were folks saying this will happen by 1988. But it will not happen by 1988, and we recognized that. The schedule in the 1989 Management Report reflects reality. It reflects a commitment made by agencies to OMB and assuming no bid protests, and other uncontrollable problems, the schedule in that report should be met.

The good news is it's doable within the next several years. The bad news is it would have been nice to get it done by 1988, but we spent too much time in the beginning planning, and not enough doing. We'd like to correct that.

Secondly, I ask everyone to recognize that the responsibility for meeting that schedule is within the agencies. I can get up and talk; I can get up and testify; and I can promise great things. But if the agencies don't believe that it's in their interest to make these upgrades, and meet the schedule, it won't happen. There are byproducts that will please me, that will please the accounting profession, and that will please the Hill. But the agencies should get these systems installed, because it's important in running your agency. Don't just make us happy.

I have met with every agency to review their plans. I have made a commitment which I've held on to. That is, if the requirements of that plan, and that schedule are not matched by the passback you get from OMB, I need to know.

To the best of my knowledge, all of the monies needed in 1988 for agencies to meet their 1988 schedule have been provided, and all of the monies needed to meet the 1989 schedule are contained in the President's proposed budget.

There should not be a disparity between what agencies are being asked to do, and the resources they get. I'll concede--and you have to be careful of this, and this is an offer I make again--in the event that your agency managers begin to make inroads against the monies allocated for these systems upgrades, I need to know about that. Not because we're looking for contention and confrontation, but we're making public commitments on the schedule, on completion dates for agencies, and we need to know if those are in jeopardy.

A byproduct of all of this is increased acceptability by some agencies of cross-servicing. I would urge agencies to look at whether or not they have to run their own accounting and payroll systems, and take an open mind on that.

We've not used cross-servicing as a budget exercise to reduce your FTEs. If you're having trouble hiring staff, if you're having trouble getting the level of competence you need, don't be afraid of cross-servicing. Your job is as managers, not necessarily as technicians.

We're trying to do something else this year that's going to be high-risk, but sort of fun. We're going to try and put about three-quarters of a million people on the same payroll this year.

Everybody says it can't be done. They may be right but we're going to try. Through the President's Council on Management Improvement (PCMI), we've got a review underway, that is addressing a fundamental question--which of the current operating payroll systems today, is best suited to being applied to more than the current core of employees that are being covered?

I'll give you some sense of magnitude. We have the Agriculture Payroll System with its limitations, but it does pay about 180,000 people. Interior, with its processing center, has another approximately 130,000-140,000 clients. Interior needs to do something about its payroll system within the next 2 years.

The VA also needs a new system, and Treasury has been in the process of getting a new payroll system. We'd like to come to a decision by July, that the payroll system for the government should be just one, whatever one it is.

We would then begin to apply it governmentwide, somewhat aggressively. I fully expect protests from some of the agencies, but that's what we get paid to do. We cannot defend the proliferation of payroll systems around the government, when you consider we are all on the same payroll.

Finally, something that's near and dear to many people. How do we keep this in place? How do we keep this momentum going?

We've got to keep the momentum going, if you people care about these improvements. I trust you do, you ought to, the work to date shows that you do, and so I hope the momentum does continue beyond 1988.

Secondly, when I was appointed CFO in July, I made certain commitments that we would do something, administratively, which now I recognize fully needs to be done legislatively.

We've got to embody the CFO structure beyond 1988 in formal legislation. That has several elements to it. We established, administratively, CFOs in every agency.

I'd like to see that continued. We have created a council of chief financial officers, which I chair. Jerry Murphy from Treasury is the vice-chair. All of the agency CFOs sit on that council. We've organized it into committees. This has happened during the last 2 or 3 months.

We met just yesterday and constructively addressed the question of what should this legislation embody.

There are three issues that we'll wrestle with on legislation. I lay them out there for you because I know there are different views. Congressman Jack Brooks has sent a letter asking for comments on proposed legislation that originated in GAO.

One, that there be a CFO. No issue. Secondly, that there be agency CFOs. No issue. The last issue is where the CFO should be placed. The legislation proposes that the CFO be located within Treasury at the Under Secretary level. We've got a quarrel with that idea. But it ought to be addressed constructively, because the work to be done will not be done by that

CFO. The work is going to be done by agency managers, such as yourself, and keeping the schedule is more important than whether that CFO sits in Treasury, sits in OMB, or somewhere else. This issue should be discussed.

Who should the agency CFOs be is another interesting debate. Up until yesterday, I argued strenuously that these CFOs ought be career reserve folk. Surprisingly, within the council, there was a refreshing difference of opinions on the part of political appointees and career folks. They didn't split down what you would think would be conventional lines, as to what would be more appropriate--having a political appointee as a CFO, or to have career reserve folks as CFO within the agencies. The issue also deals with how to organize the financial function within the agencies. I was inclined to be much more prescriptive. I got talked out of it by some of the career folks. Now the question will be: what kind of legislation, when, and how do we resolve this overall burning question in some people's minds, as to where should the CFO be located?

I don't plan to be in the government beyond January 20, 1989, so I can be very objective about this. I would sooner lose on where the CFO is located than to see the schedule and commitment to the structure below the CFO, and the schedules be sacrificed.

It would be a hollow victory to win the capstone and have the rest of it go. I've covered a whole variety of things. The important thing is that this has got to continue beyond this Administration.

I don't regard it as a partisan issue. We've been talking about it in Washington and beyond for 30-some odd years. This Administration has made a start, and I think the record of accomplishment is there. What is needed now is a recognition that there is work to be done beyond 1988. You financial managers are the people who are going to have to do it, and you've got to care about doing it.

Thank you.

QUESTION: How do you visualize that the CFO function will be organized?

There are a couple of answers to this [question], and let me give you what I think the requirements are. How it gets handled structurally, will be the debate.

I think you need somebody who is appointed by the President, so it has to be a PAS (Presidential appointee with Senate confirmation). The CFO should be subject to Senate confirmation. A point I didn't make before, is that there is a great deal of constructive interest on the Hill in this whole question of how we organize the financial function. Consequently, I cannot

conceive a CFO who would not be Senate-confirmed. It would have made my life a little easier.

Where do you place the CFO? I will simply say--I won't open up this Treasury versus OMB debate. However an agency might organize its financial management function, and whoever an agency head would like to designate as the agency CFO, ought to be subject to the approval of the chief financial officer.

I am told by some individuals that kind of authority over the prerogatives of a Cabinet Secretary is more acceptable if that position operates out of the Office of the President than if it were to operate out of a sister agency, such as Treasury, GSA, or wherever else.

It's a fair concern. So I think you're dealing with a CFO, a PAS, most likely working out of the Office of the President, that will beg the issue, separate from OMB, or part of OMB. I think we'd have to have that conversation.

QUESTION: Is the professional expertise in governmental accounting today better or worse than in previous years? What do you see for the future?

I'm not optimistic. I am concerned that we, the public sector employee, have not fared well within this whole question of compensation. I read the same papers that you read about the lag in pay.

If you read about what's going to happen in the next 10 to 15 years, 2 things are extraordinarily impressive, and yet discomfoting. As you look at the next 20 years, we will have more than two-thirds of American homes with personal computers. We will have a 100 million homes with cable TV. We will have some 50 million of them with an interactive capability, and a great many of the services that you receive from the private sector, as well as the public sector, will be technology-based. We will have the ability to move information rapidly back and forth.

That will put at a premium those persons who know how to do this work. If current trends are to continue, we will not compete well for those kinds of people. So I am concerned about the quality of the professional in governmental accounting, and I am also concerned with how you get to be one.

I think OPM could tighten up some of the rules and we've got to address that. Two positive developments, that are not the answer, follow.

We have created, in the Council of CFOs, a subcommittee on this issue of human resources. Their charge is to deal with how do we identify the skills we need for the future, how do we

recruit the people we need, how do we keep these people and what should we be paying them.

Simultaneously, there is genuine concern within the AICPA on the same subject. My hope is we'd work together to address that issue. But my only concern is that just as this profession is adversely affected by what the public sector compensation rates are, it could easily get mixed in with other professions who are equally disadvantaged. So as you try to solve one, you simply broaden the issue more, and that you've really got to deal with it as public sector compensation, and not simply how do you improve a particular standing of one particular profession.

This may be a good explanation of the problem, but not much of an answer.

QUESTION: Why can't you continue in the government to see your programs work? You are an asset to the government.

I'm a political appointee. The system says you serve at the pleasure of the President. A new President has the right to make his/her own judgment, and so therefore it's presumptive of anybody in this Administration to simply assume they'll carry on.

You're absolutely right on the second one. I do consider myself to be a distinct asset, and whoever you are, thank you.

QUESTION: What is your position on privatization?

Don't be afraid of it. We, as a government, conduct a host of activities which, by no stretch of the imagination can be assumed to be public. We ought to be prepared to face that issue and get rid of those functions that are not properly the role of government. That is a political philosophy question; I recognize that. I don't like to see big government. I don't want to assume the government solves every problem for the public.

I happen to have grown up in an environment which says, leave me my money and let me make my own mistakes, and please don't help me with my problems. That's my view of big government.

There's a second, more sensitive issue, I think, that affects many of you, and that is: under what circumstances might the jobs you perform be performed by private sector contractors?

That's much more sensitive, and I've talked to a number of private sector people who genuinely believe that they can provide services at acceptable levels, or equal to current levels, at costs lower than we currently provide.

I'm inclined to let these people have that opportunity. I know it disturbs government workers. They think their jobs will leave the public sector. But I do say to all prospective

private sector contractors that before you start making unfair comparisons, let me suggest to you that there are some conditions in the public sector that you don't have in the private sector. Consequently, your ability to perform might not be nearly as good as you think.

You don't get quite the prescription from Congress, when you're running your company, that many of you do. I think there was 12 pages of prescription, management prescription in the Continuing Resolution. Twelve pages of telling managers what they will do, what they can't do, what offices they will hold open, what staffing levels they will have whether or not they need them. You put those kinds of shackles on a manager in the private sector, and he's going "belly up" in 6 months, I'll guarantee you.

Secondly, take away from the managers some of the personnel options he has with staff--as we do in the public sector--and we shackle the public sector manager.

The most promising thing on privatization for me is the Federal Co-op program. Give to the Federal employees who currently run a program or facility a chance to buy it under the terms that are acceptable to them. Give them a sole-source contract for a suitable period of time, and allow them to do what they now do for the government, to do it on their own, and take the risk of being an entrepreneur, but have the advantage of keeping the money they make.

I'd like to see more of that. I'd like to see some more venturesome people do that. But don't be frightened of privatization. The cost of privatization is coming out of your pocket as taxpayers, where it applies.

CHAPTER 2 - FINANCIAL MANAGEMENT IN THE PRIVATE SECTOR



JACK BURLEY
VICE PRESIDENT - FINANCE
HEINZ, U.S.A.

Good morning. We were asked here today to talk this morning about what's happening in the private sector, both today and future trends. I'm going to deviate somewhat from that topic and tell you a little bit about what I believe are some significant changes taking place in the private sector, but that will play a significant part in the future activities of financial management in my organization.

First, let me preface my presentation by telling you that the role that I serve as chief financial officer, is as chief financial officer of an operation unit. So areas, such as: treasury, risk management, tax planning, corporate financing, are not areas that I have responsibility for nor expertise in, necessarily. The functions are centrally managed within our organization.

The changes in the private sector that I would like to talk about this morning are changes primarily in the operations and logistics areas, which encompass the time we bring a raw product into our system, and deliver a finished product to our customers.

These changes taking place in this environment are being primarily driven by advances in technology, primarily computer technology and systems. They go under the names of computer-integrated manufacturing (CIM); just-in-time management systems; total quality management (TQM); and the whole area of computer-to-computer, ordering, billing, and cash collection systems.

What I'd like to review this morning is one of the new concepts that we're actively involved in implementing in our organization. We're in the process of implementing what we believe to be a powerful new program, TQM, which involves a fundamental and permanent change in the way we conduct business.

TQM represents a systematic approach to setting and meeting quality goals throughout the entire organization, and as a goal, hopefully reduced cost. It doesn't only involve the quality of the product nor the control of production processes, but it involves the quality of all of our individual and collective daily activities.

Every employee in our organization will be touched by this program in avoiding wasted time, effort, and, hopefully, reducing cost. At this point you're probably wondering why I chose a topic like TQM to talk about, which appears to be a topic better-suited for scientific managers rather than financial managers.

What I'd like to describe to you in the next few minutes is why this topic has become such an important element in our overall company strategy, and secondly, why it's significant to the financial managers within my organization.

As background, the industry that we compete in is becoming increasingly competitive, with each company competing for its share of scarce consumer dollars. We're seeing increasing consolidation in the industry as competitors grow larger and larger.

We're also operating in a marketplace where our customers, the retailers and our food-service customers are growing larger, and therefore stronger, in terms of their ability to place demands upon manufacturers.

The ultimate customer, the consumer, whose resources are limited, is presented with increased alternatives for those resources, and, at the same time, we must provide our owners, the shareholders of our company, with a good return on their investment.

This is the backdrop. Companies such as the one I work for must be able to deliver to its customers a consistently high-quality product at a good value. The total quality management program that we are embarking on is one of the key elements in our long-term strategy to deliver against these goals.

I'd like to describe to you a little about the concept or philosophy of TQM. As I mentioned earlier, TQM involves a fundamental and permanent change in the way we conduct our business. It represents a systematic approach to setting and meeting quality goals throughout the entire organization, and hopefully, reducing cost.

The basic reason for introducing this concept--TQM--is that we believe that any organization that successfully implements a strategy such as this will have a competitive advantage over those that don't, and, vice-versa, will be at a disadvantage against those that do.

The ability to deliver to customers on a consistent basis, high-quality products at a good value, and to deliver to our shareholders a good return on their investment, will, we believe, be enhanced by the efforts to effectively implement a program such as TQM, CIM, just-in-time management, etc.

The goals of high-quality products, good value to the consumer, a good return to our investors, are goals that are not new, nor goals that we haven't felt as though we've achieved in the past, but we believe these new activities, like TQM and CIM, will take us a step beyond.

Historically, we've operated in an environment that uses management systems that typically have been based upon the achievement of specific goals for each department within the organization. However, these goals, by and large, have been based upon targets that included a relatively high cost of quality.

Much of the cost is hidden in the current accounting and financial measurement systems. For example, we're constantly measured by goals that are typically set on the basis of historical performance levels.

If a department performs at that level or better, it gets rewarded for that performance. In our manufacturing area, our cost-accounting system, which is typical of most cost-accounting systems used throughout American industry, allows us to build allowable losses into the standards.

If we produce the standard, we've done a good job. The way we keep our books today, thus, allows a certain amount of waste within the system, and although all companies have different systems, I would suggest to you that by and large, the allowance for standard losses is probably consistent throughout all accounting systems.

In the non-manufacturing areas, there are many other similar examples of this phenomenon. In shipping products to our customers and invoicing them, we recognize the reality that we cannot ship nor bill with 100 percent accuracy for a myriad of reasons, many of them related to promotional activities.

Although we spend a great deal of time in attempting to minimize these problems, our base to measure our performance is again the historical base. Thus, again, our goal and performance is measured against the historical basis.

My own individual performance (which is, one of the areas) is rated above par when I improve the billing accuracy in our system, but again, that's against the historical benchmark, even though many customers still may receive some inaccurate bills.

There are many similar examples that one could think of. In addition to these built-in accepted systems' inefficiencies, we pay an enormous cost to measure, monitor, and evaluate the performance as we go through the various processes within the organization.

In the manufacturing area, to ensure that we deliver a product that meets specific quality standards, we invest a great deal of time and money in measuring and monitoring the production processes as we produce finished goods.

We do this to assure that we live within the allowable losses which are currently built into the system. The major opportunity for us, we feel, or for that matter, we believe any organization, is what happens if we can do something right the first time?

We believe there's an enormous financial benefit if we can achieve this goal, and this is why we believe that the TQM will allow us to do it. TQM represents a systematic approach to setting, meeting quality goals in the organization, and thus, reduce ultimate cost.

That's a brief description of what TQM is, and why I believe it's important in terms of a long-term strategy. I'd like to describe the implications in terms of the financial management area.

First, there's the obvious. Finance has the same opportunities as manufacturing does in reducing cost by doing things right the first time. Although we don't have a product to sell to external customers, we do have a large number of internal customers.

We support the entire company. Thus, each department that we serve has to be viewed as a customer. We have to change, in the financial area, the way we view ourselves within the organization, which will represent, I believe, a major cultural change.

If you think about it, how much time and energy is spent in any organization by our accountants, and the groups they provide information to, by correcting accounting errors? This is one simple example. On an aggregate basis, there's an enormous amount of unproductive time and energy spent on these types of problems.

The second area that will be affected from a financial standpoint, from the TQM program, is the accounting system itself, and the management information that it creates. Our accounting system, like many others, was set up primarily to provide information to the external community. As we begin to measure and develop internal reports needed to measure perform-

ance, our systems typically have been based upon the achievement against historical-based goals.

The cost of poor quality, or the built-in inefficiencies was only captured when we made major errors outside of the allowable losses. The individual cost to measure, monitor and evaluate our performance were never really separated, unless we had major problems.

What we now are in the process of doing is making basic changes to the accounting systems, to capture this important element, the cost of quality, and if the TQM program is to be successful, changing the accounting system is an absolute necessity.

The chart of accounts, basic beginnings of any accounting system, is being changed so that these quality costs can be isolated, measured, plus action can be taken to resolve the costs.

New management reports have to be developed so that these types of costs will be reported out and acted upon. An example is, we incur a great deal of cost in terms of resolving billing problems with our customers. This cost element is totally buried within the accounting system today, and probably involves many departments throughout our organization.

We are looking, currently, at our accounting system to try to isolate these types of costs. Once costs can be isolated, then we can determine the scope of the problem, and send out active project teams to resolve these problems.

I suspect we will reduce internal costs, improve the productivity of the accounting area, and more importantly, improve the productivity of our sales force which spends a great deal of time resolving customer problems, and improving relationships with our customers.

This is just one example. However, it requires a fundamental change in the way we look at the accounting system. I view this change to be a significant element of the success of the TQM program.

The role of financial management in making these changes in the way we keep our books will be a critical element in the success of the TQM program. In conclusion, I would like to summarize that the major changes that will affect financial management in the future, over the next few years, will be driven primarily by technological changes, primarily in the manufacturing and logistics areas.

We have to improve our systems from the time we bring ingredients into our system, through the production process, and into the stage where we ship the finished goods to our customers.

There are a great deal of inefficiencies in the system, and with the aid of programs like TQM, and CIM the computer-to-computer programs being developed on automatic ordering, billing, invoicing and cash collection, these inefficiencies will be greatly reduced.

Financial management is actively a part of the process of developing these systems and will play an integral role in their development over the next 4 or 5 years.

Thank you.



GARY COUGHLAN
SENIOR VICE PRESIDENT
AND CFO KRAFT, INC.

First, what I would like to do this morning is to give you a brief overview of Kraft, the company, so you get a feel for the size, the mission, the financial objectives, and the organization structure that we deal with at Kraft.

Then I'm going to talk about the financial function of Kraft, our major areas of focus, the responsibilities by department, such as: the controller, the treasurer and audit. Then, I want to spend time on the current issues that we are dealing with in the private sector, at least as I see them from our standpoint as an organization.

First, then, the mission of Kraft. The mission is to become the leading food company in the world, a fairly aggressive mission.

We expect to accomplish this mission by achieving superiority versus our competition in a balance of factors. Namely, the key ones are outstanding overall quality in terms of people, products, and business plans. We expect to achieve superior return on management investment in equity, superior real rate of unit growth in sales, and in operating income. We expect to

improve on our productivity and be known as a highly innovative company. So you can see, we have a tough mission, but we think we can continue to push on as we have in the past, and we will be able to achieve that mission.

As far as our financial goals, I will give you an example of what they might be. We set for ourselves a return on equity of 25 percent, and an earnings per share growth goal, continually, over time, of 6 percent real growth. The reason those are so high, if you look at American industry, is in the food business, it's a tough business, and it happens to be also performing very well at this time.

As to what Kraft did in 1987, we had \$10 billion in sales on a continuing basis, and that represents a 27 percent increase over the prior year.

You look at the ranking in the Fortune 500, since that gives us a position, and Kraft was 37 in 1986. Net earnings were \$590 million, up 19 percent, and our ranking in 1986 was 41 in the Fortune 500.

Earning per share is \$3.60, which was up 23 percent over 1986. Our total assets are \$5.5 billion. We think that is big, but being the Government, I am sure that is not an issue. We can't sell loans of anywhere near the magnitude of what you have in your asset base, but it's still a fairly substantial company. Kraft is 64 in size, in terms of the United States industrial companies.

Our return on equity in 1987 did hit the 26.5 percent, or essentially above our target in that year. I just gave you a parameter as to what the company looks at as a financial goal. Then how about the organization?

I'll give you the corporate organization structure. At the top is the chief executive officer (CEO). You tend to do what he says. Then below him is the president and chief operating officer who manage all the businesses, and I'll show you how we're organized on a business function.

Below that level are the staff groups reporting in to the chief executive officer--the chief financial officer, which is the position I hold, and then we have a chief information officer. That's a new position in our company. We just elevated that function since it's become so important. That job has now become a senior vice president of the organization, and we have many of the same issues that you deal with.

We don't have standard systems across organizations when we acquire companies. You have to integrate those systems, the general ledger, and the payroll systems, many of the same issues that you deal with and even that, the private sector has to deal

with in terms of integration of businesses, and disposition of businesses.

As far as how we're organized on a business line, we have three segments:

1. U.S. consumer food segment, which consists of a refrigerated division, a grocery division, frozen foods, and a dairy division.
2. U.S. commercial food area, which consists of food service and food ingredients. Instead of dealing with a supermarket you'll be dealing with institutions, i.e., McDonald's and fast food chains.
3. International food, of which comprises about 25 percent of our company. It is broken into geographic areas--Canada, Europe, Asia/Pacific, and Latin America.

So hopefully that gives you some feel for the company as far as the size and what we do.

The majority of our products are cheese products, i.e., Philadelphia Cream Cheese, Velveta, natural cheeses. We also have barbecue sauce, pourable dressings, Miracle Whip, mayonnaise, and many of the household products that you use in terms of food.

That gives you a general overview of our organization and what our products are. I'd like to switch to the financial organization, as I mentioned earlier. Reporting to me are our vice president and treasurer, vice president and controller, vice president of internal audit, and a vice president of investor relations.

What I intend to do is tell you about the responsibilities these individuals have, and then also talk about the major issues they are dealing with. Overall, the job of all organizations is to try to improve the shareholders wealth of the organization.

You have many other constituencies: employees, suppliers, and so on, but generally being in this type of economy that is a capitalistic one--you're trying to improve the overall performance of the shareholder's wealth.

One of the key areas we are focusing on in the area of finance is the raising of funds. How much is our debt, equity? Where do we get our money? Reporting and control are very important in the private sector, just as they are in the public sector.

We have to manage and safeguard the assets of the company. We have to perform financial planning. Here we're looking to analyze the business opportunities, see what we can do to improve

the business, and improve the existing operations. We are also responsible for communications. It is our job to keep the stockholders informed of what we're doing in the investment community. Finally, we are responsible for our acquisitions and divestitures.

I'd like to look at each function a little closer, starting with the treasurer. What are the treasurer's responsibilities? He is responsible for the corporate financial structure and deals with issues such as: how much debt do we need in our capital structure, how much equity, what should be our dividend payout policy, and how do we do it, with share repurchases, is that something we want to do?

He also has responsibility for worldwide cash management. We consolidate worldwide cash management in Chicago, so we move all the money worldwide right out of one central area, and you have to have good information systems in order to do that.

Another responsibility is currency exposure management. As I mentioned earlier, we're 25 percent overseas. We have about a billion dollars in foreign currency assets, and effectively, we probably do \$2 billion a year in foreign currency transactions. That's a big area he has to be concerned about.

The Treasurer also must manage and control our benefit plan. We have somewhat on the order of magnitude of \$1.6 billion in our pension plan and our thrift plan, which we have to manage and make sure we get a good return on.

His final responsibility is risk management. The issues are really pretty much insurance, safety, those types of activities also come under the Treasurer, as well as real estate. We have a large amount of property in buildings around the world, and our job is to maximize the return on those.

What are the current issues? I think one issue in the capital structure area is really what percent of debt we want in total capital. We look at our peer group, how levered are they and how much debt can we afford based on the fundamentals of the business. That is something we look at.

Another issue is debt duration and in what markets. In debt duration, there is a theory that you match your assets to your liabilities; but do you really want to take interest rate risks? Do you want to go out 30 years? Do you want to be in the short-term market, or do you want to be in the medium-term market? The treasurer is responsible for many of these decisions. He also is responsible for what markets to finance in. We don't finance just in the U.S. domestic markets. Most of our debt issues, even in 1987, are done in foreign currencies and swapped into dollars. So we pretty much tap whatever market you want to be in, whether it be the Eurobond market or the domestic Swiss market, but we're

looking for dollar liabilities, normally, so then we swap the currencies back if they have the most attractive rates.

It's a very worldwide market in terms of financial execution and also in share repurchases over the past few years. We're in the process of disposing of a major division, Duracell. The question is what to do with the proceeds, and one of the issues is should we do more share repurchase?

Another area is dividend payout. The key factor is the reward to your shareholders. We even make our dividend decision once every year in May, so we're in the process right now of going through that.

Other issues the treasurer deals with include electronic funds transfers. Any time you can speed up a system, whether it be accounting, manufacturing, or whatever, you're creating value in a system, and you want to have zero defects at the front end and speed in the transaction process. If you can do that, you're effectively creating value, and people are beginning to see there's real value in time. If you can shrink distribution from 5 days to 2 days, your customers are willing to pay for that. You have much more turnaround time and less inventory.

So all those things are true for manufacturing and other processes, and in the electronic funds transfer area. We are trying to be as knowledgeable as we can in this area.

Another area is the pension plan asset allocation. With the stock crash on October 19, many persons do not like equities. The issue comes back--how much should you be in equities, how much should you be in debt in your pension fund, if you're looking to fund liabilities--at what duration in the future for your pensioners?

I earlier mentioned foreign currency risk hedging. What you are trying to do there is getting the lowest cost transaction when you hedge your risk, and for real estate strategy, you try to maximize your investment in these facilities worldwide.

How about the controller? What's he dealing with? The answer is financial reporting and standards that are both internal and external, whether it be to the shareholders, the SEC, or to whomever he has to report. It is very important that you have good reporting measures for internal reports and standards.

We have centralized accounting operations. We run accounts payable, accounts receivable, payroll in the U.S. all out of one organization in Chicago. You have a big kind of factory that you're trying to optimize to make those things work.

What about business planning analysis? The thing is business performance, how are we performing, how can we improve

that performance, can we improve our planning process, can we improve our capital budgeting process--all those things you have to constantly focus on.

Finally we get to operations effectiveness. It's becoming more important in an organization as to how well and how productive you can operate, and it's really important that your human capital is effectively doing the best job it conceivably can. So that whole area of operation effectiveness is very important to any organization in the private sector, just as it is in the public sector.

What are some other current issues? One is the adoption and response to the Financial Accounting Standards Board, the FASB pronouncements. Many activities are going on at the Financial Accounting Standards Board. They put out pronouncements on pensions, income tax, which we just implemented, and now they're looking at how you should account for the retirees' life and medical insurance plans.

All these things are fairly substantial issues in the private sector and are worth a great deal of money. What you're doing in these areas and how you're going to fund your retirement programs are big issues that are coming up and we have to react to them from an accounting standpoint. There are actual funding implications from these issues too.

Another issue is productivity, which is something we're always concerned about. We have a major program underway. We've always been in the area of improving productivity, but in today's work, it's absolutely essential that you focus on this heavily.

Acquisitions and divestitures are some current issues. As I mentioned already, the fact that we buy and sell companies, has a tremendous impact on your accounting system. Therefore, you're continually trying to keep up with everything and react to what's going on in that aspect of the business.

Another issue area is internal audit. When we talk about internal audit, we perform mostly financial audits. We're not much into operational audits. We are trying to appraise the adequacy of internal controls, review the reliability of the financial reports, and monitor compliance with company policy.

We have both a code of conduct as well as a conflict of interest policy which the auditors are charged with managing. They investigate irregularities and asset losses. Irregularities to me is theft; auditors like to call it irregularities. You want to report the findings of these things to your management and the audit committee of the board. You may not know it, but the audit committee plays a very powerful role in most organizations. You need to have direct lines from your auditors to your audit committee for the board of directors in case anything goes wrong within your company, and we, of course, encourage that.

An important issue relates to the Treadway Commission, which is a commission on fraudulent financial reporting. We have been reviewing the report. In fact, we had in place almost 99 percent of all recommendations made by the Treadway Commission. It was already common practice in our firm.

One issue, concerning the head of the audit committee, is signing a letter in the annual report that we didn't necessarily agree with. We already have the charter and the proxy, so we didn't feel that was a necessary thing. From our standpoint, we're about 100 percent in compliance with the Treadway Commission.

We have the issue of electronic information systems. There are two aspects. The first aspect is that we are much more dependent in the private sector upon information systems; this is a similar scenario for the government. If our systems crash, we have problems. In some cases, we have orders and deliveries that have to go out in 12 hours or you shutdown your customer. This is particularly true with a food service. If you shut down McDonald's they're not going to be happy with you, right? They don't tell these customers to go away. The customers want their hamburgers or whatever.

You can't shutdown these activities, and so the system has to be very secure, and very reliable. The auditors are looking into this aspect very heavily. They're trying to upgrade their functions all the time through automation, and I think they're doing a reasonably good job.

Your next function is investor relations. It is the responsibility of the vice president of investor relations to represent Kraft to the investment community, to both the individual investor as well as the institutional investor. The job is to try to keep those people informed as to where we see the company going and how well we're performing. Another responsibility is to facilitate communication the other way--what do our shareholders want, what does the investment community want, and how should we react to that? Current issues we have--there's one I mentioned before--we're selling Duracell so everyone wants to know what we're going to do with the proceeds. That's an issue that we haven't come to full closure on, so it's one we're considering.

Another issue is the execution of food service strategy. That's a questions we always get comment on from the investor community. It's different in our major business and branded food products. However, we see that as an area of rapid growth. People are going to continue to eat away from home. They're going to have less meal occasions in the house. So we see that as a continual trend and as an area we see for good growth.

Finally, we meet with our investors at many meetings throughout the year. We will be meeting in Chicago, Europe, and

Tokyo soon. We are owned internationally as a company, not just domestically. Last year we were listed on the Tokyo stock exchange, and from that standpoint we're going back to inform our investors of how we've moved from listing to where we are today.

I think that I have given you a feel for both our company and some of the issues we're dealing with. I think that productivity is a major issue in the private sector, and I think that runs through everything we do. I think it's probably an issue in government.

In summary, to achieve Kraft's missions, we have to excel in the financial function. We have to challenge ourselves continually to be on the forefront of financial innovation. You don't have to only have the best strategies, you really have to execute them. If we can do that, the financial function of Kraft will go a long way to improving the shareholder wealth of the company.

Thank you.



JOHN QUINDLEN
SENIOR VICE PRESIDENT -
FINANCE AND CFO
E.I. du PONT de NEMOURS CO.

I am going to do a little bit of what I think the others have done, and talk about what we're doing at Dupont in areas other than strictly technical areas, and let's see how much of that fits. I think you're going to have to be the judge of that. I think that some of it will very definitely fit. We have evolved, and do many practices today as a result of necessity. Our business has been besieged by foreign competition over the years, and we were not as profitable as we wanted to be. We got our act together a few years ago and paid attention to some of the things that I'm going to talk about today.

I'd just like to share them with you, and just leave it this way. If the shoe fits, wear it; if not, I think you'll find it interesting in any case.

Some of what you're going to hear, you're going to say, "So what's new?" I mean, what I'm going to tell you is not all that dramatic, but there's a message in that, too. Sometimes we do miss the forest for the trees, or we take our eye off the ball.

Let me start by saying what we have focused on, and I'm speaking here of the financial function. We have tried, over the last few years to force responsibility and accountability down the line in the organization, thereby cutting out layers of management and layers of supervision. As a result of that, and having done that throughout the company, the company as a whole has reduced its staff by some 20 percent since 1982, or 37,000 people. That's quite a number of people. We have gone on to open up our lines of communications among the people at all levels, encouraging greater individual contribution, and that has worked for us.

So what's new? We're taking prudent risks, and rewarding the people that take those risks. There are many organizations--and we were one of them - that were risk adverse. The people that took the risks, have stuck their necks out a little bit, sometimes got them chopped off. That is not happening today.

We are trying to provide our financial services throughout the company on a cost-effective basis. Again, don't you always do that? Well, we didn't always do it effectively, and we have instituted several internal systems, including letting the customer, that is--whatever department in the company that needs our services--go out somewhere else. If they can get it cheaper from the outside, they're free to do that, and this has a very therapeutic effect on the organization.

We've also learned to do away with some of the so-called "sacred cows." Finally, we have focused on and tried to develop a partnering arrangement in finance with all of our businesses throughout the company, whereby we try to remove that adversarial mentality.

All of this has been very productive. It has put a new vitality in our people, and I think it's made our business a lot more fun. However, having said all that, our financial management doesn't always get high grades. We sometimes get too involved in the details and technical issues in accounting and, as a result, we fail to focus properly on the company's business and what we're really trying to accomplish.

It's sort of like Heinz. If they don't sell ketchup, they don't make any money; if we don't sell nylon or dacron, or orlon,--we're in trouble, too. So the question here is how can we support the Dupont businesses, as financial people, and still do the job that we're entrusted with as financial people?

To do this, we have evolved to a few things which I'll call "rules," but they're hardly rules. They're not written in stone,

in any way. But there's five of these things, generally, that our people subscribe to, and let me tell you what they are.

The first rule is just as important for financial management, as for the Federal Government, and that is to focus on the meaning of the numbers. Don't let the bookkeeping get in the way of the message. This is surprisingly difficult to master. Unfortunately, it seems to me that we're continually trying to communicate the debits and the credits, rather than what the message that we're trying to convey really is.

We keep reminding ourselves of this, that when all is said and done, we're trying to tell our business people what the numbers mean--not how we got to them or anything else--but what they mean, and what they should be doing as a result of them. This is a very slow and tedious process, and we are not always successful, but we're doing better at it.

At first glance, the next rule maybe doesn't seem too important to you in government, but I think it does, if you think about it a little bit. That is, we're trying to stress to our people--building on the first point--to consider themselves, while they're financial people, or they're CPA's to be part of the business team. They can then focus on the customer and on their bottom line. Our view in Dupont--and we've taken a cue from many of the good companies that are better merchandisers historically than we have been, and people like IBM that are known for their marketing--is to say everybody in the Dupont Company has a customer, and that includes our accounts payable clerk, and our travel payment clerk. The travel payment clerk's customer is the traveler, and if you don't service that customer well, you really aren't doing your job.

So we have taken the view that everybody should make themselves a part of the business team. Let me share with you a real part of our mission statement, contrary to what I said earlier--but our finance department mission statement says "To carry out our mission of adding value to the company we must work in full partnership with the business units, and with corporate management to anticipate their needs and understand their problems."

I'm pleased to say that today we're doing more of this than ever before, and our financial people are considered part of the solution and not part of the problem.

Let me talk about the third rule that we're trying to follow, and that is flexibility. How many times have you heard someone say "You can't do that because it hasn't been done that way before?" Times change. Also needs change, and we must, as financial people, and I think you must, as financial people, change with the times and with the needs.

The accounting and reporting systems that were put in place to deal with the leisurely flow of widgets onto an assembly line may have been fine in those days, but those days are gone and you're at a time of just-in-time delivery systems, and the system that supported the old one may not support the new one. We are in a period of rapid inflation; periods of dramatic oil price changes; and severe competition, both in the domestic and foreign markets. We need financial management systems that are flexible and respond to the needs at these times. I believe you'd be able to say the same thing is true of yourselves.

Let me address rule number four. In these times of fierce international competition, we have to think globally. Now everything we do in business today is affected by foreign events. I have found, frankly, too many of my compatriots who still view the world as 50 States here. That bothers me because, first of all, it's poor business. Secondly, it makes U.S. business managers look like amateurs, and finally, it allows the foreign competition to eat our lunch.

I don't suggest that we all have to be bilingual, although it's not a bad idea, but I do think that modern financial management needs to fully understand the implications of exchange rate changes, foreign political events, and all the other things that affect what we're doing, and then how it affects us and how it affects our competition and our suppliers. We, as financial people, need to be able to offer intelligent financial counsel from a global perspective.

In regards to sources for raw materials, should it be domestic or foreign? How will our foreign competition and foreign governments react to what we're planning to do? In short, we must be international financial managers and not domestic bean counters.

Rule number five would deal with the future. It's not all that dramatic. In fact it's elementary, and rule number five would be to develop your successors. This, to me, is one of the most important things we do, and, unfortunately, in busy and hectic times, a thing that's easiest to neglect.

Interestingly, I'm not going to say one word about developing the technical expertise of your successor. That, to me, is a given, and is usually not a problem. The fact is there is generally a good amount of technical expertise available.

The attributes, in my view, that really count today, are those that, when coupled with technical expertise, can produce an effective contributor in the financial area. In my experience, I have identified about a half dozen of these that I think make a difference, and let me wrap up my comments by running down these.

The first one that I would look for in a successor, or someone who I think would have the potential to be my successor

somewhere down the line, is a dedication to quality. That is nothing new since you've heard a lot about quality today.

But today, when we think of quality we usually think in terms of televisions or refrigerators. We all have our horror stories about the car we bought and all those things, and so typically, we think of quality in terms of the hard goods industry.

But from where I sit, we also have a problem in what I would call white-collar quality. The product we produce as financial managers in the private sector is much the same as the product you produce. It is advice, analysis, conclusions, recommendations, and so forth, and how well this is done is a function of the individual contributors' ability to focus in a quality way.

Take the matter of details. As financial people, we are sometimes accused of paying too much attention to details, of missing the forest for the trees, and at times, that's true. But on the other hand, details can be mighty important. If you slide a decimal point the wrong way, or miss a restrictive clause in a contract, it can cost a company or a government agency a fortune.

In my view, professional quality is a mindset. It's like safety at Dupont. It's not something you turn on and off like a light bulb. You either believe in it or you don't. Each of us needs to pursue quality in everything we do, and we need to demand it of the people that work for us and work around us.

The second skill that we need to develop in potential successors is the ability to identify problems. We need to develop professionals, both here and in the government, that can look at an issue, and see an issue that is going to become the problem of tomorrow.

We need problem-solvers, but in my book, they're a dime a dozen. I mean, we can go out and you can go out and recruit and hire people that will solve a problem. Here's the problem: how do you think we ought to get from here to there? They will solve that problem. The person that is critical to us and to you is the person who can identify the problem of today that is going to be the issue of tomorrow. So we think that people who have problem identifiers have a distinct tactical advantage.

A third skill that I would look for is what I call "brain picking." In a large company, or in an agency of the government, there is always a wealth of knowledge and experience scattered throughout, usually resting in the heads of people who have been around a long time, and who may have risen to their final rank in the government, or in the company, but these people have a great deal of expertise.

Many people, particularly the younger people, tend to ignore this fund of knowledge, either because they don't recognize that it exists or they're too proud to pursue it. These people have been in the organization a long time; they'll generally have seasoned insight into the chemistry of the organization, knowledge of the deep-seated procedural problems, and the ability to be aware of the innumerable areas where problems exist.

In short, they know where the bodies are buried. Interestingly enough, it's been my experience that when you make an effort to tap these sources, the response is very positive, and very energetic.

Most of the people in this business, in the community, and in the government, want to make a contribution if they are asked. This concept underlies the principle of organizational effectiveness, which has been so popular in Japan and which we send everybody over to study, and it's something we should not pass up.

The fourth skill that we need to cultivate is the ability to communicate, orally, first of all. A recent article in the "Philadelphia Inquirer" listed the 10 things people most dread. Number one was public speaking. Death was a poor second.

It's interesting--when you read a little bit on this subject--that Lawrence Olivier, whom we all look at as an outstanding actor, used to go out in the lobby of the theater before he went on and walk up and down cursing the audience. This was in order to get his adrenalin pumping, in order to overcome his butterflies. Judy Holliday, a very famous comedienne, used to get violently ill before every show. So it is something that many very famous people have lived with and conquered. But we live and work in a world where we have to be able to compete, to communicate orally. It's absolutely necessary and it's just like every other skill. It takes a little bit of practice, or, a little bit of effort, and a lot of practice.

On the other side of the equation is the ability to communicate in writing. Being able to write in a simple concise way enhances credibility. When I get a proposal that is a very esoteric discussion, and it is loaded with misspellings or poor grammar, I can't help but wonder about the technical quality of that piece of paper.

My view in life is if you can't spell, how do I know you can add? I mean, that's the way you've got to look at it.

The last skill on my list--but not last in terms of importance--is the ability to get along with people. Most of us, both as managers in the private sector, and as managers in government have to accomplish just about everything we do by working with other people, and our ability to reach our objective is often a function of how well we do that.

Arbitrary, heavy-handed dealing with peers or subordinates is generally a route to disaster. Being right is not always what matters. The really effective business person, in my view, is the one that recognizes that the shortest distance between two points is not necessarily a straight line, and that we have to learn to sell our points of view and not ram them down somebody's throat.

As you can see, these skills that I talk about and I would look for in financial professionals, are not really dealing with an expertise, in my view, that's nice to have. It's an expertise that is critical to lasting success.

Interestingly enough, the other technical skills take more effort and time to get. It's these other things that can be developed over time with a little bit of practice, that I think are often overlooked unfortunately by people who have otherwise worked very hard to get an education.

Let me wrap it up by saying I told you at the beginning that I wasn't going to come here with a lot of technical details, but I hope I've gotten across the message I'm trying to give you. I'm very proud to be part of a financial management team of the United States, not only of Dupont but of the United States. All of us here today are part of the financial management team of the United States.

But if we're going to increase our effectiveness, and if we're going to continue to grow professionally, and continue to make meaningful contributions, then I believe we have to focus on the things I've just talked about.

We need to communicate useful financial information. We must make ourselves part of the business team. We must be flexible in our response to a changing world. We must think and act globally, and we must develop the professionalism of our successors. I hope all of us here today can look back in 5 or 10 years and say, I've done that, I've done many of these things that I set out to do. I'm proud of the contribution I've made to my company, or to my government, and I've made a difference in things. Thank you very much.

QUESTION: "Have you reorganized your unit or division in the last 5 years? If so, why? If not, why not?"

MR. QUINDLEN: I'll start to respond to that by saying yes, very definitely we have reorganized over the last 5 years. It's practically been a continuous process of reorganization, and primarily to accomplish the kind of things I talked about, which was namely to force responsibility and accountability further down in the organization.

We cut out virtually all assistant levels. That is, if we had a division director with an assistant, we eliminated the

assistant's job because we found that one or the other was superfluous. Maybe both, I don't know. But we went further down in the organization and tried to cut out layers, so that our people felt they were making more of a contribution, and it's been an outstanding success as far as we are concerned.

MR. COUGHLAN: We've also reorganized along the same lines. We have much less people doing the same function, even though the company has become substantially bigger, and I think that's a process that continually goes on. Also, when you have reorganized, the jobs tend to change on people due to the amount of changes going on in the world outside. So we had new functions crop up, which we wouldn't have had as much focus on in the past. As I mentioned earlier, information systems now has a higher profile than it used to have in the corporate world.

MR. BURLEY: We haven't had a great deal of reorganization, but the one area that we have concentrated on in the last 3 or 4 years is that we've been strengthening our financial planning and analysis stats within our operating divisions. This is because that's really where the action happens, and that is where things can be done. So what we've done is basically push financial management down in the organization to work with the particular operating teams in the marketing, or the operations-type groups.

QUESTION: "Mr. Coughlan mentioned that Kraft feels it is 99 percent in compliance with the Treadway Commission's recommendations. What about Heinz, and E.I. Dupont? Are you reviewing the recommendations? Are there any particular objections?"

MR. QUINDLEN: Let me say that we would characterize our Treadway response exactly the same way as Gary Coughlan did. If there were 39 specific recommendations--if I'm correct--we were in complete compliance with 36 or 37 of them.

The one we were not in compliance with, is the same one that Gary mentioned, namely, having the audit committee, or the chairman of the audit committee sign a letter in the annual report which we felt was absolutely unnecessary.

One thing we did this year in response to Treadway is, we always had a management responsibility statement in the annual report which had no particular signature on it. This year, the chairman of the board and I do sign that statement, which is fine, as far as I'm concerned. So it's been cosmetic, and nothing in the report troubled us particularly.

QUESTION: "Do you agree with the recommendation to have the audit committee review management advisory services before a company engages the accountant?"

MR. QUINDLEN: I guess I'd say yes, in principle, the fact is, this is not an issue for a company the size of Dupont because

we do not engage the public accountants for that much work. I could see where it would be more of an issue for a relatively small company, where the advisory services part of the contract could be very important.

For us, our accountants earn almost a diminutive amount over and above their basic fee. So I agree, in principle, that you can't let the accountants get confused by getting them too deeply involved in the advisory contract.

MR BURLEY: I can't add anything. That's something that's done typically in our central corporate offices, and hopefully we're in compliance to the same extent that you are.

QUESTION: "How do you review centralized versus decentralized accounting systems?"

MR. QUINDLEN: That's a very important question and it's an evolutionary one as far as I'm concerned. With the ability today of inexpensive hardware, my vision of the future is a largely decentralized input system--what we would call "remote job entry" for a large part of the business, with centralized services in certain areas, such as: payroll, accounts payable, travel payments, etc, where you have relatively high volume activities that can be handled on a centralized computer. But we would do it through remote entry.

So we currently are doing that, in some parts of our business where we have PCs at a number of plants around the country, and they input directly into our accounts payable system the needed information. So that's the direction that we see, not so much decentralized versus centralized, but a combination of both.

MR. COUGHLAN: From our standpoint we pretty much control certain things centrally. You would want to control the architecture of the systems, and things of that nature. Since you can't have two organizations in the company having different products' codes or different customers' codes, we pretty much control the information/architecture of the system centrally.

We do the processing at remote locations. It doesn't make a difference to us from the standpoint of where the actual processing is done, as long as it's cost-efficient. As I've mentioned in our case, it happens to be cost-efficient to have consolidated payroll, accounts payable, and accounts receivable similar to what Jack Quindlen says.

Essentially, we want to control the overall mechanism from a central level, but where the actual work takes place can be different from processing, and you just have to have consistency between units. The way we do it, we're not going one way or the other--either centralized or decentralized.

QUESTION: "Can you give an indication of the size of the task to modify your accounting system to meet the internal management information needs, and the number of years and the likely costs?"

MR. BURLEY: Let me tell you the approach we've taken. We've decided that TQM, and the areas that I've talked about are extremely important to the long-term strategy of the company, and we've chosen to take a different tactic than many of our other projects, which is hurry up and get it done.

We've taken a long-term view of this. We've set up some task forces within the company that currently have the entire accounting system under review. We hope that their recommendations will come back within a 1-year timeframe.

It isn't a program that we feel as though we should hurry up and rush through to get done within the next 3 months or the next 6 months, but we should do it right. And therefore, we're taking our time. I don't know what it's likely to cost at this point. Hopefully, that task force will give us some insight into that.

QUESTION: "How much money will be saved with TQM?"

MR. BURLEY: All I can tell you is there are the opportunities that have been identified as a result of these systems I mentioned earlier have been enormous. It will probably be in the millions of dollars, but we will have to wait and see.

QUESTION: "How much weight does Kraft, Inc., place on improving the quality of its products?"

MR. COUGHLAN: I'd say if the weight is a hundred, we put 120 percent, or whatever. Being in the food business, quality is your key thing which you're selling, so with us it's fundamental in everything we do, and it's the number 1 guiding principle in the organization.

QUESTION: Why doesn't internal audit have greater independence, and report directly to the president or the CEO?"

MR. COUGHLAN: Fundamentally, the internal auditor reports to me. We think he has a great deal of independence. He reports to me from kind of a personnel functional standpoint. I don't see his audit plan. He puts his audit plan together and decides what he's going to do. He doesn't come and ask my advice on whether he should audit something. So, we don't do it that way, even though he reports to me functionally through the organization. The audit chairman will talk to him directly, and I don't have any control on what can or cannot be done, if he thinks he has an audit issue. Although he reports to me, it's his job to report directly to the chairman of the audit committee of the board on any issue that comes up, if I'm a blockage in that type of activity. We haven't had problems thus far, and he does his own audit plan.

CHAPTER 3 - AWARDS PRESENTATION



CHARLES A. BOWSHER
COMPTROLLER GENERAL
OF THE UNITED STATES

I would like to just add my welcome to all of you here today. It's marvelous to see such a great turnout. We've had some fine turnouts here for the last few years, and I believe this is an indication of the fact that many people today are interested in financial management, and, more importantly, they are making improvements in the area of financial management. We still have a long way to go, but I think we've made some progress.

I was very pleased that we were able to release the core system requirements during this past year. This will be a major milestone. I was also pleased that some of the agencies were able to issue annual reports with financial statements in them. GAO was able to audit some of the financial statements, and we hope to do more in the future.

I think auditing financial statements is important. One thing that discourages me every year is when I see the annual financial integrity reports where practically every major agency in the Federal Government reports financial management as one of its material weaknesses.

I just don't think we should have that in the Federal Government. I think the idea that we're running a trillion dollar operation with weak controls and systems is just not the way it should be. Most people in this country are astounded when they are confronted with the weaknesses that we have here in the Federal Government. But we're making progress, and I am pleased to be part of that effort and to be associated with some of the people here.

I know that Mr. Gould [Under Secretary] at Treasury and Jerry [Murphy] are trying to move forward with the efforts on the central books and on some of the systems at Treasury. Terry Golden, General Services Administration (GSA), and General Turnage, Veterans Administration (VA), have made great progress in their agencies as well. Agriculture's National Finance Center

in New Orleans is something that we just need more of; it's that good. We are making progress, and we have to continue this progress because of our huge budget deficit. We have to implement systems that give information to the decisionmakers and that control the assets, revenues, and expenditures for the Federal Government.

I know that the States have made progress in financial management improvements. We have a representative here from the State of Tennessee. That State has always been first in everything that has happened in the State and local government area. I think that this annual gathering is an important part of the financial management community wanting to move forward and get the job done.



It is now my pleasure to present the first award to Conrad Hoffman from the Veterans Administration. Conrad has had a great career. He had 17 long years in the private sector before starting his Federal Government career. He informed me this morning that the reason he was late in getting here was that he was presenting the budget for the Veterans Administration. There aren't many people that have a 17-year track record, and I assume, Conrad, you've got a lot of credibility. I think that's marvelous.

Conrad is the type of person who thinks about the future. He was telling me that the Veterans Administration hopes to move towards a paperless system where they have much better controls and a lot less paperwork flowing through the system. That's the kind of future thinking that I think we have to do. I was very pleased to have worked with the Veterans Administration on the audit of its financial statements during this past year.

So Conrad, it is with great pleasure that we recognize you today as one of the winners of the Donald L. Scantlebury Award for this year. You've certainly earned it for all your efforts over the past years at the Veterans Administration and also in some of the interagency efforts that you have participated in. Congratulations.

Thank you, Mr. Bowsher. This is indeed a very special award to me and I certainly want to thank my Administrator, General Turnage, for having nominated me for this highly prestigious Award.

I did know Don Scantlebury in my early days at the VA, and so it has a special meaning to me when I accepted this Award just a few moments ago.

Let me say that those of us who are in the financial arena know that there's much more that can be done these days because of the tremendous things that are happening in our field.

Six years ago, we started on a very new area of new technology--ADP electronic fund transfer. It is because of this effort which we initiated within the Veterans Administration, that we have reached a degree of success that has brought me this Award this afternoon.

It is also due to the fact that I have a tremendous number of people who are very interested in this new technology. There's a lot of excitability in what we're doing, and it's sort of space-age stuff, for those of us who are in this financial arena. It's something that we can leave as a heritage for our Federal Government. Much of what we are currently doing within the Federal Government are some things that we are finding some of the areas in the private sector are just now touching on.

So, once again, I accept this Award, certainly a generous Award to me, and I thank those of you who are present this afternoon, and I certainly thank again, Mr. Bowsher, and also General Turnage for having made the nomination. Thank you.



Our next awardee is William (Bill) Snodgrass who has served Tennessee for more than three decades in very senior financial positions. He was first, the Director of Budget, and then later, he was elected by the General Assembly as Comptroller of the Treasury and has been successfully reelected for a succeeding 2-year term.

As Comptroller of the State, the Department of Audit reports to him. In Tennessee, that means auditing just about everything, including the municipalities, the county government, and the school boards. I think that Tennessee's audit program has been just as extensive over the last couple of decades as any other State in this Union.

Bill has also had a great career in moving the accounting and the auditing profession forward because he has long known that, to have a successful audit program, he must advocate the improvement of accounting systems and financial reporting. He has done that over these years.

It should be recognized, that under his leadership, Tennessee was the first State to receive a certificate of conformance from the Municipal Finance Officers Association (MFOA) which is now the Government Finance Officers Association (GFOA). It was the first State to comply with the 1976 independent audit requirement of the Office of Revenue Sharing and the first State to perform a statewide single audit.

Bill also has been President of the National Association of State Auditors, Comptrollers, and Treasurers; and he was one of the State leaders who met with my predecessor, Elmer Staats, quite a few years ago now, and started the intergovernmental audit forums. Bill has been a great leader, he's got a great track record, and I think it's our privilege today to honor him with this Award.

I have here a letter from his Governor which I will read.

"Dear Bill:

I am pleased to join with the Joint Financial Management Improvement Program in extending my personal congratulations upon you being selected as one of the recipients of the Donald L. Scantlebury Memorial Award. Bill, you have distinguished yourself by your dedication, loyalty, and outstanding financial leadership. As Governor, and as your long-time friend, I am doubly proud of the positive recognition you have brought to the State of Tennessee. You have distinguished yourself among your peers, and I can think of no one more deserving of this prestigious Award."

General Bowsher, platform guests, ladies and gentlemen. In 1953, when as a 30-year-old research assistant at the University of Tennessee, I was appointed by a newly elected 32-year-old Governor as the State Budget Director, and in 1955, when I was elected by our State legislature as Comptroller of the Treasury, little did I know that some 35 years later, I would be receiving the prestigious Donald L. Scantlebury Memorial Award for distinguished leadership in financial management. And the Award would be presented by the Comptroller General of the United

States, before an audience of Federal financial executives such as are here today.

During these 35 years I've seen tremendous progress in financial management of State and local governments throughout the nation, as well as improvements in the relationship between State and Federal financial officials.

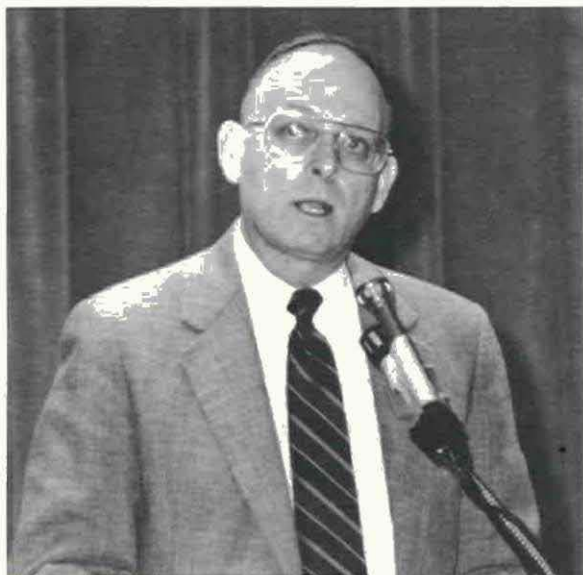
I have enjoyed being involved. There are many people who have participated in making it possible for me to have accomplished many goals in the areas of improving financial management at the State and local levels.

Some of them are here today and I would like to introduce them to you. First, my secretary of some 27 years, Betty Brown; Charles Harrison, an assistant and director of the Office of Management Services; Richard Norment, the director of County Audit; Art Hays, the acting director of State Audit. I am sorry that Frank Greathouse, my assistant and director of State Audit could not be here because of illness, and for those of you who know Frank, I am glad to report that he is making progress in his recovery. I already had my wife introduced. We also have our daughter Beth with us and a guest from Tokyo, Japan, Mrs. Toku Ogai. It is a great honor to be given this Award and I thank you very much.



Left to right: D. Robertson, C. Bowsher, F. Wolf, G. Murphy, T. Simon, L. Wilson, J. Carson, G. Gould, G. Riso, W. Snodgrass, Mrs. Snodgrass, L. Gibbs, T. Golden, and M. Barnes

CHAPTER 4 - FEDERAL EXECUTIVES' PERSPECTIVE ON FINANCIAL MANAGEMENT



LAWRENCE GIBBS
COMMISSIONER
IRS

You have a lawyer today to talk to you about financial management. My approach to this subject is going to be a bit different. I will start out with just some general numbers from the standpoint of our tax system in this country.

Yesterday, I told our House Appropriations Subcommittee that we project our tax system in the United States during the next fiscal year (Fiscal Year 1988) will, for the first time in this country, produce gross revenue of over a trillion dollars in receipts. Out of the trillion dollars, we will pay refunds to individuals and businesses in Fiscal Year 1989 of \$90 billion. That means that we will net, with our tax system in this country, about \$910 billion next year.

That's incredible, and I say that not as the Commissioner of Internal Revenue, but as anyone who has taken a look at tax systems around this world. We have a tax system in this country that works. It works because of the public's willingness to comply.

Let me just take a minute to give you some financial information about the current filing season. Almost 40 percent of the taxpayers in this country have already filed their returns this year. The average refund this year is about \$50 higher than it was this time last year. The returns are coming in, and we've processed them faster this year. We're paying refunds at about the same rate we've always paid them in this country, which is about 3 to 5 weeks after you filed your return.

But the most interesting piece of information is that we had projected an increase in errors of 10 to 15 percent, and the

error rate this year is only about 2 percent over last year. So as you pick up your newspapers and turn on your television or you hear people talking about terror and horror of people's inability to comply with our tax system, just remember that at least 40 percent of the American taxpayers have already filed and they are getting back good news. The errors are averaging a little over 2 percent above last year's rate. It will be interesting to see, as we get the remaining part of the returns, just how the rest of the filing season plays out.

Now, why am I beginning this talk this way? One of the things that I see my agency concerned with--and necessarily so--is respect and confidence. We've got to have respect and confidence in order to get the voluntary compliance that we need in order to make the tax system work in this country. Frankly, I don't think it's any secret that respect and confidence in our tax system and in our agency has not been what we would like it to be over the last several years.

As I stepped into the job 18 months ago, I came back to an agency for which I worked for 3 years, 10 years ago. I felt it was important to find a way to address issues of respect and confidence in our tax system and in our agency.

The Internal Revenue Service is a large organization which is decentralized all over the country. We have a \$5 billion plus annual budget, and there are about 115,000 employees who are very highly specialized.

As I began to look at where we had been, where we were, and where we ought to be heading, it seemed to me that, as an agency, we needed to find ways to do things that would go across the entire agency. But as I began to travel and listen, I heard identification with a function. Someone was in "Exam"--examination of returns; someone was in "Collection"; someone was in "Taxpayer Service"; or someone was in a district or a region or in the national office. But I didn't hear much in the way of an identification with the Internal Revenue Service as an organization.

We've tried to find things that would unite the organization. We tried to let people understand, how their individual jobs, functions and geographic locations related to the rest of the organization. We tried to create an understanding of what we were about as an organization within the organization and then take that message to the American public so that they can understand what we're about as an organization. I began to look for things that cut across the agency. One of the things that we're talking about is our quality program to deliver better service to taxpayers--our customers. This is something that can be broadly identified with across the agency and outside the agency.

We talked about the 1986 Tax Reform Act which we've used across the agency. The Act was there and we could view it either as a chore or an opportunity. Within the organization, we've tried to see it as an opportunity to restore the idea of better service and as a means to seek respect and confidence for the IRS.

I will submit to you that financial information, and the management of that information can play exactly the same role. It is something that you can take across the agency. If it's credible and understandable within the agency, and if you can talk about it outside the agency, it is another way of building confidence and respect inside and outside the organization.

What are we about as an organization? We have within the last 8 years defined our long-term plans, that is--long-term strategic business plan--that spells out what our objectives and plans are over the long run to get better voluntary compliance with our tax laws in this country. We also have come up with strategic initiatives and issues, long-range issues that are the issues that we confront as we implement the plan to try to accomplish the mission or objective of the agency.

My experience with this organization was that it is great in the Federal Government until you get to the budget, and then the budget runs everything. What we're about with our strategic planning process is to try to get to the point where the strategic plan and the activities that we break down on an annual basis begin to run the budget.

Our understanding of where an organization is headed, and as we articulate that to our customers whose respect and confidence we need, we can come back in and have the budget start supporting the message of the organization, both internally and externally.

We have been fortunate the last several years because of the fact that we are one of the revenue centers within the government. In Gramm-Rudman times, that has been important. In fact, we have used that in the appropriations process, basically making the point that the Internal Revenue Service is a place in government where the government can make money by spending money. That has been particularly appropriate in the context of something that many people can identify in the way of our external customers in terms of the message of saying: "Why raise taxes on people who are already complying, when those who are not complying are not paying their fair share?"

There is a tax gap, that is the difference between taxes owed and taxes paid in this country, between \$80 and \$100 billion, that is uncollected. Put that in the context of the Federal deficit.

But in order to have credibility, notwithstanding that basic message, we've used the financial information that we have within

the organization to build the case for the credibility of what the marginal return will be of the dollar invested in the agency from an appropriation standpoint. With the various models that we have developed over a period of years, we've gone out and sold the credibility of those models--first to Treasury, then to the Office of Management and Budget, finally to the Congressional Budget Office--in terms of their ability to show what the marginal investment will produce in terms of revenues so that we can go to places outside our own organization and have them say: "Yes, we agree."

This is a good example of how the agency's effective use of its financial information can assist us with the appropriations process. After that modeling has been completed, we turn our attention to incorporating that annual planning into our various functions and across the organization with that understanding in mind. This entire process leads to the development of the financial planning.

Now, you may say that you're beginning to sound again like the budget is beginning to run things. What we've basically done is to explain internally and externally that part of our long-range plan is to increase voluntary compliance by letting it be known that for those who choose not to comply with the tax laws, we have a very strong compliance capability: examination, collection, criminal investigation. At the same time, however, what we're also talking about within the organization and outside is that, with 19 changes in 23 years of our tax laws, it should be no surprise to anyone that people are confused as to what the tax laws are today. What that means is for those that are trying to comply and having trouble, we need to put the service back in the Internal Revenue Service and provide service, education and assistance.

So, the way we're approaching the appropriations process long-term is to emphasize the service side and the compliance side of our organization and describe their interdependence and why the funding of the two is important. This approach is then incorporated into the annual work plans of each area once the budget is established.

Now, in all of this at the Internal Revenue Service, and in any financial planning, particularly in the government, flexibility is, indeed, the key. Dale Robertson made that point, and I couldn't agree more. Our deputy commissioner recently said that we fix the budget at the Internal Revenue Service about once a week, and I think that's about right.

It's particularly difficult from our standpoint because, within the appropriations process, we have four separate accounts. It is as if we were being treated as four different agencies all wrapped into the Internal Revenue Service. There are limits on the ability to transfer funds among the accounts.

In order to get the flexibility, we have made the case for the need to have flexibility in terms of transferring the funds.

It may be interesting to share with you that our principal strategy for this fiscal year that we're in, given the uncertainties of tax reform, was not to go down and ask for just an extraordinarily large budget; but, rather, to come back and ask for the flexibility to be able to transfer the funds where we needed to have them. Indeed, that was the message that the Administration and the Congress understood and supported.

We normally have a 1 percent limit on the amount of appropriations that we can transfer among the four funds. That was raised for the first time this year to a 5 percent limit. From a financial management standpoint, flexibility is the key in terms of being able to spend the money where it is appropriate, when it is appropriate.

I suppose we're like some of the agencies with whom I've had the opportunity to compare experience in terms of the delivery of our services; we've been very good in terms of being able to get to the end of the fiscal year and balance our books. One of the things that we have not been very good at has been our budget execution in terms of getting timely information and knowing on a day-to-day basis where we stand from a budget execution standpoint.

We are in the process of automating a financial system that will give us that capability. Although the financial system will be running through a central computer located in Detroit, we have made the decision as an organization, in keeping with our tradition of decentralization, to decentralize the financial management authority with respect to budget execution.

Again, one of the keys here is to give our executives as much flexibility as possible, as much control over the actual expenditure of the appropriated funds, and then hold them accountable for how the funds are spent and what the return is to the agency and to the American public.

From the standpoint of where we go from here, I tried to outline our attempt to make our long-range and strategic plans drive the budget instead of vice-versa; how we're using the financial information that we have to support the appropriations process; and how we use it from the standpoint of managing on a day-to-day basis in a decentralized way.

As I look at it from the standpoint of the CEO at the Internal Revenue Service, we still are going to have to come back to a bottom line if we expect to get the funding that we think we need in order to make the tax system work in this country the way we want to make it work, for the reasons that are important to all of us. The reason is that we have to have the credibility

and the confidence that the money is being well spent, that effectiveness and efficiency is being balanced in the proper way.

At a time when we are hearing more and more about the excesses of attempting to collect the money on the compliance side, people can also see that IRS is an organization that is interested in providing better service on the service side and, in the final analysis, is interested in quality across the board.

I am delighted to do something about this. The General Accounting Office will be coming out with a management report on the Internal Revenue Service later this year. We have worked with them, cooperated with them on this management review. It is something I think will be tremendously beneficial for us. The criticism will be constructive and will be to the point. But, furthermore, it is someone outside our organization that says that if we are going to spend the money that we are spending at the Internal Revenue Service today, then there are some things that can be done to improve the way IRS is managed and the way that funding is being spent in the tax administration system.

Quite honestly, that excites me because it gives us the opportunity then to set up some targets that someone outside the organization has established from the things that we need to do to be recognized as being financially responsible.

Again, this may be a somewhat different concept, but it's a concept that we're trying at the Internal Revenue Service to recognize today when we talk about our quality program. It's not what I think of my quality; it's what my customers think of quality. There are internal and external customers at the Internal Revenue Service. The people within IRS are getting the rest of this organization to see one another as internal customers, and then focusing on the fact that, in the final analysis, if we really do want respect and confidence, it has to come from people outside the organization.

As we focus on that, the use of financial information and the management of that financial information, in terms of the credibility of what we're doing and how we're doing it, is going to be key.

So, in closing, I'd really like to share with you what I think are the three most important uses of financial management in any organization: to use the financial information and have management plan and justify the acquisition of resources through the appropriations process; to provide flexibility to management in meeting the requirements and achieving the proper balance among programs of the organization; and, finally, to evaluate the cost-effectiveness and to influence future planning.

Thank you.



DORCAS HARDY
COMMISSIONER
SSA

I would like to preface my remarks with a comment about the General Accounting Office. GAO has done a great deal of work for SSA and we are most appreciative of their assistance. Today we have an interesting topic since we are not only looking at financial management, but also at a much broader perspective about the government as a business. You may ask, "What does she mean about being business-like? What are we trying to accomplish?"

We have many things on our plate, and it is perhaps more appropriate to say that the time has come again for government to be more business-like, or totally business-like.

I was told that government was really on the cutting edge in the late 1900's, early 20th century, in terms of being "the business" and "the business in the public sector." State and local governments led the way in terms of business-like management techniques and practices. But once the private industry and private enterprise caught on to operating very efficiently, they effectively became more efficient than the government. At least at the moment, and by and large, the private sector has left the government in its wake.

Now, where does that leave us at the moment? We are still in some ways playing catch up, but we are at the same time far more complex in many ways. The public's expectations, or the customer's expectations, of our fiduciary responsibilities, are much greater than they have been in the past. It will certainly take an extra effort on our part to make sure that we are better managed and that we do use the financial information that is available to us. I certainly agree with Mr. Robertson that we have several ways to go as to what the financial management is

that we should have, how we should get it, and how we should use it.

My topic today is to be more specific about financial management at the Social Security Administration (SSA) and the kinds of struggles and successes that we have. Social Security is a rather large part of all of us. We not only are one-fifth of the Federal budget, but we also have very specific responsibilities to our beneficiaries, our customers; and perhaps as important, if not more important, to the taxpayers, those of us who are contributing 7.51 percent of their paychecks to the Social Security system. We are being asked more questions on how things are managed.

At Social Security, we have a unique responsibility for maintaining the public trust and confidence in the Social Security system. We clearly impact virtually all Americans one way or the other--either revenue or checks--at various points in their lives. So we have an external financial management responsibility as well as that internal financial responsibility.

Let's look for a minute at the external. What is confidence in Social Security and what does it mean? How do we ensure to the public that the program is fiscally sound? One of my highest priorities has clearly been to maintain the fiscal integrity of the Social Security trust funds. I can report to you that we are in excellent financial shape, at least for the moment. At the end of Fiscal Year 1987, we had reserves building in the Social Security trust funds of over \$65 billion. Adding to that about \$35 billion that will be coming in this year, we will have over a \$100 billion in trust funds.

That is in the context of approximately \$260 billion in revenues every year and about \$220 billion in checks to 40 million beneficiaries, which averages to \$20 billion a month. Of those 40 million beneficiaries, 60 percent of them are retirees; while 40 percent are non-retirees. So Social Security is not just retirement, but also survivors, disability, and auxiliaries. We pay one out of six people in the country.

Now, where do we go in the future? We have current projections in terms of those trust funds. They should build significantly over the next couple of decades, to more than a trillion dollars by the year 2000 and about \$12 trillion by the year 2030, which are substantial dollars. The reserves for these funds are invested. I am sure that you know how we invest these funds. But I will say that those reserves are needed to meet the strain that will be placed on the Social Security system when those of us in the Baby Boom generation hit retirement age. How do we make sure those reserves are still there? That will be a larger issue. If all the actuaries are correct, by the year 2025, SSA will pay out more than \$3.5 trillion in benefits annually, which is almost \$10 billion a day.

The system is in excellent financial shape now, and we have a good fiscal integrity report. We can say the trust funds are fine. But will they continue to be so in the near future, and what about the long-range? What about Social Security for today's youngest citizen? How do we maintain the respect, public trust and confidence for the financial management of a program that's extremely important to all of us? If we think that the actuaries are not absolutely on target--and no one can project absolutely over the next 75 years--a crisis could come earlier than 2040, say in the year 2020 or whatever.

When you look at this external fiscal integrity, the public may debate about long-range prospects for Social Security. Although it is not a topic everyone wants to discuss, it is something that has to be thought about at some point in time. As we look ahead, we will remember that we do have a Social Security system, and America will decide what kind of a Social Security system Americans want.

Now, while we are trying to get there, the next questions are: How can we run Social Security better? How do we run it as a well-run business? What do we mean by "when and if," any changes take place?

To me, it means quality service; that is, productive and cost-efficient service to our customers; it means opportunities for employee development and advancement for the almost 70,000 employees in Social Security. That's certainly something that they are rightfully very concerned about. It means communicating with the shareholders, communicating with the customers, whether it's today's customers or tomorrow's customers. It also means providing and developing sound financial practices in the organization.

We've done several things to reach this goal. When I first came into this office, we developed a strategic plan, which was technologically oriented. The plan provides the base upon which to build not only our budgeting plans, but also the long-range plans, interim plans, operational plans and performance plans for our employees. The strategic plan has several goals and objectives for the organization, and it discusses the creation of our own future and what we want our own future to be.

We have been in the process of modernizing our Social Security systems and processes. Social Security has made some strides in computer hardware modernization, but we need to do a little more there. We have to work specifically on the modernization of the accounting systems, the internal controls and security systems to make sure they are not only in compliance with generally accepted accounting principles, but also with all the Federal statutes and regulations that are important to all of us. These improvements have to be done in a cost-effective and timely fashion. And we're getting there.

How do we take all of that and try and measure productivity, quality, and cost, and use that to measure throughout the organization our kinds of achievements? There are many opportunities. I think the highlight of our financial management side--and I would not only give credit to the General Accounting Office, but also to the Inspector General of the Department of Health and Human Services, Dick Kusserow, who helped us a great deal--is the issuance of the first financial statements for Social Security that have ever been compiled. They have recently been published and they are now being distributed throughout the Congress.

We have a focal point in terms of improvements in our financial management, with the appointment of a chief financial officer, Norman Goldstein. He was appointed in 1987. We think that we have a good handle on where we want to go internally in terms of financial management.

Customers are real important to us. Most of the American public are our customers. We have no choice in being a taxpayer, and we have no choice in being a beneficiary, if you choose to be a Social Security recipient. So how do we make sure that our customers are satisfied? What do they expect out of us? How do we make sure that we've done a good job?

One way is clearly to survey them, and our survey results have shown that the level of satisfaction has been extremely high; it has been up to about 85 percent. GAO also did a study and found out that the level of satisfaction was about 80 percent. I think that the people who aren't satisfied were probably the ones who wanted to be on disability and were denied. I think we have many customers out there, and they would like to have good public service from us.

We can provide this service face-to-face, or by using telecommunications. The second method is going to continue to be far more important than it has been in the past. We expect that as we use nationwide phone service, then we are also talking about information management and financial management data that drives the rest of the system. We have to look at productivity, and how we're satisfying our customers, and what they are expecting out of us. I think that will be a significant step forward as we move into the future.

How do we back them up with what's on the inside? The chief financial officer is the focal point in Social Security for our financial policies. He is responsible for the requirements of our financial systems, and for implementing the Financial Integrity Act, and our primary accounting systems. SSA is only one of the 55 financial systems at the Department of Health and Human Services. We're trying to improve our performance to make sure that we not only have timely formulation of the budget, but also execution of the budget. How do we separate that out? How do we make sure that out of Social Security we know where all of

this is? How do we know it's in a timely manner? The answer is that we have to have a good accounting system.

We have established a systems review board, which reviews and gives the final approval for all of our technologies. We are going through a massive undertaking of acquiring new technology, both hardware and software.

How do we make sure that these are cost-effective purchases? How do we make sure that the new technologies are properly integrated into the organization? How do we make sure that they have the imprimatur of integrity on them? I see that all these responsibilities fall under the chief financial officer.

He has to perform quality reviews. When we're dealing with 25,000 new claims a day in this country, then we have to make sure that a beneficiary is paid correctly, that the decisions that went with that claim are appropriate, and that the people are doing what we expect.

We have also made great strides in our cash and debt management practices, but we still have a long way to go. You may have seen some of the audit reports about SSA paying too many people too much, or paying too few people too little; or that we spend too much time going after you if we over paid you.

So how do we put that all together? There are between 78 and 90 ways that we compute a Social Security benefit. We run each of these calculations for everybody, and try to give you the highest amount. But, if you collect Social Security and you earn too much from your job, we come after you for a reimbursement.

I'm trying to be a little less intrusive. We are not revenue agents, but we are the Social Security Administration. We have collected more than a billion dollars in overpayments from our beneficiaries. We think we did it in a cost-effective way. For every dollar we expended, we recovered about \$6. We expect that we will do a better job in the future. We think it's a worthwhile investment since we can get those dollars back into the trust funds. The question should be: "How did that happen in the first place?" It would be better if we can also make sure that they do not occur in the future, as opposed to spending our resources on collecting overpayments.

We now have about \$2.3 billion in outstanding debts, and still need to improve. The next question you may ask is: "How do we put together the financial system and the programmatic systems so we can get at that \$2.3 billion?" It is the amount owed, and I'm sure that Mr. Goldstein and his staff will find a cost-efficient way of collecting the overpayments.

Another cash management improvement was initiated by working with the Treasury Department and the private sector with VISA and Mastercharge. There is no reason that if you owe SSA X dollars

that you can't pay with your credit card. We will accept that. We will be implementing a system where Mr. Smith who owes SSA \$5,000, can charge it to his credit card. This joint initiative will be pilot tested soon.

There is also a possibility that we will be using debit cards and the automated teller machines to provide an alternative way of paying beneficiaries who don't have bank accounts.

We have approximately 350,000 recipient beneficiaries of Social Security who reside out of country, and many of whom reside in Europe, Australia and New Zealand. We expect that through this spring and summer, we will be able to have direct deposit in the currency of their economy. It will save significant dollars for SSA if they all come online. The beneficiaries do not have to pay for the check cashing and this will reduce the overseas payment. We think that this is another idea whose time has come.

Systems security is the last item that I'll discuss. We need to have audit trails with our computer processing. How do we make sure that there is security when you have 25,000 claims being processed a day? Can transactions be tracked back to an individual so that we ensure the integrity of the Social Security system, both internally as well as externally?

We expect that if we aren't given credit now for being a model for the government, then it will soon come. We know that we have more to do. We are getting advice from the Inspector General and GAO. I do not see them as adversaries, but as constructive critics. I think there is a big difference. As we have often said, we may not always agree, but we listen to each other. There is much more that we can do together to improve the management in our agencies.



F. DALE ROBERTSON
CHIEF, FOREST SERVICE
USDA

Financial management to the Federal executive is a real dilemma. On the one hand, we have to do all of those things demanded by the Federal system to stay out of trouble: don't over-spend your budget, spend money exactly as it was appropriated, plan ahead, spend your funds as though there is no next fiscal year, and build in an elaborate set of controls to prevent fraud, waste, and abuse.

In general, the pressures surrounding a Federal agency tend to force us into being plodding, cautious bureaucrats, resulting in mediocre performance at best. And in today's world, that's not good enough!

From my perspective, the Federal budget and financial management systems is heavily "control oriented" and does a reasonably good job at it. More than anything else, it reinforces the management culture and climate that has evolved over the years surrounding the Federal executive.

As important as financial controls are, there is another side to the Federal Government: that is, we have a job to do for the American people, and we ought to be doing it for them efficiently and effectively.

The budget and financial management system ought to reinforce the "management side" of government, just as much as it does the "control side." We badly need a better balance between the two.

In the case of the Forest Service, we're taking some first steps to improve financial management, and I want to tell you about them. But first, let me tell you a little bit about the Forest Service as background for our financial management system.

We have a budget of over \$2 billion, with revenues of about \$1.4 billion. We are a very decentralized outfit with more than 800 field offices. We have more than 30,000 permanent employees supplemented by an additional 12,000-15,000 seasonal employees during the summer work season. With this size of operation, we need a good financial management system.

We basically have three jobs to do. We manage 191 million acres of National Forest land. That's 8-1/2 percent of the land area in the United States. It's an area equivalent in size to Texas, plus 10 percent. We run the largest forestry research organization in the world, with about 750 scientists producing more than 2,300 scientific publications a year. We encourage good forestry and conservation practices on private forest land through various kinds of financial and technical assistance to the private landowners working through the State Foresters.

Let me give you a few specifics, to give you a feel for the kinds of work we do.

We are the world's largest firefighting outfit. Last year we mobilized more than 25,000 firefighters at one time to handle the worst forest fire situation in the west since 1929.

We have about 25 percent market share of the Nation's timber going into lumber, plywood, and other wood products, which is more than a \$1 billion business a year. We are the leading supplier of outdoor recreation in the U.S. Recreation use on the National Forests is more than double that in the National Parks. We provide a home for about 50 percent of the nation's big game animals and have about 50 percent of the nation's cold water fishing streams. We permit about 12,000 ranchers and farmers to graze their cattle or sheep on the National Forests.

Our researchers are working on critical national problems such as acid rain, control of forest insect and disease outbreaks, and how to better manage the forests.

We're the number 1 producer of marijuana with about 20 percent of the domestically grown crop. That's something that we're not proud of, but nevertheless, it is a big problem for us to deal with.

When you add it all up, not counting the drug industry, Forest Service programs generate about 500,000 jobs in the private sector.

As you can see, the Forest Service is a production-oriented outfit: we fight forest fires, fight insect and disease outbreaks, plant trees and grass, build trails and roads, pick up garbage and debris left by recreationists, mark and sell trees to the forest products industry, which does more than a billion dollars in business a year, protect the forest against trespass and other illegal activities.

These are the kinds of jobs where productivity, efficiency, entrepreneurship, innovation, creativity, and good management should prevail over the traditional bureaucratic ways of the Federal Government. Our financial management system ought to reinforce these basic principles and the nature of our work by providing timely, relevant, and reliable information to the managers of the Forest Service.

Our financial management system does a good job in "balancing the books" at end of the fiscal year, and makes sure we are legal. But, it has not given us good, reliable management information on unit cost nor matched costs with revenues for program/projects by organizational unit. That's not to say that we're not doing a reasonably good management job, but we're doing it in spite of the financial management system, not because of it.

The Forest Service ought to be a model Federal agency in providing timely, pertinent, and reliable financial information to our managers because we have long range plans in place for each national forest identifying opportunities for producing specific output targets such as timber sales, reforestation, timber stand improvement, outdoor recreation opportunities, hiking trails, roads, fish and wildlife habitat improvement projects, and on and on.

Our annual budget is based on implementing these local plans and achieving a certain mix of output targets. More than 75 percent of our budget can be tied directly back to tangible output targets.

We outline in detail to Congress in our Budget Explanatory Notes what level and mix of output targets we will achieve at the proposed budget level. Once the budget is approved, we allocate the dollar and output targets to our field units and monitor their progress through quarterly accomplishment reports.

We build all of this into our performance standards and performance evaluation system for Forest Service managers. At the end of the fiscal year, we submit an annual report to Congress accounting for how well we did in achieving the output targets that were funded in our appropriations act.

That all sounds well and good, and should provide a perfect setting for a good, simple, effective financial management system. But, that's not the case! There are a couple of problems that need to be worked out.

The first problem is the rigidity of the system. The financial management system is too rigid and inflexible to deal with the ever-changing realities on that Texas-size forest out there in 43 States. The budget is prepared 2 years before it is ever executed, and things change in 2 years.

We have forest fires, floods, droughts, insect and disease outbreaks, changing markets for timber. Water and sewage systems in our recreation areas fail, and people walk in the front door with proposals having a major impact on our time. You just can tell people, "sorry, it's not in the budget" and to come back in 2 years. You can't run 8-1/2 percent of the United States on that kind of basis and do a responsible job.

The rigidity built into our financial management system is largely caused by the Forest Service's trying to be responsive to the controls built into our budget by the Congress. By the time our dollars and targets are allocated down to a District Ranger, that ranger may have as many as 50 little pots of money to do thousands of different jobs, many of which are not anticipated or planned. At the same time, we tie our District Ranger's hands, and give them little authority to shift funds around without going through a long, drawn-out process of getting reprogramming requests through the Federal Government apparatus.

Just visualize in your mind the last 4 months of the fiscal year--June, July, August, and September. The heavy work season, forest fire season, cattle grazing season, heavy recreation use months, heavy logging and road-building season. It all comes together out in the forest with a peak level of activities in these months. That's why we hire 12-15,000 summer employees to get these jobs done.

We make adjustments and reprogramming requests up through mid-year, but come June 1, we are programmed for the balance of the fiscal year with no slack time. Rangers can't stop if things aren't quite working out just as their 50 little pots of money were visualized 2 years ago and wait for approval of reprogramming of funds to fit the changing realities on the ground. If they did, the fiscal year would be over, the money gone, and the jobs not getting done which would all add up to a failure.

So, what's a practical ranger to do? The rangers are being held responsible for getting all of the output targets accomplished in spite of the system. They do it by charging their time "as planned" or as programmed rather than "as worked." This makes the "books balance out." It's the adjustment that simply has to be made if the rangers are successful in getting their jobs done and output targets accomplished. But, in the process, we end up with unit-cost data based on plan, rather than actual cost.

As much as we may try, we simply can't force reality on the land to conform to a rigid, inflexible budget and financial system, without failing in our job. So, we've done the next best thing, and that is to try to be responsive by joining the two together in an unhappy marriage and making the best of the situation.

The second problem we face is multi-year projects. Most of our work on the National Forests is multi-year in nature. For example, a timber sale and related road construction projects are in the pipeline for about 10 years before they are completed. Yet, we have mostly annual funds. Again, our financial management system is designed to account for a 1-year slice out of a multi-year program.

I'm embarrassed at the tremendous amount of time and money we spend every year to "balance out our books" on September 30, just to start up again full bore on October 1. Yet, that's what we excel at and do best. By concentrating on this aspect of financial management, we're sacrificing some important management information needs, such as collecting accurate unit-cost figures, and being able to match revenue with cost by program/project by organizational unit.

As you can tell, the Forest Service is not very happy about our budget and financial management system. And neither are a few other people, like GAO and the Appropriations Committee. So, let me tell you about two things we are doing which I believe will go a long way towards improving management in the Forest Service without sacrificing financial controls which are essential.

A major issue in the Forest Service is something called "Below-Cost Timber Sales." Overall, the Forest Service makes a \$200-400 million profit in the timber business. But some forests make money and other forests lose money. People are concerned, and rightly so, that in some cases the Forest Service is selling timber at a price below the cost of the government to put it on the market.

Now, there are some good reasons for this, but because of our poor accounting system, we couldn't give straight answers to some very pointed questions. So, the House Appropriations Committee directed the GAO to work with the Forest Service to come up with a new Timber Accounting Information Reporting System based on commonly accepted accounting principles.

Together with GAO, we developed a "management oriented" timber sale accounting system that permits us to keep track of cost of timber sales, across fiscal years, by National Forests. It's also designed to match revenue with cost.

We will implement it throughout the Forest Service in FY 1988, at which time each Forest Supervisor will have a profit/loss statement for their timber sale program. It will also permit me to answer the very pointed questions that I've been unable to answer up to now. But, most importantly, I believe that the new timber sale accounting system will result in tightening our management, and better and more informed decisions in the Forest Service.

Now, I'm about to say something that may fly in the face of conventional wisdom in the Executive Branch. That is, GAO was of tremendous help to us in designing this "management oriented" timber sale accounting system. I found that they know their stuff and had a lot of good ideas that we accepted. They were experts in the accounting business, and we were experts in the timber business.

Together, we had a team effort in developing an accounting system that both of us are proud of. It meets our management needs and it conforms to generally accepted accounting principles. Fred Wolf and his people at GAO were great to work with on this project.

Next, I would like to talk about changing the rules. With the good experience of the timber sale accounting system under our belt, we're now trying to take the next step. That is, we're asking Congress to join in helping us out in changing some of the rules so that we can truly have an effective budget and financial management system to permit the Forest Service to do an even better job.

We're asking their approval to 1) go to 2-year funds for the Forest Service to better reflect the nature of our work, and to avoid a tremendous amount of useless effort going into "balancing the books" on September 30, 2) reduce the number of individual budget line items in our budget, which are now more than 50, and 3) to focus on their control on output targets and total dollars by appropriation. We call this "end results budgeting."

We would still provide the same amount of information to the Congress, and they can still provide us whatever direction they want in terms of work to be done on the forests. But we are asking them to tie their reprogramming requirements to output targets, rather than tight control over dollars by individual budget line item.

We've pilot tested this approach with a few field units, and it works. We've increased accountability and increased productivity by as much as 15 percent. It permits our field line officers to focus their attention on getting their priority jobs done within the total budget, rather than trying to balance out so many little pots of money on September 30.

It would also give our rangers the incentive to account for their time "as worked" rather than "as planned or programmed." We would eliminate the penalty for making marginal shifts in funds among line items in order to better reflect realities on the ground.

We're hopeful that the Congress will go along with our request. The Appropriations Committee again has asked GAO to work with the Forest Service in developing the details of the

proposal and to give them their independent assessment of the proposal.

Again, we have a good working relationship with GAO, and they have made several helpful suggestions which we have incorporated into our proposal. I'm hopeful GAO and the Congress will be supportive and receptive to these changes in our budget which is the key in laying the foundation for a much better financial management system.

In conclusion, I believe that in budgeting and financial management, the Federal Government is caught up in a lot of tradition and a system that's going to be very difficult to break out of. It is heavily "control oriented," and financial controls are necessary. But, we've also got to support and encourage effective management to of the Federal bureaucracy through the financial management system. It ought to be supportive rather than a stifling influence on good management.

If the Forest Service is typical of the Federal Government, we've got a long ways to go and it will be difficult to get the trust and support of the Congress to bring about change.

From a management perspective, I believe our financial management system is now producing a low value product at a great cost. If that is true beyond the Forest Service, it ought to worry us Federal managers a great deal, even to the point that we ought to try to do something about it.



TERENCE GOLDEN
ADMINISTRATOR
GSA

Before moving over to GSA, I was an Assistant Secretary at Treasury, where I was involved with the President's Council on Management Improvements (PCMI), and I headed up the group that looked into financial management systems. We worked principally with Price Waterhouse on developing a strategic plan for financial management in the government. Now, I'd like to just give you my thoughts about financial management in the Federal Government. I will also give you some of the big issues in government, that I see were reflected in the Price Waterhouse study. One is that we have a very limited use of financial management information in the Federal Government. My experience at Treasury and GSA has been that the primary focus is how expenditures have been spent compared to budgetary amounts.

Being successful has been defined as achieving, and not spending more, but just exactly the amount of the budget. We had a very difficult time tracking progress with projects, trying to determine what loan status might be, and any sort of a measurement on productivity. It became very apparent to the PCMI that we had a problem with consistency and not having comparable governmentwide information in which to evaluate where we're headed as a government.

Another big issue is the poor quality of financial information within agencies. One of the surprises I had was in the area of timeliness. Even at Treasury, which has a fairly strong financial system, many times we would wind up getting financial reports 2 to 3 months late. It's pretty difficult to be involved in managing something when you're basically looking 3 months through a rearview mirror. There was also some questions of accuracy and just how the information was presented. It became so cumbersome looking at object classes and a lot of data that was

more geared to financial accounting than overall meaningful financial management information.

Another area that concerned me was the fragmented financial management function within departments. There's just a tremendous number of accounting systems overall in government. I've tried to identify some, for example, the Defense Department had 123, HHS had 55, and Treasury had 26.

Another issue that concerned me was the lack of overall responsibility for financial systems. At Treasury, I asked the question: "Who is responsible for financial accounting within the Treasury Department?" The answer, at that time, was no one. I discovered that it was scattered. Each group had individual responsibilities. Some of the bureaus had controllers and others had people that were involved in administration. I had a few accountants on my administration staff; but really, there was no one with overall responsibility for financial systems. Moreover, no one was really concerned about developing an integrated, meaningful financial system.

We also had separate personnel systems with no coherent plan for ever integrating those systems. So, in my estimation, we have many issues to deal with.

Probably one of the biggest problems I see--and this is something that GSA has been trying to wrestle with--is the basic capability within our information systems to deliver information. Part of the problem is the age of both the hardware and software that we're dealing with in government. To give you a comparison between the Federal Government and the Fortune 500 companies, our computers are, on average, about twice the age of those in the Fortune 500. Our systems typically are two generations behind what are being used in the Fortune 500. When you consider the amount of financial information that we have to manipulate within GSA--and Treasury--millions upon millions of transactions--you realize that this is in itself an impediment to getting the job done.

Finally, there are many questions that need to be addressed by this group to see what can be done in the future to do things differently. One is the question of financial skills. I was surprised to learn how few CPAs we have in the government. We didn't seem to be attracting the type of person nor the individuals that were really qualified to be in the financial management area. I think, of those few skilled people we had, we clearly had some problems keeping them. I think, if you look at what the government is paying as opposed to what is being paid in the private sector, you will clearly see some problems.

Salary is another area of concern to me. As far as the chief financial officer is concerned, I would say there's probably only one of those in an agency. When you compare \$75,000 being paid in the public sector with the \$115,000 in the

private sector, we see about a \$40,000 gap between the two. I would say typically, the individual in the public sector has more responsibilities and more demands being placed on him in terms of not only living with the systems, but really trying to develop the systems and put them in place in a very complex environment. The other end of this scale--the entry-level accountant is also a real problem and a concern to me. Here, we're talking about a 40 percent gap between the wages of the government and the private sector. It seems clear to me that if we're going to deal with the issue of improving our financial systems, we must make some changes in this important area.

As far as GSA is concerned, we've done a number of things that, I think, have improved the situation within GSA and I don't mean to be bragging here, but rather, to indicate the direction that GSA is moving. We have a long way to go but I think we have made some important first steps.

We've instituted a strategic planning process whereby some of the top 100 career and political appointees set and established 10 measurable goals for the agency. Then they must develop our budgets year-by-year to fit in with that strategic plan. What we had from the outset is an annual budget that was reflective of some long-term goals. This was one of the things that was very successful within the Financial Management Service at the Treasury Department.

Finally, within the last year and a half, we developed an online real-time financial management information system that gives us some good quality information. This system makes available to me and the senior managers, who are not very computer-oriented, critical information about GSA's operations that they can work with. This financial information still has a great deal of problems. Its quality is suspect in some cases; and we are still having major problems with timeliness. But for the first time, we can begin to measure productivity, as well as performance against goals.

We've also instituted a number of other programs at GSA, that I think make a lot of sense. We've produced an annual financial report accompanied by audited financial statements. In that regard, for the last several years, GAO has been auditing our financial statements. This makes a big difference as far as the agency is concerned, and this is why I really support the program. Having someone from outside GSA audit the books puts more pressure on us. We have to be concerned about the quality of information we are maintaining. It also provides us some input from some people who have some tremendous capability in that area. So I've been very supportive of it.

Also, at the same time we appointed a controller who has overall financial responsibility for accounting information within the agency. No longer are our equivalent of bureaus--we call them services--responsible for producing some accounting

information and each group having separate responsibility. We now have one person that we look to, within GSA, to be responsible for high quality, timely financial information, and for developing the financial management systems that we need.

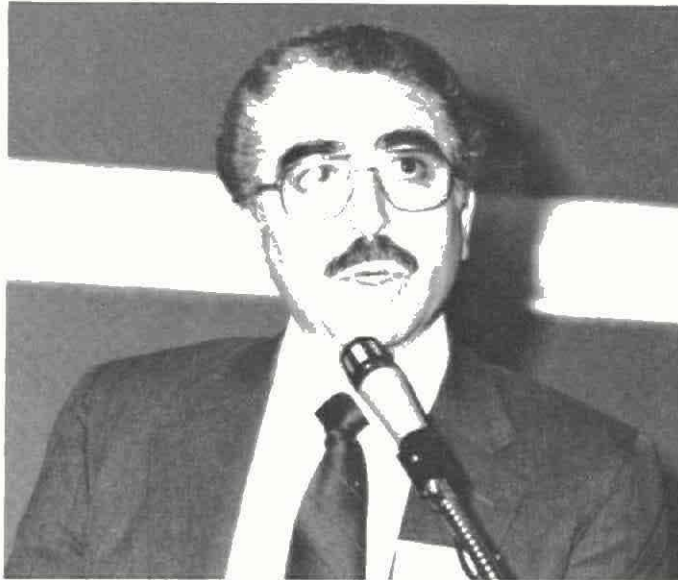
Finally, a change that we've made this year and we hope to institute, is to have an outside CPA firm audit our books. GAO will not be doing our books, but instead, we'll have one of the major CPA firms working with us to develop our financial statements, and have them audited. I think the experience we'll gain is to have very qualified and professional people work with us to strengthen our financial systems.

To summarize where we are within GSA, we've made some reasonable progress; but it's clear that we probably have another 5 to 7 year track to go before we get the quality of financial information that we'll be satisfied. Thank you very much.

QUESTION: "How does the controller for the financial management information system differ from the controller for the accounting system?"

MR. GOLDEN: At GSA, one person has responsibility for both the financial management information system and the accounting system. The responsibility for producing accounting data lies in a number of different groups within the agency; and, as a result, no one had a real sense that they had overall responsibility. At Treasury, people in our bureaus were accountable to the head of that particular bureau and not to the controller. That is a major difference. The point to be made is that now 100 percent of the financial information and 100 percent of the accounting systems and accounts are under the control of one controller at GSA. The controller has the responsibilities for the quality and timeliness of financial information for the whole organization.

CHAPTER 5 - WORKSHOPS
SYSTEMS AND TECHNOLOGY



Orlando Turrietta, Manager of Switching and Expense Separations Division at Pacific Bell, discussed how Pacific Bell approached modernizing its financial management information systems. They developed a treasury evaluation and analysis model, and systems for tracking short-term debt, replacement costs, and cash flow. These efforts focused on reducing the time to develop, analyze and report financial information on management decisionmakers--the same issues faced by Federal Government decisionmakers. Consultants were used during the design phases, while in-house staff developed and integrated the operating system architecture and the business, product, and electronic message services.

Mr. Turrietta noted that commitment to the systems modernization efforts was paramount if they were to succeed, and he shared a guiding quote by Confucius from his planning calendar: "In all things, success depends on previous preparation and without such preparation, there is sure to be pain." So, employees were prepared and briefed on the benefits of modernization and convinced of its importance and their capability to provide desired information.

Pacific Bell's systems modernization project results included 1) the successful shift from "selected employee ownership of data" to "stewardship of information for the organization," 2) an increased understanding of the entity's goals, 3) better quality, more timely financial management information, and improved financial performance since the 1983 adoption of their comprehensive information system.



David Mitchell, Deputy Controller of Financial Management Systems, General Services Administration, discussed initiatives underway to modernize that agency's information systems for agency managers. His work experience includes more than 20 years at AT&T. In his current position, he is responsible for agency-wide financial management oversight which includes promoting financial management skills as well as reviewing and improving financial management activities.

Mr. Mitchell noted that GSA's financial management system, along with most Federal agency systems, was designed to serve the information needs of budgetary accounting, providing appropriation and obligation data. Such estimate-based reporting does not provide complete, financial management information. To meet recent consolidated financial management and systems requirements for each Federal department or independent agency, modernization efforts are underway at GSA to develop an integrated financial management information system's architecture (called Executrack). This system will interface with all the ongoing, decentralized systems that provide the various core elements of Federal financial information needs: planning strategies, internal and external reporting on budgetary, financial, program, and operational data, and personnel information. The objectives of this comprehensive, interactive system's architecture are to provide historical financial information and to project such data for management's forecasting needs to accommodate priority agency strategies and initiatives such as reducing staffing or the amount of building space used by the government.



Marcus Page, the Deputy Fiscal Assistant Secretary, Department of the Treasury, described Treasury's pilot plans for a comprehensive electronic data system. Due to Treasury's cash account maintenance and consolidated financial reporting responsibilities for the Federal Government, its systems undertakings generally impact all agencies. Mr. Page introduced the Treasury's newest system as "EDI" which stands for Electronic Data Interchange. Basically, EDI completely eliminates paper in business transactions. Pilot EDI disbursement system operations are ongoing in the Veterans Administration, Tennessee Valley Authority, General Services Administration, and Defense procurement.

The EDI system handles all steps of transactions electronically for 120 standard business transactions, such as purchase orders, invoices, shipping advises, price change announcements, payments and standard transportation transactions. EDI provides improvements in operations timing and data handling, and facilitates associated costs between manufactures, wholesalers, distributors, retailers, brokers, shippers, banks, government, etc., through electronic exchange of data. It provides a higher level of internal control over the data than conventional mail or telephone services. It also prevents the comingling of information and makes unauthorized use of data extremely difficult.

Other system features of EDI include technology and hardware for monitoring Treasury's 540 bank accounts and promoting electronic fund transfers. Direct electronic payment of invoices to vendors was initiated in the summer of 1987 and is known as the "Vendor Express" program of the EDI system. While continuing to process cash disbursement transactions through the Automated

Clearinghouse (ACH), conversion of Federal Government vendor payments from the ACH environment to EDI is projected to be completed over the next 2 years or so.

The Federal Government is currently emphasizing on consolidating management information systems, standardizing the general ledger accounts, establishing core requirements for computerized financial systems, and adapting commercial financial software for Federal agency/government needs. Mr. Page sees that EDI in the Federal Government as increasing at a fast pace, eliminating the report preparation process and related paper accumulation, and providing greater control over data. This will project financial managers into a larger role in the management of their agencies programs and allow them to focus on managing resources. He sees technology as the carrier to that end. Over the next 5 years, cross-servicing will also increase, and those financial service centers will interact electronically with Treasury and OMB providing desired financial management data exchanges. Mr. Page also noted that Treasury is still grappling with problems such as security over the system, its components, and the data.

MANAGEMENT INFORMATION



Ray Bell, Technical Consultant, Amoco Corporation, began his talk by offering a private sector definition of both information and management. Information was "the information management needs in order to manage" while management was "planning, organizing, controlling, and leading."

Based on his definitions, Mr. Bell felt that management information systems (MIS) don't exist and are not artificially created. Instead, they evolve in response to demands for information from different levels of management. Each level of management, from directors and executives to the foremen and supervisors, has different information needs. But they all use their information to create dollars for the corporation. They do this by gathering data, applying rules to organize and value it, and using the knowledge thus gained to make decisions.

Fully, 80 percent of all corporate activity deals with some aspect of information, from gathering it to using it as feedback to refine the operation. In some parts of the corporation, this percentage can reach 95 percent. Since the different users of corporate information have different needs, it helps if the information can be integrated. Not surprisingly, the most managed information is the transactional type since it is relatively easy to format.

Information in a corporation may originate either at the management level or at the operational level, but the information that goes up the ladder has several unique problems. First, great care must be taken to ensure that the information continues to say the same thing as it goes up the ladder. Second, it needs to be responsive to the management that needs it. And, third, it needs to answer the general questions that are asked of it.

Unfortunately, the third problem is the one that is the hardest to solve. The information demands of management have risen so fast that the demands have outstripped the ability of most current MIS. Even the most advanced MIS currently do not have the ability to answer general questions. To solve this problem, Mr. Bell recommended identifying subject matter experts in the organization and assigning them the responsibility for getting the necessary data. By putting together a list of these experts and posting it in an electronic mail system, the MIS could meet the burgeoning information demands.



William Rice, Deputy Chief, U.S. Forest Service, discussed his agency's management information system. To understand the Service approach, two key definitions are essential. The first definition is that of information. The Service defines information as "knowledge gained from the analysis of data using some set of criteria or values." The second definition is management, which is defined as "the wise use of anything to accomplish an end." So information management, therefore, is the wise use of knowledge to do work.

For the Service, there are 3 main components of a MIS. The first component is the information itself. Information is considered a resource and managed accordingly. It is gathered in a corporate environment which influences the way it is gathered. The medium by which the information is gathered is the second component. Since the Service is highly decentralized and contains over 800 units, it was decided that the organization would be computer linked. The third component was the actual processing of the information to make it knowledge. This involves the application of the corporate values and the corporate mission.

When the Service moved to the electronic base, they found that the electronic medium (computers) changed the actual format of the gathering and the analysis of the information. It was not efficient to transfer paper based systems to computer environment. Based on this realization, the Service developed new information gathering strategies, starting about 5 years ago. Currently, they are enjoying the rewards of redesigning their

information gathering strategies. It has led to increased productivity and higher morale.



Herbert Kraft, Deputy Assistant Secretary for Management Systems, Department of Defense (DOD), discussed the DOD Management Information Systems (MIS) in terms of a specific user, the financial manager. DOD financial managers decide what information they will collect by evaluating the external agenda that DOD is given to implement, developing departmental goals from it, implementing the goals, and obtaining feedback on the results.

As the focus of DOD financial management, the Comptroller's area (OASD(C)) is responsible for the following areas: cash management, including prompt pay, debt collection, internal management control, accounting systems, and management improvement DOD-wide. OASD(C) seeks to translate the OMB and Treasury requirements into DOD policies and procedures.

Three programs on its MIS are: Prompt Pay, Internal Management Control, and Financial Management Systems. DOD goals for Prompt Pay are: to comply with the legislation and OMB Circular A-125, make payments at the proper time, neither early nor late, and to establish reports that provide feedback to the appropriate officials inside and outside of DOD. The DOD feedback reports have identified various problems that the OASD(C) is now working to correct. These problems include: increasing late penalties, inaccurate reports, delays in receiving and processing payment paperwork, and high personnel turnover. Plans were developed to address these problems, and DOD has developed a multi-year strategy to modify and modernize payment systems. DOD components have designated points-of-contact to work with OASD(C) and have established prompt pay critical elements in key managers' performance standards. In addition, the DOD has initiated corrective actions for payment deficiencies, and has increased its monitoring of the prompt pay results.

For internal management controls, DOD would like to develop systems that provide the Secretary of Defense assurance that

obligations and costs are in compliance with applicable laws; that funds, property, and other assets are safeguarded; and that accounting systems maintain accurate, timely financial information and reports to enhance managerial accountability. The DOD feedback reports have been enhanced by numerous on-site visits that have verified the data that has been provided through channels. These reports have identified numerous internal management control weaknesses and highlighted the current lack of management accountability. Plans have been developed to require managers to organize the process into logical steps designed to identify, report, and correct weaknesses. Because the internal management control responsibilities have been assigned to specific managers, in the form of milestones, it is possible to track each manager's accomplishments. At the end of each reporting period, the various components have prepared their reports which form the basis for the Secretary's assurance to the OMB and Congress. The DOD IG reviews the reports and indicates issues for management consideration that they believe are internal control weaknesses.

In the area of financial management systems, DOD would like to bring systems into compliance with GAO standards and to achieve a single, integrated FMS system in DOD. The reports have highlighted the progress of every developmental system. They include explanations of slippages, accomplishments to date, and requests for OASD(C) assistance. As of the end of Fiscal Year 1987, the total number of systems was 94. DOD has reduced the number of accounting systems not meeting prescribed principles and standards by 67 percent.

In conclusion, DOD is using information more systemically to achieve effective management changes/improvements. OASD(C) has stressed tailoring information collection and use for management needs so that the right information in the right quantity is available.

FINANCIAL AUDITING



Richard Kusserow, Inspector General, Department of Health and Human Services (HHS), highlighted some of the management issues which are currently facing the Social Security Administration (SSA). He stated that there should be continuity of management in SSA; that more attention should be given to SSA's controllership function, which could rectify some of its current problems; and that SSA needs to develop financial statements which can then be audited by HHS' Inspector General's (IG) staff.

SSA was one of the first agencies to appoint a chief financial officer (CFO), when Norman Goldstein was appointed CFO in 1987. The CFO is a focal point in SSA for its financial policies and requirements for its financial systems, and for implementing the Financial Integrity Act and its primary accounting systems. With the help of GAO and HHS' IG staff, the CFO and his staff developed SSA's first financial statements. Although the financial statements contain a number of caveats, it is still a major achievement for SSA to have developed them.

HHS' IG staff developed a methodology for auditing the statements. Using a large number of auditors, the IG staff looked at the accounting numbers, reviewed the financial and non-financial records and the board of directors' minutes of its meetings. It identified the system's weaknesses that needed to be addressed in such areas as: internal controls, financial compliance, and the evaluation of properties.

The answer to whether it was worthwhile to have audited financial statements was an unequivocally "yes." SSA is a very large agency, one-fifth of the Federal budget, with very specific responsibilities to its beneficiaries, who are its customers, and to its taxpayers, who are contributing to the Social Security system. SSA has a unique responsibility for maintaining public trust and confidence in itself and the trust funds. The public needs to see financial statements and to hear from the CFO, that the trust funds are sound, that SSA is in excellent financial shape at the present time, and that medium- and long-range

projections are being made to insure their continued growth in the future.

HHS' auditing of SSA's first financial statements has been very beneficial for SSA. It has opened up the opportunity for further audits, and has required SSA to take follow-up action on certain problems. It has focused management's attention on the areas that need further improvement. In conclusion, Mr. Kusserow stated that the SSA and his IG staff are working together to make SSA a model for good government.



Bruce Barr, Director of Auditing and Security, AT&T, discussed the role of financial auditing at AT&T. Financial statements and reports are the core of AT&T's business. The corporation uses them externally for its shareholders and potential investors, and internally even more extensively. Financial reports tell AT&T how it is doing and if it is meeting its organization's goals and objectives. Analysis of those financial reports provide tips on actual or potential problems in the operations and potential misbehavior among its people. Financial reports provide an exceptionally important internal control for AT&T. Auditing of the financial statements and reports is critical to AT&T's success. It needs to rely on those financial reports. If they are not accurate, the opportunities for wrong things happening is unlimited.

Mr. Barr outlined four initiatives that are having a strong impact on improving the financial management of AT&T. The first initiative was in the area of mechanized auditing. AT&T is working to integrate computer assisted audits into its audit program. However, it was concerned that an evolutionary approach may not get it to where it wanted to be in the next decade, and certainly not into the next century. This is particularly true with regard to financial systems. To deal with this concern, it commissioned the Bell Laboratories to develop a concept, an architecture, and specific applications for mechanized auditing that embraces both current state-of-the-art technology and an anticipation of what's coming on the horizon.

The current phase of research and development is focusing on a Continuous Process Auditing System, or CPAS for short. It is designed to deal with the problems of auditing large data based systems. The CPAS methodology involves the measurement and monitoring of large systems from the top down, drawing metrics and analytics into a workstation environment. The data are displayed in an interactive mode, providing auditors with a work platform to examine extracted data and prepare audit reports. CPAS also monitors key analytics, compares these with standards and rings alarms when necessary. CPAS will allow for the capture and impounding of auditor expertise both into measurement analytics as well as into system probes in the form of embedded audit modules to monitor the auditee's system.

A second initiative was to broaden the scope of auditing by developing and initiating a family of audits, called "management process audits." This type of audit reviews management processes that are designed to accomplish certain broad missions. These audits examine the effectiveness of those management processes and identify weaknesses, breakdowns, and opportunities for improvement. The financial systems and the management information they provide are very important elements of the audits. This kind of audit is especially useful in looking at management processes that cross a number of organizational boundaries.

A third initiative that is having significant impact is what AT&T calls its Corporate Audit Program for Professional Development. Its objective is to bring into auditing high potential managers, usually from financial organizations, give them a 2-year developmental experience, and send them back as believers in internal controls. During the program they perform many audits, they get an exceptionally broad and in-depth look at the business, and receive a thorough indoctrination on financial and other management controls. As they rise through the business, they will not only know what controls to install in their organizations, but will also be able to receive an audit report constructively and gracefully.

A fourth initiative is called "real time audits." AT&T is engaged in a number of massive projects in the financial area. One example is a major overhaul of its financial systems architecture. Another example is the development and deployment of what will be one of the world's largest billing systems, dealing with over 80 million customers. In each case, internal auditing is conducting a family of audits "in real time" during the development and deployment of the systems, each of which will span several years. AT&T has multiple clients for these audits. In addition to the senior officers of the corporation and the Audit Committee of the Board of Directors, the project management team and the internal stakeholder departments affected by this project are very important clients. The most significant impact of these real time audits has been in the area of project management. A major member of the audit family for each program is an evaluation of the adequacy and effectiveness of the project

management process. The more AT&T can help insure that the project management process is constructed properly and working well, the risks to the corporation in these areas are more effectively controlled.



Dennis Duquette, Associate Director for Financial Audits, General Accounting Office, discussed the reasons for auditing agency financial statements. Since agencies have to be accountable for their actions, they must have the reporting of results. The agency's financial statements and related supporting schedules should be included as an important part of any report on management's stewardship--and this financial information must be credible and its credibility is achieved through independent audit.

An independent audit is valuable, perhaps even essential, to the operation and acceptance of an effective accountability model. One of the most useful benefits of conducting a financial statement audit is the comprehensive review of the agency's financial management operations. In doing a financial statement audit, auditors look at the data processing activities from an internal control perspective. They look at those systems that process the transactions that ultimately reside in the financial statements. In doing so, they see the quantity and quality of financial management information that is available to program managers and other line decisionmakers, which is often very telling. A big advantage of conducting a comprehensive review of financial management activities is the opportunity to assess, at one point in time, the reliability, uniformity, and adequacy of financial information used by program decisionmakers and financial managers alike.

Another advantage of performing a financial audit can be broadly classified as opportunity. There are two sides to this--one to create, and one to solve. There is an opportunity to deal creatively with accounting issues and to deal with budget-to-actual reporting, with cost reporting, with productivity measurement, and one opportunity to deal with the financial management systems that can or should provide this information. On the

other side, there is opportunity to solve disturbing problems. There are findings to be dealt with related to pervasive internal control weaknesses, violations of laws and regulations, illegal acts, fraud and abuse, waste and inefficiency, and unqualified or untrained staff. Virtually every financial audit surfaces problems associated with operational weaknesses.

Another significant effect to performing financial statement audits is the deterrent effect. The anticipation of a regular audit, better yet even an unannounced one, has a distinctly salubrious effect on financial operations. People usually like to avoid criticism, and they will normally take extra care to avoid errors and complete their assigned duties. A very useful byproduct of conducting a comprehensive review of an agency's financial management operations is its resultant planning value. You will see, at one time, where all the problems are--not just financial management and you will see them from the perspective of relative significance.

The findings that have resulted from financial statement audits are in three broad categories: operational, accounting, and audit. The operational category can be further divided into: internal control, economy and efficiency, and compliance with laws and regulations. In the category for accounting, you may find no Title 2 financial statements, or when they do exist, inappropriate or incorrect presentation, poor disclosure, and weak support. In the last category, one of the important benefits to the auditor is the knowledge of the total organization that can be used to plan future works.

Mr. Duquette summarized that a financial statement audit of a Federal agency is well worth the effort since it is an important part of management's report on its stewardship.

CHAPTER 6 - PREVIOUS AWARD WINNERS

DONALD L. SCANTLEBURY MEMORIAL AWARD WINNERS

<u>1986</u>	William E. Douglas Commissioner, Financial Management Service Department of the Treasury	Douglas R. Norton Auditor General State of Arizona
	John R. Quetsch Principal Deputy Asst. Secretary (Comptroller) Department of Defense	
<u>1985</u>	C. Morgan Kinghorn Comptroller Environmental Protection Agency	Edward J. Mazur State Comptroller State of Virginia
<u>1984</u>	Clyde E. Jeffcoat Deputy Commander Department of the Army	Earle E. Morris Comptroller General State of South Carolina
<u>1983</u>	Roger B. Feldman Comptroller Department of State	James F. Antonio State Auditor State of Missouri
<u>1982</u>	Harold L. Stugart Auditor General Department of the Army	Roland W. Burris Comptroller State of Illinois
<u>1981</u>	David Sitrin Deputy Associate Director for National Security Office of Management and Budget	Thomas W. Hayes Auditor General State of California

FINANCIAL MANAGEMENT IMPROVEMENT AWARD WINNERS (1971 - 1980)

<u>1980</u>	Marcus Page Director, Division of Financial Management Environmental Protection Agency	Robert Cronson Auditor General State of Illinois
<u>1979</u>	June Gibbs Brown Inspector General Department of the Interior	Anthony Piccirilli Auditor General State of Rhode Island
<u>1978</u>	William M. Henderson Fiscal Affairs Specialist Department of the Treasury	Frank L. Greathouse Director, Division of State and Municipal Audit State of Tennessee

FINANCIAL MANAGEMENT IMPROVEMENT AWARD WINNERS (Continued)

<u>1977</u>	Rear Admiral James R. Ahern Deputy Comptroller of the Navy	Lloyd F. Hara Auditor, King County State of Washington
<u>1976</u>	Alice M. Rivlin Director Congressional Budget Office	Joseph T. Davis Assistant Commissioner (Administration) Internal Revenue Service
<u>1975</u>	Terence E. McClary Assistant Secretary of Defense (Comptroller)	John E. Dever City Manager of Sunnyvale State of California
<u>1974</u>	Bernard B. Lynn Director Defense Contract Audit Agency	Martin Ives Deputy Comptroller State of New York
<u>1973</u>	Edward W. Stepnick Director, HEW Audit Agency	Robert R. Ringwood State Auditor State of Wisconsin
<u>1972</u>	Robert C. Moot Assistant Secretary of Defense (Comptroller)	Richard E. Miller Associate Assistant Secretary for Administration Department of Labor
<u>1971</u>	J. Patrick Dugan Treasurer-Controller Export-Import Bank	John P. Abbadessa Controller Atomic Energy Commission