JFMIP

The Proceedings of the 21st Annual Financial Management Conference

Facing the Facts of the CFO Act

JOINT FINANCIAL MANAGEMENT
IMPROVEMENT PROGRAM

Wednesday, March 4, 1992
Washington, D.C.

Contents

Foreword

The Joint Financial Management Improvement Program (JFMIP) sponsors an annual conference to address current issues in financial management policies and practices within the government. On March 4, 1992, the 21st annual Financial Management Conference was held on "Facing the Facts of the CFO Act." As part of JFMIP's mission to disseminate this information and to enhance the spirit of cooperation among financial managers, we are publishing the conference proceedings.

The keynote addresses were presented by Charles A. Bowsher, Comptroller General of the United States, and Frank Hodsoll, Deputy Director for Management, Office of Management and Budget.

The luncheon session remarks, appearing in the second chapter, were presented by JFMIP Principal Constance B. Newman, Director of the Office of Personnel Management, and E. John Prebis, Chief Financial Officer of the Office of Personnel Management. Ms. Newman, Mr. Bowsher, and Mr. Hodsoll presented the JFMIP awards for leadership in financial management improvement. Secretary of Health and Human Services Louis Sullivan joined the luncheon ceremony also.

A plenary address by Edward J. Mazur, Controller, Officer of Federal Financial Management, Office of Management and Budget, led the afternoon program. The address was followed by four concurrent panel sessions which covered the topics of model approaches to financial reporting, budgeting and accounting issues, audited financial statements, and technology-driven cash management in the 1990s. Summaries of these sessions are found in Chapter 3.

Acknowledgements

We would like to acknowledge and thank all those who participated in this year's conference. We especially thank those individuals who worked behind the scene to ensure that the conference was run smoothly and successfully.

Program Coordinator
Doris Chew
JFMIP

Conference Arrangements
USDA Graduate School
Isabelle Howes
Brian Gray
Julie Margulies

Awards Nomination Review Committee
Chair: ***Frank Sato,***
Deloitte and Touche

Thomas L. Allen
State of Utah

Richard Arnold
Federal Trade Commission

Eleanor Clark
Department of Housing and Urban Development

Panel Session Recorders
John Fattes
Department of Transportation

Carolyn Litsinger
General Accounting Office

Bernie Trescavage
JFMIP

Jim Wu
Department of the Treasury

Registration and Other Conference Activities
Diane Bray
Department of Defense

George Englert
Department of Housing and Urban Development

Pamela Kaplan
Department of Veterans Affairs

Chris Kent
Department of Transportation

Anna Wilson
Office of Personnel Management

Charles Zlamal
General Accounting Office

JFMIP
Bruce Kletz
Frank Kramer
Donna Tebeau
Kenneth Winne

USDA Graduate School
Ann Chetelat
Cynthia Hawkins
Kate Kosmicki
Julie Margulies
Marianne Martin
Carolyn Nelson
Adrian Rias

Photographers
General Accounting Office
Theresa Perkins
Richard A. Rockburn

Chapter 1

Opening Remarks

Virginia B. Robinson
Executive Director, JFMIP

Good morning! I am Virginia Robinson, Executive Director of the Joint Financial Management Improvement Program. I am very pleased to welcome you to our twenty-first annual conference. We have an excellent mix of attendees here today. I looked down the registration list and I see that we have attendees from both the private and public sectors. We have good representation from the central financial management agencies; from program agencies, small agencies, and large agencies; and very good representation from the Inspectors General community.

We are really pleased to see operating groups well represented here today. Generally, we don't have too many from the operating side of the house—the accountants and the budget officers. They are usually putting out fires and preparing reports and don't get too many opportunities to participate in these conferences and other educational events. But, they are well represented here today.

Many of you know that our JFMIP Principals, Comptroller General Bowsher, Secretary Brady, Director Newman, and especially Director Darman, have the implementation of the Chief Financial Officers Act as one of their very high priorities. It was not difficult for us to develop the theme for this year's conference: "Facing the Facts of the Chief Financial Officers Act."

The activities that are to take place under the CFO Act are certainly areas of special interest to all of us. At our conference last year, among the things that made lasting impressions with us at JFMIP were the special messages of the two keynote speakers.

You may recall that we had two consummate program managers, the Deputy Secretary of Defense Donald Atwood and Deputy Secretary of Transportation Elaine Chao. One of the messages the speakers provided last year was that they recognized the important challenges that we have for us under the Chief Financial Officers Act, one very special one being financial reporting. Both of the speakers mentioned that they hoped to see us consider one of the chief responsibilities under the Act to be the relationship between the program offices and the financial offices as that of a partnership. That was a very important message for them to leave with us. They also emphasized that it is important for the two offices to have mutual respect for each other's needs.

Following that advice, JFMIP held a mini-conference earlier this year, and we talked with a number of program managers and we had a number of financial managers represented there. We got a message that was very similar to that conveyed by the two keynote speakers last year. They told us how important it is for us as we think about our responsibilities under the Chief Financial Officers Act to bear in mind the genuine needs of the program offices. We said that we would certainly take that advice. These program managers, who were in a very small setting and speaking quite candidly with us, mentioned one thing that I think those of you who have responsibility for preparing financial, statistical, and other kinds of reports would appreciate. They told us that, as busy program managers, they have neither the time nor the inclination to read through voluminous and complex reports that are in esoteric jargon. Their views made an impression on us, and they talked about their appreciation for the great responsibilities we have in trying to develop relevant and timely reports. But they maintain that if we regard their advice in trying to keep the information we convey to program offices as simple and as straightforward as possible, it will go a long way towards alleviating some of the pressures for those of us in finance and those in the program areas as well.

You can see from the conference program today that four panel sessions are scheduled for this afternoon. The panel sessions are titled Model Approaches to Financial Management Reporting, Budget and Accounting Issues—Forging a New Partnership, Audited Financial Statements—Where Are We Going? and Technology-Driven Cash Management in the '90s. We in JFMIP and the many people who helped us work on the program do consider financial reporting as one of the key challenges that we have under the CFO Act.

This is one of the few times that we have not had a separate session on financial systems. That is not because we consider it unimportant. We know that the financial systems and the manner in which they operate will have a key effect on our ability to produce good reports. So you will be hearing about financial systems in at least two of the workshops this afternoon.

We still have a financial systems emphasis. JFMIP will continue to work diligently in that area this year and in the future. We have a number of projects underway developing systems requirements and you will be hearing more about them throughout the program today.

We hope and expect that from the conference you will also get messages that will leave a lasting impression with you, as we had last year, and that we will be able to build upon the information and use it in a way that will facilitate implementation of the CFO Act. We hope the conference will help us to remember that our number one responsibility is to provide genuine help to our program officials and top officials in the agencies with whom we work.

I shall turn now to another pleasant duty that I have this morning, and that is to introduce our keynote speaker. He is one of our JFMIP Principals, and I know that, with this audience, he certainly needs little introduction.

Charles A. Bowsher, Comptroller General of the United States, is the "Nation's Chief Auditor." As head of the General Accounting Office, he leads the audit and investigative arm of the Congress. Under his leadership, the GAO has been involved in the important issues of the day.

The GAO produces reports—and when I say reports, I should underline that. Those of you who are able to keep up with the work that they do in GAO may be aware that they are producing about 1,000 reports per year now and testifying as many as 300 times annually before Congress. Those reports range in activities from the federal budget deficit, information on the savings and loan crisis, emerging problems in the banking industry, reports on the deterioration of the nation's weapon systems, financial management reform in federal agencies, and high-risk federal activities where potential exists for waste and abuse, just a whole range of activities. GAO audits not only financial management, but, of course, it does a lot of work in program evaluation, and actually Mr. Bowsher has the authority to do audit and investigative work on any programs and activities that involve the expenditure of federal funds. So that gives him quite a lot of responsibility.

Mr. Bowsher is a graduate of the University of Illinois. He has an M.B.A. from the University of Chicago Graduate School. He has extensive experience in the private sector. He worked for nearly 25 years with Arthur Andersen and Company, with the exception of four years that he spent in the Executive Branch of government as Assistant Secretary of the Navy where he served with distinction.

Some have wondered, aloud, about what he is really like, and what gives him so much stamina and ability and facility to render expert advice in so many diverse areas. And some gleaned a response that goes a little like this: "Well, when you are in the 11th year of a great 15-year term, and you have the opportunity to work in both the private and the public sectors, and in the public sector in both the Executive and Legislative Branches, and especially when you have had those great opportunities to work so closely with the Congress, it gives you some facility and some flexibility to call the shots as you see them, provided there is ample audit evidence to support every statement."

On a personal note, some have said, "Well, tell us what he is really like." He is an avid reader, and, as you might expect, he knows a lot about those one thousand reports GAO issues each year. He takes a lot of work home with him, enjoys good restaurants, enjoys golf—to the hilt I am told.

He is a member of a number of professional organizations. Those of you who know him know that he is an ardent supporter of professional development and in his professional activities he is not just an honorary member—though he certainly deserves it—but he is an ordinary dues-paying member like the rest of us. He actively participates in these organizations and is most willing to share his diversified experiences with audiences such as this one.

Please join me in welcoming Comptroller General Charles Bowsher.

Keynote Address by Charles A. Bowsher

Charles A. Bowsher
Comptroller General of the United States

I am very pleased to see such a large audience here at the JFMIP Conference. I have often said in recent years that I think this session is a good barometer of the interest and the dedication that we are seeing today in government finance. I think more and more people are now involved in financial management. We have a program where we are trying to improve the financial management of the federal government, and I think that this conference and your attendance here is an indication that we are moving in the right direction.

As Virginia noted, I do get around the country quite a bit and talk to different groups in the private sector, in the government sector, and the university area. I find that more and more people are getting interested in the financial condition of our government and the financial situation overall.

One problem, of course, that people find difficult to understand is how our budget deficit keeps going up, especially following a budget agreement intended to cut $500 billion out of the budget. I have often explained that the budget agreement is holding fast. In other words, the amount of discretionary money that is being spent by the federal government is very close to adhering to the budget agreement. Instead, things outside of the agreement are making a big difference. In a recession, as many of you people in this room know, you lose revenue, and we have lost about $100 billion on the revenue side.

We also have a line item in the federal budget, which is most unfortunate, and it is the deposit insurance line item. Prior to fiscal year 1989, we always had a positive cash flow from the deposit insurance programs. The banks, the S&Ls, and others paying into our trust funds paid in premiums which more than covered outgoing cash, so we literally had a positive cash flow to the Treasury.

This is no longer true. With all of the problems we have had in S&Ls and now in banks, the President's budget forecasted $75 billion this coming year that would have to be used to restore depositors' accounts. That is a huge sum of money. It is three or four times bigger, say, than the agriculture program, which has always been one of the larger programs in our federal budget once you get beyond defense and social security.

The deposit insurance line item ranks now as the fourth or fifth largest program in the federal budget. Until we get this banking, S&L, and the whole financial institution situation straightened out, I am afraid that it is going to be a sizeable line item in our budget each year, and, as I indicated, it is $75 billion in the President's budget that the Congress is looking at right now.

Another huge cost, of course, is interest cost. Every year that we run these large deficits, we add literally another chunk of interest cost to the budget, and it varies between a $20 to $25 billion add-on each year. So when people wonder how can you have a $500 billion cut and still see your budget deficits run up by $200 billion, the answer is that the $200 billion is accounted for by $100 billion for lost revenue, $75 billion for deposit insurance, and $25 billion basically for interest.

As I talk to various groups, I also find that people have a much greater interest than in the past in accountability. They ask why can't the government have better accountability over its operations? And this, of course, comes back to what we are meeting about here, the implementation of the Chief Financial Officers Act.

I think it is unfortunate that we did not have the CFO Act many years back. We finally did get it passed, and I think it is very important to the future of government, the reputation of government, and the support that the American people are going to be willing to give for government programs.

One thing I would like to talk about today is the role of the financial manager in working with the program managers and the leaders of our various agencies. I think it is very important for the financial management leadership to become more and more a part of top management, to be in the conference room when the big decisions are made or when the problems are being discussed. I think a budget person often has been at such meetings, but frequently the accountants, the auditors—the people who were really trying to figure out how the money has been spent—were oftentimes not there in those meetings.

I think it is very important for the financial management leadership to become more and more a part of top management, to be in the conference room when the big decisions are made or when the problems are being discussed.

I think, as I told the Congress the other day when I was testifying about the second Air Force audit, that you cannot turn large organizations around overnight. You don't just pass the CFO Act and then, a year later, announce that everything has straightened out. It is going to take a number of years to make the investment in the systems, the financial reporting, and the audits to get the various agencies of the federal government in good shape.

One thing that came out in the Air Force audit brings back an old lesson, I think—an old lesson to myself. I have felt a good deal of concern for many years that we often pass reports up that we know are wrong. I think that people in the financial management community have to pay attention to the accuracy of the reports they send forward. We must ask, if the reports are not accurate—if we know that they are not accurate, do we have a duty to say something, to point it out?

In other words, it should not be the auditors that come along afterwards and point out the problems. The financial management leadership should point that out. Now, why do I bring that up? Well, one of the things we reported in the Air Force audit was that there were quite a few reports coming up through the system — and then, of course, the final form (SF 220) going over to Treasury — that had significant errors on them. These were errors that one had to note. Instead of credit balances in some of the liability accounts, you had debit balances. You had some people knowingly, when we came along and interviewed them, say that they had to just plug a figure in and get the report out.

That is the kind of thing that gives the financial management community a bad reputation among program people or leadership people when someone later points out the problems. So I think that we must not just wait for audits. We have to put real discipline in the system and in the agencies as to how accurate are our reports. It is not easy to tell the boss sometimes that the numbers are not right, and you have to do some further study to find out what the problems are. I really urge the financial management community of the federal government today — and of course I did that some years back in the state and local government when we had the New York City fiscal crisis — let's not pass bad information on, because eventually it is found out, and let's get the problems out on the table.

The CFO in each agency should become a very key part of the management, as I said earlier. I think that the CFO in the government is the person who should be the scorekeeper. In other words, how are things going? How are we doing as the budget gets executed? How are the big programs working out? Do we have cost overruns in some of these multi-year appropriations and some of these larger programs? The CFO should help answer these questions. That is the thing we want to do, and that is where we should be working closely with the program people.

The program people are worried lots of times about the engineering issues, the other problems that they are facing, the technical problems, and everything like that. In doing their jobs, they should have confidence that the financial managers are working with them, but, at the same time, are willing to call the tough shot and tell them as soon as possible what the financial problems are.

The big management issue of the day, and I think everybody is reading about it, is this whole new TQM process: total quality management. Some people see this as the latest management fad, but I personally think it is much better than that. GAO has been out studying some of these companies that have done it. We were asked by the Senate Finance Committee to go out and study the Baldrige Award winners. We not only studied the winners; we also looked at the finalists. We had a group of 15 or 20 companies and the people that went out from GAO came back and said to me, "Chuck, you ought to get out here and really look at these operations because it is really impressive how some of the companies have made great strides in lowering their costs, improving their quality, and having much more teamwork in achieving a quality product at a reasonable cost and price."

I have studied quite a few of these companies and plants, and I have talked to many of the CEOs, and I became convinced of two or three things. One is that the Japanese learned a lot of this from us, not just from Mr. Deming and his statistical approach, but actually coming over and studying some of our better operations, some of our better plants. Then they took it back and they refined it.

People that I have talked to have convinced me that you can make as much gain in the non-manufacturing area or the service areas of your companies—now talking about the private sector — as you can in manufacturing. When I first heard about TQM, listening to some people, I thought it basically was a way of improving manufacturing facilities and capabilities, and that it probably didn't have a lot of application in the administrative or service areas. Now, I am convinced of just the opposite. GAO is moving into the TQM program. We have a 4-year program to try to improve our own operations. We have improved, I think, the reports that we issue. We have improved the planning process, so that we basically are working today on the important issues that face the nation and face our government.

We had not, however, done a lot to improve the process in our organization of how to produce audit reports more efficiently and effectively; we did it pretty much the old-fashioned way. We sent auditors out. They gathered facts; they brought the workpapers in; they wrote a first draft; then somebody rewrote that; and then somebody rewrote that. I'm not going to tell you how many rewrites some of the GAO drafts go through, but it was a process that I accepted, because it seemed to be the way we did it at Arthur Andersen and Co. I think most management consulting firms and CPA firms did it the same way, so when I got over to GAO, I thought, "Well, this is basically the way to do it."

But when you see how they now have done it at some of these other firms, which have adopted TQM principles, it is obvious that you should be able to do it better. You should build quality in as you are doing that first draft, or that first effort that you are going through. But you have got to train your people—you have got to invest in your people to make sure that they know how to do it.

Many of the big professional firms are moving in this direction or trying to do so. None of us have accomplished it. We contact a lot of other organizations, trying to see how they are doing it. We are sharing our information.

One of the persons we hired to advise GAO was Dr. Juran. Dr. Juran makes a big point that, in his view, TQM to a great extent is not too different from a well-thought-out financial management organization and system. Dr. Juran said basically that you are trying to pull together a plan. You have a lot of planning processes, but you end up having to get it down to what is known as a budget. Dr. Juran also said that is true in the government; it is true in the private sector; it is true in a non-profit organization. And you have an accounting system that comes back with the facts.

One of the big things these TQM people stress is that you ought to manage by fact—not by intuition or anecdote or when people tell you based on 30-years' experience that this will work or that will work, or something like that. The big thing is to get a set of facts flowing back to the leadership in your organization—information that is rooted in real fact. I think that is what the government has got to accomplish. We have to get to where we have the facts flowing back to the senior leadership, and to Congress—facts that are accurate, that don't change next year when you come up for the appropriations hearings, and say, "Oh, by the way, what we told you last year wasn't quite right. Here is another big cost overrun for you to worry about and to finance." We have to streamline a lot of our operations; we have to end up where we really have good information and we have that information flowing fast.

I think too that to achieve real economies in our operations, we need facts to lead us to what we are trying to achieve. An area GAO has worked on quite a bit is the inventories in the Defense Department. If you talk to some private organizations today, you learn that they have achieved really remarkable inventory management. You don't have large inventories today in well-managed companies in the private sector, because they have started using the concept of making sure that their suppliers can deliver a quality part. You move that part right in and use it—you don't need large inventories.

One of the reasons, I think, that this recession is not reacting to some of the economists' models as they try to predict when it is going to end, is due to focus on inventories. So many of our past recessions were based on inventory—too much inventory had been built up and needed to be worked down.

We have got to work it down in the government too. There is no reason why, with modern computers, if you have accurate information, you can't stock a lot fewer parts in fewer places and be able to save billions and billions of dollars. That is the kind of issue that I think the financial managers ought to be playing a key role in.

GAO, as auditors, has made an investment in this area, because we thought that this was an area that we could achieve some real savings. I think that more and more, the financial managers ought to be identifying such areas and seeing if they can't work with the program people and the agency leadership to identify the problems. You generally have to then work on a task-force basis to find out what is doable, what isn't, and all that. You can't just make a snap decision or hold a quick meeting. You have to show that you, the financial managers, have an idea of the areas in which the program people ought to be thinking about of improving the operations.

This leads us finally to the issue of performance measures. A lot of people would like to see more performance measures in government, and it was made part of the CFO Act. Of course, it has more practical importance in government than in the private sector, because we don't have the bottom line.

Performance measures help answer questions. How well are we doing in government? What are we trying to measure? How are those actual measurements taking place? And are we really making progress?

Once we can achieve good performance measures, the financial numbers come alive. You finally start to get, again, the interest of the leadership of your agency and of your program people, because you have tied financial information with program information and performance.

This goal is not going to be gained overnight. It is one of the things that I think we have got to work on very, very hard in addition to trying to get the accounting systems in good shape. We must look at performance measurement, look at program information, and see how we can support the information system with essential and accurate financial data.

I know that everybody is working hard on all of this. I am very pleased with the reports that I get from my own people about the work and efforts going on. I am pleased that the new team is in place at OMB,

Once we can achieve good performance measures . . . You finally start to get, again, the interest of the leadership of your agency and of your program people, because you have tied financial information with program information and performance.

with Ed Mazur coming in to help Frank Hodsoll, and bringing in some very good people. At OPM, Connie Newman is being very supportive. I think that the Treasury is starting to play their role here, but, I think they too should be more critical of these SF 220 reports as they get them. How accurate are they? What are the problems? Where are the places we ought to be making our investments?

I think that implementing the CFO Act literally is in its early stages of development. We have got to be successful in these early stages. We must have these system plans go well. It is without question the right path that we are on. And, when systems programs and plans are discussed with your management, I hope that the financial management people are fully participating, for you cannot just turn things over to computer specialists.

One of the things that the TQM process is teaching all of us is that you figure out your mission, you figure out exactly what you will try to achieve, and then you build your systems and your information plans to accomplish it. Oftentimes in the past, the information people have been over here working on the systems, but the financial management people have been over there. The big thing you are trying to do is to get systems and processes that really help you achieve what the output is of your organization. I think financial management has to be part of the changes which enable doing this.

I would like to urge all financial management people to jump at the chance to speak of the CFO program in oversight hearings before the Congress. I think the Congressional Oversight people should be looking at what a financial report says about an agency. How well is the agency doing on its CFO plans? Are they making progress? I think that the financial management people, if possible, should be right there at the table testifying with the Secretary of the agency or the head of the agency and telling the story.

You know, a lot of people were worried when we put the financial integrity legislation in place; they were concerned that we would have to go public with our problems. It really was one of the best things we ever did, because it at least makes you face up to the problems—we certainly had problems at GAO with some of our controls. But you then have to do something about it. Once you get a plan going, you start to feel good about what you are trying to do. It forces people then to say, "We had better get this thing fixed."

I think that for the future of government and the support that we are going to expect from the American people, we need to have proper financial systems, proper financial reporting, and accountability in our government programs. That is what is expected. This is the audience that can do something about it. You are the leaders of the financial management community. I think it could be a very exciting period ahead, and I want to assure you that we at GAO are willing to help in any way we can.

I thank you very much for the opportunity to be with you here today.

Keynote Address by Frank Hodsoll

Frank Hodsoll
Deputy Director for Management
Office of Management and Budget

It is a great pleasure for me to be before the Joint Financial Management Improvement Program once again, at this 21st JFMIP Annual Conference. Twenty-one is an important number. You can vote at 21; you can get a drink everywhere: parents can say their children are launched.

Have we jointly launched financial management improvements? I think so. Are we out of the woods on financial management improvements? I think not. Are we where we ought to be? Absolutely not.

I am reminded of a story about two gents sitting on a bench in the park. One turned to the other and said: "David, you're looking great. You looked so tired the last time I saw you. What's happened?" David responded: "Thank you, Mark. You're right. I feel much better. I've found a wonderful guy who takes care of a lot of the things I used to worry about." Mark said. "No kidding. That's great. But a guy like that must cost a lot of money. How much do you have to pay?" David replied: "Not that much. It's about $25,000 a year." "But David," Mark said, "you only make $20,000 a year. How does that work?" "It's great," David replied, "I let the consultant worry about it." How many of you in this room have worried about it?

This year's JFMIP theme is "Facing the Facts of the CFOs Act." And so it might be. The Bush Administration and Congress took some brave new steps in enacting the Chief Financial Officers Act of 1990.

—They committed to providing for improvement, in each agency of the federal government, of systems of accounting, financial management, and internal controls to assure the issuance of reliable financial information and to deter fraud, waste, and abuse of government resources.

—They committed to providing for the production of complete, reliable, timely, and consistent financial information for use by the Executive Branch and the Congress in the financing, management, and evaluation of federal programs.

These are important goals. Stating them in law provides for political commitment. Achieving them will require much greater political commitment and lots of plain hard work. You in this room will be the ones called on to do that hard work. You already do. But real political commitment to achieving the goals of the CFO Act will require continuing education of those who are not financial management experts. We need to educate politicians and program managers in why improved systems of accounting, financial management, and internal controls, and the resulting issuance of reliable financial information will ultimately deter fraud, waste, and abuse and help the Executive Branch and the Congress in properly financing, managing, and evaluating federal programs.

The political system is not interested, as such, in accounting, financial management, and internal controls. As a policy and program official, it wasn't until I came into my current job—I have over 28 years of government service—and it never really occurred to me that there was anything wrong with financial management. I didn't worry about it. Someone else did.

Budget execution was "handled," at least in obligating budget authority. There are criminal sanctions for exceeding the limits under the Anti-Deficiency Act. But what actually happened to the money, the condition of our assets, the extent of our liability, the performance outputs and outcomes of our policies and programs — these were all matters that I assumed were also "handled." I "handled" them in the programs I managed, and I assumed others did too. I figured that was part of the reason the President hired me.

The Problems Financial Management Addresses

What a shock it was, therefore, to discover that many programs didn't know the results of their outlays, the location and value of their inventories, the wear and tear on their buildings, the aging of their receivables, and the souring of their loan and guarantee portfolios. Until recently, the contingent liability of federal insurance of commercial and savings banks, thrifts and credit unions (face value $2.8 trillion) was obscured. So were the actuarial deficiencies of retirement annuity programs and health programs ($3.2 trillion). The total contingent liability of federal credit and insurance programs comes to roughly $95,000 for every family in the United States. The savings and loan disaster has already cost every family nearly $1,600.

Before the Credit Reform Act of 1990, the budget's treatment of direct loans was at face value while its treatment of federal guarantees was free. Outstanding guarantees rose to $649 billion in 1991; direct loans declined to $174 billion. The Department of Education's Guaranteed Student Loan Program is projected to produce up to $3.4 billion in loan defaults in 1992. Credit reform is a financial management measure that puts guarantees and direct loans on the same footing in terms of subsidy and risk. That's good. But we still don't have lender agreements with many of the lenders whose credit we guarantee.

Nearly a third of the items on OMB's High Risk List involve financial management: for example, $14 billion in delinquent loans at Farmers Home; nearly $1 billion at risk in Defense's real and personal property inventories; $13.7 billion in Department of Energy contracting inadequately managed; Medicare and Medicaid mis-estimates as high as 15 and 10 percent respectively ($21 billion for Medicare; $9 billion for Medicaid); up to $300 million at risk at Justice out of $6 billion in federal debt referred to Justice by other agencies. I could go on.

The point is that there is a financial management problem which the political system can understand. In many cases, we don't know the numbers, at least not on an auditable basis; in other cases, we don't employ normal "due diligence" in extending and monitoring the nation's credit. More often than not, we don't measure the results of our expenditures and investments. And, even where we do, we have little assurance that the data for those measures are accurate and are comparable across programs.

The problem gets worse when one goes beyond the government's direct spending and considers the amounts we borrow ($269 billion in 1991, but $321 billion when one considers the Social Security surplus). Total federal debt subject to statutory limitation is expected to grow to $5.9 trillion in 1997 (another $89,000 for every family. Further, it is clear from our 1993 budget, if we don't do something about the entitlement programs (now roughly half the budget), we will continue to run $200 billion plus deficits into the foreseeable future. Hence, our proposal to cap entitlements.

The Relationship between Budget and Finance

I recognize that I have mixed budget and finance in talking about financial management. But budget and finance are inextricably interrelated. In the private sector, budgets are much less important than financial statements. Financial reporting, and projects based on that reporting, affect the corporation's or the individual's access to credit and the value of its stock or his or her net worth. Budgets are more important to state and local governments; the political process makes them so. But financial statements are also important. State and local governments have to market bonds in the private capital markets; the ratings of those bonds depend in part on what is contained in their financial reporting.

The federal government, on the other hand, is different. The marketability of its bonds is affected only by interest rates; the value of its policies and programs is largely irrelevant (although the interest the federal government has to pay will depend on the existing and projected state of the economy, in turn in part affected by federal policies and programs). The Federal Budget, on the other hand, as codified in enacted appropriations, divides up, and conditions, the current pie. The financial documents — the appropriations acts — that contain the budget affect the jobs of both elected and appointed federal officials.

Why is Non-budgetary Financial Management Important?

Why then is non-budgetary financial management important? It is important because:

—It can tell us whether we have spent the money provided through the budget for the purposes intended, and whether those who receive our money have used those funds for the purposes intended.

—It can tell us whether we have collected the money that is owed us in taxes or user fees or in repayments on extended credit.

—It can tell us about the condition of our assets and the need for their maintenance, repair, replenishment or replacement.

—It can tell us about the commitments we are making or have made and the resources needed to meet those commitments.

—It can tell us about the sums we have saved as a result of efficiencies and help us compare efficiencies.

—It can tell us about the effectiveness of both our own performance and the outcomes of our policies and programs and help us compare effectiveness.

There is no one who would argue that these things are unimportant. There are many, however, who glaze over at the mention of improved systems of accounting, financial management, and internal controls. But these are the tools without which these results cannot be achieved. They are the equivalent of OMB and CBO scoring conventions, the budget process and systems, and the Budget Enforcement Act for the budget.

[Financial management is important because]
It can tell us about the effectiveness of both our own performance and the outcomes of our policies and programs and help us compare effectiveness.

Without agreed accounting standards, functional standards, and information standards; without systems integrating the civil servant authorized to make the transaction with the office, the bureau, the department, and Treasury and OMB, and trained personnel to use those systems; without agreed reporting and estimating conventions; without adequate internal controls; without periodic auditing of that reporting; and without followup on audit findings — we, all of us, will not have the ability to do these things.

You know this. Why have I gone on at such great length in this fashion? To give you, the financial managers, a sense of how you must approach your policy and program colleagues and leaders and elected officials. We in financial management must show why it is in the interest of policy-makers and program directors to enable us to help them to know these things promptly, regularly, and accurately. Policy-makers and program directors must tell us what they need; we must work through with them what they may have missed or avoided; and once agreed, we must tell them what we need to get the job done and then provide a real service.

We in financial management must show why it is in the interest of policy-makers and program directors to enable us to help them . . . Policy-makers and program directors must tell us what they need; we must work through with them what they may have missed or avoided; and once agreed, we must tell them what we need to get the job done and then provide a real service.

Policy-makers and program managers are our clients. We must earn their confidence, but they must respect our independence. We have their confidence, for the most part, in administrative matters: for example, in payroll, travel, and budget execution. We will be viewed, in some respects, as a threat in developing performance measures. But, if we take on the hard nitty-gritty work of building systems and training people in their use and then reliably providing timely and accurate information, our upside may outweigh our downside. And, even where that might not be the case, success stories in one program will put pressure on their being emulated.

What Have We Done?

We have made progress.

—Financial management organizations have been approved and are in the process of implementation in 21 of 23 agencies covered under the CFO Act.

—Fourteen of 23 CFOs are in place.

—OMB has a new Office of Federal Financial Management and a Controller to head it. Ed Mazur, the former Comptroller of the Commonwealth of Virginia, brings a real track record; he has also helped us attract the strongest financial management team OMB has ever had.

—GAO has provided financial audit training to over 600 personnel from Offices of Inspectors General; JFMIP has published a compendium of courses available to meet financial management training needs; OPM has updated its accounting series classification and qualifications standards, and has begun highlighting financial management personnel recruiting at job fairs; Treasury's Federal Credit Management Training Institute has begun basic financial management and accounting courses; and the Inspectors General have established an IG Auditor Training Institute.

—A Federal Accounting Standards Advisory Board has been established to recommend accounting standards to be agreed on by Treasury, OMB, and GAO. Interim standards have been adopted and an exposure draft on financial resources and funded liabilities has been issued.

—The President's 1993 budget requests $659 million for improved financial systems, $31 million more than enacted in 1992. JFMIP is proceeding with functional and information standards. Off-the-shelf software is being tested. Treasury and OMB have embarked on a major project to integrate their financial data bases by 1994.

—OMB audit requirements now include testing of internal controls and auditor assurance of whether internal control objectives are being met.

—The Federal Credit Reform Act of 1990 was enacted and is now being implemented.

—Legislation has been transmitted to Congress to strengthen credit management and debt collection.

—The President's 1993 budget requests $101 million for improved financial reporting, $44 million more than enacted in 1992. Audited financial statements are under way with respect to the 1992 operations and condition of 75 of 138 trust and revolving funds and primarily commercial activities. Audited financial statements are also under way with respect to seven pilot agencies (Department of Agriculture, Department of the Army, General Services Administration, Department of Housing and Urban Development, Department of Labor, Department of Veterans Affairs, and Social Security Administration).

—Work has begun on the development of performance measures.

Let me say at this point a word about performance measures, and also introduce a recently published book which is worth glancing at — *Reinventing Government* by David Osborne and Ted Gaebler. Osborne and Gaebler make the case for performance measurement in their headings:

- What gets measured gets done.
- If you don't measure results, you can't tell success from failure.
- If you can't see success, you can't reward it.
- If you can't reward success, you're probably rewarding failure.
- If you can't see success, you can't learn from it.
- If you can't recognize failure, you can't correct it.
- If you can demonstrate results, you can win public support.

The Future

We still have a lot to do. The President's 1993 budget sets out some of our objectives in 1992 and 1993. Let me describe a few of them.

—We look to the Federal Accounting Standards Advisory Board for the development of recommended standards for direct loans and loan guarantees, inventories, and unfunded liabilities.

—Based on work in the CFO Council, OMB will update and provide more detailed guidance on financial reporting (including program and financial performance measures).

—The President's Council on Integrity and Efficiency will develop a policy and procedures manual for the audits of federal entities' financial statements and define the appropriate level of auditor assistance to management in the preparation of financial statements.

—Treasury will integrate the financial data standards into the U.S. Standard General Ledger.

—Functional requirements for consumable inventories and fixed assets systems will be developed.

—The Treasury-OMB data base will be expanded to provide a special electronic data base for credit programs and for reporting of budget execution data below the appropriation level.

—The Administration has proposed reform of the tax deposit reporting system which processes reporting on more than $800 billion each year from more than 5 million businesses. The reforms include a single wage reporting system, simplified payroll tax deposit rules, and testing in 1993 of electronic receipt, processing, and deposit of annual employer tax deposits.

Conclusion

We're moving. But we have a long way to go.

I am pleased by our progress. You in this room are the people who have to make it happen. You have been laboring in the vineyard on this longer than I. You have made strides, often discouraged by the yawns of the political leadership.

I am here to say to you that you have friends in the Bush Administration. You have an OMB Director committed to adequate financial management. So is the President. So is the Congress. Last year's defeat (342-53) of the House Appropriations Committee Chairman's attempt to deny funding to implementation of the CFO Act should be encouraging to you. It was, moreover, the OMB Director, Dick Darman, who provided the muscle to help that result.

We at OMB are there to help. That may seem an oxymoron, but try us. Ed Mazur, Hal Steinberg, Schuy Lesher, Woody Jackson, Susan Gaffney, and Tom Stack probably constitute the strongest financial management team we've ever had at OMB.

We need to roll up our sleeves over the next few years and move this progress forward — so that we will have the right numbers to the right people at the right time. The taxpayers and your fellow public servants deserve no less.

Thank you.

Chapter 2

Remarks by Constance B. Newman

Constance B. Newman
Director, Office of Personnel Management

All government policymakers, program managers and financial managers must be concerned about serving the public with excellence. With that as a given, there are four issues to be addressed by all concerned:

1) How can the government improve productivity? This is an especially important question in light of the financial constraints and increasing expectations on the part of the public.

2) How can the government improve quality in all activities, including financial management?

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

4) Recognizing the changing workforce, how can government manage this workforce and still increase productivity and quality? The future offers federal managers the additional challenges of both a changing workplace and a changing workforce.

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

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

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

You know your role. The question is "Do others in the equation know of your role?" I contend that all managers understand a little about the role of financial managers. They know that they ought to have at least one or more "of them." They know that it is something about the money. They know that when they hear from the IG or GAO they probably should have listened to the financial manager more. Now the question in this day and time is "Do program managers really understand the important role of financial managers and how they are key to the organization's ability to accomplish its mission?"

Some guidance with regard to the role of financial managers is found in the job description or work statement. The knowledgeable manager understands that financial management covers a broad spectrum of activities including planning, programming, budgeting, accounting, audit, and review. The more sophisticated manager understands that the financial managers' activities directly support the ability of the organization to accomplish its mission with excellence.

The tasks for us in this room are two. The first task is to assure that financial managers understand the range of their responsibilities and prepare themselves to be up to their responsibilities. The second task is to assure that all program managers really understand the role of the financial manager and integrate this important resource into every aspect of their program planning and operation. Those tasks are easier said than done, given the history of the relationships between program managers and

The first task is to assure that financial managers understand the range of their responsibilities and prepare themselves to be up to their responsibilities. The second task is to assure that all program managers really understand the role of the financial manager and integrate this important resource into every aspect of their program planning and operation.

financial managers and given the turf concerns providing the differing points of view.

Change in the relationships between financial managers and program managers is necessary. There are several ways to bring about change. Change can be mandated by law and regulations. Change can take place through the voluntary actions of the parties. I contend that, with regard to government, we probably need both mandatory and voluntary actions to ensure financial management takes its rightful place in the conduct of the public's business.

The Chief Financial Officers Act of 1990 does provide a mandated impetus for change in the relationships between program managers and financial managers in the federal government. The CFO Act mandates that the Chief Financial Officer report directly to the head of the agency regarding financial management matters; that the Chief Financial Officer oversee all financial management activities relating to the programs and operations of the organization; and that the CFO develop and maintain an integrated agency accounting and financial management system.

You do not need me to tell you of the mandated role of the Chief Financial Officers. The truth of the matter is that the Act will bring about the change in the culture of organizations only to the extent that program managers really understand and buy into the importance of financial management to their mission accomplishment.

That brings me to observe that bringing about change is going to be somewhat difficult for you. Convincing program managers to change their way of thinking about financial management will be difficult. This means that you are going to have to be more educator than regulator. Already you have to contend with the attitude of many program mangers that financial management rules and procedures are a barrier to their accomplishing their objectives. Deep in my soul, I believe that there is probably a plague on everybody's house. Program managers may not understand you, but you may not understand the real pressures under which program mangers must operate. It is not true that all program managers want to do is spend, spend, spend. There are many program

The truth of the matter is that the [CFO] Act will bring about the change in the culture of organizations only to the extent that program managers really understand and buy into the importance of financial management to their mission accomplishment.

managers concerned about the cost-effectiveness and efficiency of their programs. It is not true that the only words financial managers know are "No," "No," and "No." There are many financial managers concerned about accomplishing the mission of the organization. Many are concerned about the customers of the government . . . the public.

Now that we understand the problem, I would like to spend the balance of my time suggesting nine steps that must be taken to improve the relationships between program and financial managers.

1. Financial managers should take time to really talk with the program managers to understand their perception of the mission of the organization and the pressures under which they operate. This means understanding their constituent groups; the requirements of OMB, GAO, and the IG that they must meet; and the pressures of Congress and the press.

   If you take the time to gain an understanding of the program manager, you will start to develop a common understanding of your roles. You will learn to appreciate why he or she made certain decisions, why he/she decided to take a certain action. The more you understand each other's roles, the more you can increase your understanding of how each other's roles play into the "big picture." You will develop a system of mutual support, respect, and common goals.

2. Financial managers must explain to program managers how the financial management organization can help the program managers accomplish their missions and how financial managers can address the pressures under which they operate.

   Let me talk for a moment about program managers. Often these individuals tend to see financial rules and procedures as a burden, often even as an obstruction. Many times it is because they do not understand the rules or why they are imposed. Take the time to try and explain. You are in the best position to communicate to agency management and decision makers the status of funding, what it means and the significance of the figures. A financial manager must also explain budget proposals and alternative funding of programs.

3. Financial managers should explain to the program managers their own pressures — their responsibilities with regard to reporting to OMB, GAO, and Congressional committees. This discussion should include ideas on how the program managers can make the work of financial managers easier.

4. The organizations should establish financial manager/program manager interchange of personnel.

5. Financial managers should develop easily understood material for program managers. Financial managers must also communicate

accounting, financial, budgetary, and program information in a concise and understandable fashion. They are often "translators" for people who don't work with numbers on a daily basis. This is something that doesn't come easily. While some training can be offered, many times it comes down to patience and understanding — putting yourself in the other person's shoes.

The JFMIP's publication last August of the *Financial Handbook for Federal Executives and Managers* is a good start on this one. I would also like to tell you about another source in this area. The Department of the Treasury has produced a video entitled, "All That Jazz," that is specifically designed to help program managers better understand financial management. This might be something you want to look into.

6. Incorporate financial management concepts into the new employee orientation programs. This recommendation came from a January 1992 JFMIP meeting. OPM's Human Resources and Development Group is currently working to improve new employee orientation and training programs. This is an idea that I certainly will pass on to them.
7. Mount a governmentwide survey to identify differences in culture and possible measures for addressing the differences — another suggestion from the January 1992 JFMIP meeting.
8. "Consider periodic meetings or conferences which could serve as vehicles for program and financial managers to exchange ideas."

   This addresses what I talked about earlier — increasing communication. Each group could discuss and listen to how the group feels it must carry out its responsibilities.
9. Ensure that financial managers' performance plans include a critical program response element; and that program managers' performance plans include a critical financial management element. This is another worthwhile recommendation from the January meeting.

While this might be difficult to implement, it is in the right direction, perhaps increasing awareness or communication between program managers and financial managers.

Financial managers and program managers are essential to any organization accomplishing its mission with excellence. They must work as a team. Given the quality of people in financial management, I know that you will do your part to bring about the necessary cooperation and partnership.

Presentation of Awards

E. John Prebis
Chief Financial Officer
Office of Personnel Management

It is my pleasure to present this year's Donald L. Scantlebury Memorial Awards for distinguished leadership in financial management in government. These awards commemorate a man whose ideas and actions have brought significant advances to financial management in both the public and private sectors.

At the time of his death in 1981, Mr. Scantlebury was the Chief Accountant and Director of the Accounting and Financial Management Division in the General Accounting Office, and served on-the JFMIP Steering Committee. The awards are a continuing tribute to a dynamic leader and a true innovator, whose high standards are a model for all of us.

This year, we have two recipients who have demonstrated extra-ordinary leadership in financial management. The first is Mary Ellen Withrow, Ohio Treasurer of State. Her distinguished guidance has created major savings and important new opportunities for the people of Ohio.

Under her direction, the State Treasury has generated more than $1.8 billion in investment earnings, primarily through streamlined tax collection and judicious investment of state funds. She is the first Ohio Treasurer to propose and implement public policy legislation approved by the General Assembly.

Early in her tenure, she won support for a Linked Deposits program designed to cut the cost of small business loans. The Treasurer's office places with approved lenders a certificate of deposit in the amount of a loan. The State accepts a 3% less return on its investment and the lender makes the loan to the small business owner at 3% less than the going rate. So far, the program has helped more than 1,700 small businesses and affected 26,000 jobs.

In 1985, responding to the State's increasing farm crisis, Treasurer Withrow worked with the General Assembly to establish similar reduced rate financing for family farms. Now, $100 million goes into this program each year, and it has helped over 10,000 family farmers.

Studies show that sales, corporate, and income taxes offset the investment income lost through these Linked Deposit programs. Now in 12 other States, the programs are recognized by the Council of State governments and the Securities and Exchange Commission. Further, Standard & Poor has cited the Ohio program as one of four reasons for that State's economic recovery in the '80s.

In 1986, the Ohio legislature approved her proposal to create a money market investment alternative for public fund managers of local governments. The program now has over $3 billion in assets and more than 1,900 accounts. And, when her office issued the first Ohio College Saving Bonds, all $40 million of the bonds sold out in the first 2 days.

These programs—only a few of her major achievements—clearly focus on making the most for Ohioans. It is with great pleasure that we present the Donald L. Scantlebury Memorial Award to Mary Ellen Withrow.

Our next awardee is Richard P. Kusserow, Inspector General of the Department of Health and Human Services. He is being recognized for his role in supporting and implementing important financial management legislation, such as the Chief Financial Officers Act, the Inspector General Act, the Federal Managers Financial Integrity Act and the Single Audit Act and for fostering financial management improvement throughout government. Under his leadership, his office has recovered substantial amounts from settlements, fines, restitutions and audit findings.

An advocate in the IG community, Mr. Kusserow helped implement the CFO concept for the federal government. He pushed for financial statement preparation at HHS, and his office, along with the GAO, completed the first audit of the Social Security Administration's financial statement in 1988. An immediate effect was assurance that trust fund liabilities were measured properly.

As vice chair of the President's Council on Integrity and Efficiency, Mr. Kusserow gave extensive assistance to congressional committees on the reporting requirements for the Amendments to the Inspector General Act.

He has been a strong leader in implementing FMFIA within HHS. At his urging, the Secretary established a Management Oversight Council to guide all aspects of the program and ensure follow-up on audit findings.

In the '80s, concerned about auditing federal grants to academic institutions, he sponsored over 30 pilot audits at colleges and universities. This resulted in the development of single audit guidelines, which were later endorsed by OMB.

In recognition of his sustained leadership in fostering financial management controls and improvements in the federal government, we are pleased to present the Donald L. Scantlebury Memorial Award to Richard P. Kusserow.

From time to time, the JFMIP gives a Special Award for Distinguished Leadership. This year, that award goes to Susan M. Gaffney, Chief of the Management Integrity Branch in the Office of Federal Financial Management at OMB, for her significant contributions throughout government.

She was a major force in establishing the Federal Accounting Standards Advisory Board. Her persistence played an important role in obtaining a workable charter as well as adequate funding for the Board.

As the Acting Director of OMB's Financial Management Division, she prepared the essential guidance to establish agency CFO structures, reviewed and evaluated agency proposals, and developed the CFO and Deputy CFO qualification standards.

She was a primary architect of OMB's Five-Point Financial Management Improvement Program, launched in 1990. Several of the innovations proposed by the program were adopted in the CFO Act and comprise some of the principal mandates of that legislation.

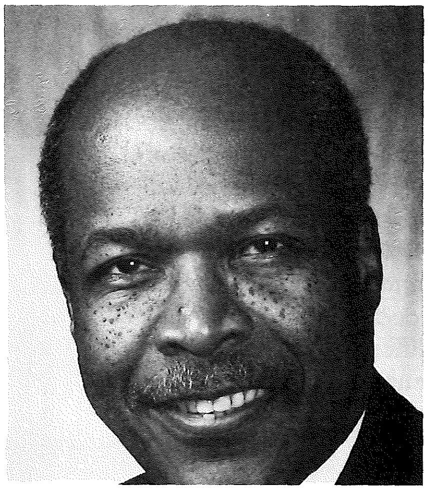
Drawing on her experience as the Deputy IG at GSA, Ms. Gaffney has strengthened internal control procedures and ensured that agencies take action to resolve serious risks and weaknesses.

Ms. Gaffney was one of the first financial managers to recognize the relationship between the federal budget and several key reporting processes required by Congress such as FMFIA, the Inspector General semiannual reports, and annual financial statements. She promoted ways to coordinate and improve such mandatory reporting and to provide more relevant and timely information to senior decision-makers.

For her important contributions to financial management in the federal government, we are pleased to present a Special Award for Distinguished Leadership to Susan M. Gaffney.

From left to right: Comptroller General Charles A. Bowsher and award winners Susan Gaffney, Mary Ellen Withrow, and Richard Kusserow with Director of the Office of Personnel Management Constance B. Newman and OMB Deputy Director for Management Frank Hodsoll

Brief Remarks by Louis Sullivan

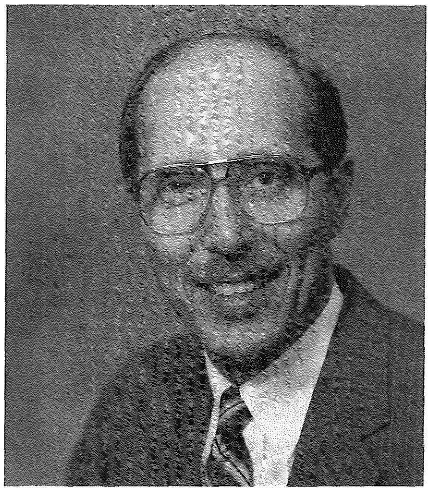


Louis Sullivan
Secretary of Health and Human Services

I am pleased to join with you in recognizing our honorees. I have a parochial interest because of what Dick Kusserow, our Inspector General, has done for us at HHS, and really for the American people. He has done an outstanding job, so I want to congratulate him on the award that he has received. As you know, during the past 11 years, our IG office has saved more than $40 billion through his various audit strategies, and those are dollars that the American people will not have to spend, and dollars that can be used in other areas.

I indeed want to congratulate the Joint Financial Management Improvement Program for its recognition of outstanding financial management on the part of public employees. This is very important. It really makes the jobs that we do more efficient, and it makes sure that the dollars that are entrusted to us by the taxpayers are well spent. So again, I am pleased to be here to congratulate our honorees, and certainly with Dick Kusserow in my department, I am pleased to be here.

Plenary Address by Edward J. Mazur



Edward J. Mazur
Controller, Office of Federal Financial Management
Office of Management and Budget

My very first talk in Washington—I think it was in '83 or '84, was to a JFMIP conference. Over the years, I have discovered that just prior to giving a talk or a speech, I have found that some unanticipated thought ambles through my mind. The thought that came up in conjunction with this talk was a recollection from graduate school. I had a professor of management who would come in before every class, and he would grab the podium with both hands and bellow out at the top of his lungs, "Be bold; be bold." It was a message that was clearly meant to be lodged into our minds and never to be forgotten. It is a message that I pass on to you today. Be bold. Be bold. The 1990s is the decade when you and I and others not present here can really make a difference in the way in which the financial affairs of the federal government are handled.

A Commitment to Improvement

This can and must be the decade in which we improve the financial management of the federal government to the satisfaction of ourselves as professional financial managers and, more importantly, to the satisfaction of the American people. I would contend that the time is right for each of us to be as bold as we can wherever we are in the arena of federal financial management.

The President has made a clear commitment to provide \$101 million for financial statement preparation and audit, \$659 million for financial system improvement and \$1.4 billion for credit and cash management improvements. The Congress, I think, has spoken eloquently by passing the CFO Act, and by the secondary debate that occurred last year over the funding issue and the outcome of that debate.

Certainly the corporate and the state and local government communities have also supported strengthening financial management at the federal level. Finally, and most importantly, the American people want more from their government in terms of financial management. They want higher levels of responsibility and accountability, and they want to know they are getting their money's worth for the tax dollars they send up here.

Can the needed improvements come? Can you and I really make a difference? The cynics would demure, but there are many here today who know full well that to exert their creative energies, and to work hard, collegially, honestly and out in the open, can truly produce change and a difference.

We have to look no further than to the very deserving recipients of the Scantlebury Award and the special JFMIP Award today—Mary Ellen Withrow, Dick Kusserow, and Susan Gaffney. By their very considerable efforts, they have made a true and unquestionable difference, and you can make that difference too.

In carrying out improvements, or any change, the important thing is to know where you are and where you want to end up. We cannot simply discuss this matter of improvement on a global basis. At some point, we have to break it down into finite tasks and tangible objectives. One of the reasons that I have enjoyed being a comptroller for the last 15 years is that comptrollers are responsible for budget execution. They move away from plans to actually getting the job done; for me and perhaps for many of you, this is where the excitement and challenges really are.

In terms of my own personal role here in Washington, I will be an advocate for getting the job done. I am fortunate to have had a series of experiences, perhaps much like your own, so that I know what it takes to change computer code, I know what it takes to change procedures and forms and to promulgate new policies, and to actually have people do something different tomorrow than they are doing today. In some measure, it is both the hardest, yet perhaps the most rewarding, part of change because it goes beyond simply talking about change.

OMB's Plan for Improvement

The Chief Financial Officers Act establishes a requirement for OMB to issue an annual status report and five-year plan for improving financial management in the federal government. The Act itself provides many stipulations as to what should be done to achieve improvements and progress. To this foundation, we in OMB have added our own vision of how to get from here to there in terms of improving financial management.

In the next several minutes, I would like to explain our five-year plan and share some of it with you. This plan very shortly will be sent up to the Congress, and it will give me a chance to talk about the OMB vision.

We think that generally financial management has been neglected within the federal government. In our judgment, this neglect is a result of a lack of standing. That has been alluded to both by the Comptroller General and Frank Hodsoll earlier today in one fashion or another. Financial management has not been viewed as an integral part of the federal decision making in management processes. Changing this situation requires explicit recognition that federal accounting or financial management should not exist simply to meet traditional accounting needs. Its broader purpose is to meet the needs of the people and the organizations who are the real clients of federal financial management, and OPM Director Newman made that very clear today.

In OMB's vision, financial management means accountability—that the taxpayers, agencies and the Congress should be fully informed, in terms that they can readily understand, about how the tax dollars are actually being spent and how federal assets are being protected. It also means efficiency and effectiveness—that the individuals, firms, state and local governments who have dealings with the federal government in terms of financial affairs are assured of efficient and effective service.

It also means better decision making: that agency heads, program managers, and the Congress are provided—or should be provided—with timely reports linking financial results with program data, so that the financial implications of policy decisions and program decisions can be forecasted more accurately.

Good Financial Management

Changing the current situation also requires explicit recognition that "good financial management" means more than avoiding adverse audit comments and public scandal. In OMB's vision, good financial management would maximize the flow of resources to the central programmatic mission of the agency and provide for administrative support in proper proportion to those programmatic activities.

I would contend that the time is right for each of us to be as bold as we can wherever we are in the arena of federal financial management.

Good financial management consistently demonstrates strict accountability and conformance with laws, administrative requirements, and financial standards that are promulgated by central and agency management. Good financial management consistently performs basic financial functions—accounting, transaction processing, asset management—at always an acceptable level. Good financial management contributes information that is objectively important to the progress and performance of the agency.

At OMB, we believe that the achievement of this vision would bring about a measurable benefit in terms of enhanced credibility and the performance of government programs. We have a strategy, which I will share a little bit of with you, as to how to get that done; how to get that vision in place. Part of it involves continuing to stress to the senior management of the agencies that they need to give top down support and encouragement to all of you.

We also believe that we need to collaborate. This is not a one-man show or a one-woman show, and we need to collaborate with a number of agencies and organizations in the design and execution of these programs that will bring about improvements. We view as some of our chief colleagues in this regard the Department of the Treasury, the CFO Council, the President's Council on Integrity and Efficiency, the President's Council on Management Improvement, the Federal Credit Policy Working Group, the General Accounting Office, certainly, and the JFMIP.

Finally, part of our strategy is, to the extent of our rather limited resources within the Office of Federal Financial Management, to go out and to provide hands-on advice and counsel and technical assistance whenever that is desired and whenever we can.

Indicators of Good Financial Management

Now, this concept of a vision of good financial management needs an interpretation. We need to have something on the wall. I said in a speech the other day that this is a wonderful town for talking about what is wrong and what is broken. People make their livings doing that. But if we really want to get from here to there, we have to have something on the wall, a target that represents good financial management; something that is not merely the absence of problems, but that is something positive to work towards.

A central objective of the CFO Act is to prepare annual financial statements in their full form and to have those statements audited. I am willing to accept, and I hope you will too, that the preparation of such statements should be a significant indicator as to whether or not you have achieved good financial management.

I also think that we need to look at the basic things we do, because if you do those basic things correctly, other benefits pull along with them. We are going to work with the CFO Council and others to develop indicators of solid financial management performance. We don't know exactly what those are, but I suspect they will include the timely payment of bills under the Prompt Payment Act; the way in which loans, accounts receivable, and so forth are managed and collected; the implementation of a standard general ledger at the transaction level; the timely completion of critical reconciliations; and the systematic and timely elimination of adverse audit findings and weaknesses noted through FMFIA. These things that I have mentioned can be counted, and measured. You can develop the notion of standards, and if you have attained those standards, you will by definition be in conformance, and you will be supporting good financial management.

Financial Areas Requiring Improvement

The OMB five-year plan is broken down into about nine areas requiring action by both OMB and the agencies. What I want to do is to parallel the components of that plan and talk about some of the things that are being done today, or done in recent months, that are representative of the attainments that we would like to see brought about through the plan.

Financial Management Organization

The first area is financial management organization at the agency level. The plans are largely in, and approved, and the bulk of the CFOs are in place with more going in place shortly. I should also note that one of the things we want to do in OMB is to find some agencies to work with on what we call a functional analysis, to develop a notion of what an ideal, fully functioning CFO organization looks like, and then compare and contrast that with what exists in the various agencies. This will help identify ways of strengthening your organizations.

The Office of Federal Financial Management, which I oversee, is up and running. I was pleased with Frank Hodsoll's positive comments about the staff that we have assembled; both those who were already here, Susan Gaffney and Tom Stack, and our newcomers, Woody Jackson, Schuy Lesher and Hal Steinberg.

Financial Management Personnel

The second area for action in the plan concerns financial management personnel, how to have good staff, how to promote good staff, and how to bring good people in. The AGA has recently developed a blueprint for attracting and retaining financial management personnel. We think that blueprint can provide excellent support to the CFOs, and we are going to try to get it published as part of our plan, and to draw CFOs' attention to it. It is important to take the staff that we have and make sure that people are brought up to speed as needs change, as improvements come along, and as we make positive progress.

Earlier today, Frank mentioned the PCIE's training, some of the things that the JFMIP is doing, and training by Treasury. But there are other efforts as well. Defense has made a systematic determination of the training needs of over 30,000 of its financial management personnel. The Department of Interior has earmarked funds for financial management training. The State Department has created new programs within its Foreign Service Institute which deal with financial management. Commerce and Labor have established a core set of financial management training requirements. These are just a few examples.

Accounting Standards

One area that needs attention is the development of accounting standards. Frank stated earlier where we are with the Federal Accounting Standards Advisory Board (FASAB) and the topics that we are working on. The FASAB has a staff of 13 people, and the Board is meeting regularly, up to two or more times each month. Let me say that this is a very challenging pursuit. The development of accounting standards for the federal government is not easy and it will not be done overnight. What is so critical is your involvement. Your commentary is so valuable. I have read through and looked at the stacks of responses that you have put in for our earlier exposure draft. Your comments are extremely valuable; please keep them coming.

Financial Systems

The plan also calls for improvement to financial systems in a number of different ways. Because money is scarce, we need to avoid duplication of effort; so cross servicing is important. Use of off-the-shelf software is also important.

I can give you some examples of where that is being done. There are over 50 external clients at the Department of Agriculture and at the General Services Administration, where they are providing cross-servicing support for accounting, payroll and other financial services. Agencies serviced by Agriculture include Commerce, Education, Housing and Urban Development, and Federal Emergency Management Agency. These and other agencies have over a half a million employees who are receiving payroll through Agriculture's National Finance Center. That means only one set of people maintaining a system, rather than dozens. The agencies served by GSA include Federal Trade Commission, International Trade Commission and Labor. The Department of Health and Human Services is now performing electronic grant payment functions for 31 external clients. The Department of Treasury's Financial Management Service, using an off-the-shelf software product, is providing administrative accounting services to six clients with another three in the wings. The Department of the Interior, also using off-the-shelf software, is providing services to several external clients. So clearly, we are moving in that direction.

I am very excited about what the Department of Defense is doing in terms of systems reductions. They are first moving from a greater number of current systems to a smaller number of current systems before going through a real upgrade. For example, they have recently moved from 64 separate civilian payroll systems to 2. That is the kind of change I think is meaningful.

Internal Controls

Another action plan area is strengthening internal controls. In part, that means getting rid of the problems that have been identified through FMFIA, and through IG and other reports. Agencies have reported to us in 1991 that they have corrected 111 material weaknesses and 31 non-conformances with federal financial policies. A few years ago we put together the high risk list, something for which Susan Gaffney was responsible for. Since that time, 28 very significant problems have been removed from the list, and the overall count dropped last year. The list has been published in the 1992 and 1993 President's budgets.

Asset Management

Asset management is where we can actually bring some money in, add to the revenues, or preserve what we have. The Administration has submitted a bill to Congress entitled the Credit and Debt Management Act of 1992. Frank mentioned it, but let me add that this legislation would bar debtors currently delinquent on federal debts from obtaining additional federal financial assistance. It would mandate the use of the income tax refund offset for all delinquent debt, including delinquent corporate debt. It would simplify the fee structure for late payment charges on delinquent loans and provide the Justice Department with permanent authority to contract with private sector attorneys. It is a very powerful piece of legislation, and I am going to work hard to see to it that it is passed.

Agencies are very involved with credit management and cash management initiatives. In 1990, the Departments of Agriculture and HHS pooled efforts with the State of Maryland, and my former colleague, Comptroller Louis Goldstein, to initiate a pilot program to test electronic payment mechanisms for benefit transfers. The initial word is that the pilot test results are very successful, and we are looking to get more states involved.

The Small Business Administration developed an online, national network providing information to field offices assuring that credit reform subsidy appropriations are properly monitored and controlled. The Federal Housing Administration (FHA) installed the credit alert Interactive Voice Response System which allows lenders to screen applicants for FHA guaranteed loans against a list of HUD defaulters.

IRS has developed an electronic filing program providing taxpayers with faster, safer returns if they file their tax returns by electronic means. Thus far there has been a 58 percent increase in the use of that mechanism, and it has involved over 6 million tax filers.

Finally, the Federal Credit Policy Working Group in 1991 instituted quarterly early warning reports that show significant trends in the portfolios of the five major credit agencies. It is a very powerful report.

Audited Financial Statements

The preparation and attainment of audited financial statements is an extraordinarily important part of the improvement program and the OMB plan. The initial five agencies have completed their obligations for departmentwide financial statements: Labor, GSA, HHS, Veterans Affairs, and Agriculture. Three of these reports were audited last year. Now they and a couple of the other pilots are coming on board with the fiscal year 1991 statements.

I want to commend Dick Kusserow (IG, HHS), his people, and the people in HHS and the Social Security Administration who deserve credit for their hard work on SSA financial statements. They have worked very hard to provide financial and program performance data as part of that report in a manner that allows the reader to arrive at some overall assessments of the SSA program.

Other agencies are working hard on completing financial statements and audits for 66 entities. There are 138 entities in all that will be preparing statements by the end of next year. The particular efforts now concern the commercial, trust fund, and revolving fund activities.

Performance Measures

The last area to be included in OMB's plan is that of developing performance information. The annual report requirements set forth by OMB last September require the inclusion of performance measures and performance reporting on program data, financial data, and financial performance data as part of the overview section of the annual financial statements. Within the past few weeks ago, we put out guidance that will help agencies prepare that section of the annual report. We also initiated 15 interagency task forces to identify performance measures for entities with common concern or responsibility in areas such as the management of federal property, real estate sales under loan programs, loans and loan guarantees, medical care enforcement regulations, and others.

Producing A Bottom Line

We are trying to create for the federal government a bottom line, an artificial bottom line, for not just one, but for a number of measures. I came from the corporate environment many years ago, and there was an imaginary rope going through that corporation, and everyone from the senior people all the way to the people who worked on the third shift running a machine knew the direction in which they had to pull that rope to produce a profit. We are in a much tougher environment. That rope is less clear. We have to struggle to create in each individual agency what that rope or ropes will look like, and then we have to be assured that we are all pulling in the same direction. It is a very hard task, but I cannot see not trying to do it.

Conclusion

Implied in our plan, and in some of the things I have said earlier, perhaps, are several important principles with which I will close. The first is that improvements must occur at the agency level. This is where the work has to be done, by you. There has to be clear and visible responsibility for progress placed squarely on the shoulders of the senior agency people, the agency head, and the CFOs. Another principle is that agency management must set priorities relative to staff, financial system development, and internal control aspects, in creative ways, for which they will be responsible.

Next, the status of financial management should be reported through the use of straightforward performance measures and standards that promote attention, promote praise, or bring about corrective action by senior management personnel. Let me digress to say that if your performance measure does not cause one of these people to pick up the phone and say, "Great job," or "Bad job," then it isn't worth its salt in my experience.

Another principle is that agencies should ensure, especially when resources are limited, that new systems and systems modifications support the achievement of the basic financial functions of the agency. Finally, maximum progress in this whole effort will result only if officials focus principal attention on the outcomes of financial management performance. This is what I referred to earlier. It is what you want to put on the wall that defines good financial management: the goals that you move towards in a positive way.

As I close, I want to recognize JFMIP for its excellent efforts towards supporting improved financial management in the federal government. I want to emphasize the importance of a conference like this, of the awards that were given, and of the annual report that JFMIP puts out on financial management improvements.

While it is all well and good, and important, to identify problems and weaknesses and to solve them, it is equally important in my judgment to recognize the good work that is being done, and the positive progress that is being made, especially through the hard and creative work that people like yourselves do on a daily basis.

As I leave, remember what I said in the very beginning. As you face your personal challenges on a daily basis to contribute to improvement of federal financial management: Be bold. Be bold. Thank you.

Chapter 3

Panel Session Summaries

Model Approaches to Financial Management Reporting

Harold Steinberg

Harold Steinberg, Deputy Controller of the Office of Federal Financial Management, Office of Management and Budget and panel moderator, discussed briefly the requirements of the Chief Financial Officers Act for financial statements and the more detailed OMB requirements for implementing the legislative requirement. He identified the OMB requirements as including

- OMB Bulletin 91-14, "Audit Requirements for Federal Financial Statements,"
- specific guidance dated February 1992 for addressing performance measurement in the overview section of the annual financial report, and
- OMB Bulletin 91-15, "Guidance on Form and Content of Financial Statements on FY 1991 Financial Activity."

Mr. Steinberg pointed out that the General Accounting Office recently drafted an audit methodology for performing audits of financial statements.

Larry Eisenhart

Larry Eisenhart, Associate Comptroller for Financial Management, Department of State, discussed briefly the conditions leading to passage of the CFO Act, such as the poor state of our financial systems and lack of useful information. He indicated that audited financial statements was seen as a requirement that needed to be implemented.

Mr. Eisenhart discussed the financial report requirements of OMB Bulletin 91-15, "Guidance on Form and Content of Financial Statements..." The reports include the Overview of the Reporting Entity, Principal Statements, Notes to the Principal Statements, and Supplemental Financial and Management Information. He said different formats for the fiscal year 1991 statement are permitted, such as using existing Treasury SF 220 series reports, commercial type statements, and formats recommended by a Subcommittee of the CFO Council. Existing agency accounting standards are to be used and differences with GAO Title 2 are to be identified in notes to the statements.

Mr. Eisenhart briefly discussed the principal statements with suggested formats. He discussed the Statement of Overall Financial Position that classifies assets by financial resources and non-financial resources and liabilities as funded and unfunded. For the Statement of Operations, the agency programs should be highlighted, just as state and local governments and nonprofit organizations now do. The indirect method for determining cashflows was used in preparing the Statement of Cash Flows.

Mr. Eisenhart then discussed a Statement of Budgeted and Actual Expenses, indicating that its development should account for most of the time used in preparing the financial statements. Part of this statement involves budget reconciliation (identified in the OMB guidance as a Statement of Reconciliation to Budget Reports). He described this statement as identifying programs, total resources of the programs, obligations—direct and reimbursed—for the programs, and actual expenses by program.

In closing, Mr. Eisenhart stated that the Department of State's financial statements have incorporated credit reform requirements and are cross-walked to the Standard General Ledger.

Dennis Fischer

Dennis Fischer, Deputy Assistant Secretary, Finance, Department of Health and Human Services, discussed his Department's efforts in preparing the Overview section of the annual financial report, the section which includes performance measurement in accordance with OMB's guidance issued in February 1992. The required Overview section is intended to describe the entity and provide a narrative discussion and analysis of the financial condition of the reporting entity. HHS components, such as the Social Security Administration (SSA), have been advised by the Department that the description of the agency should not exceed two pages and the entire overview section should not exceed 20 pages.

Mr. Fischer said a key part of the Discussion and Analysis is the discussion of indicators of program performance. The Discussion and Analysis should contain quantitative data that present a balanced picture and not be just prose. He cautioned agencies not to present a rosy condition because they might find themselves for budgetary purposes behind agencies that reported problems and in need of funding to correct those problems. The data presented must be consistent with the President's budget and also tell a fair and balanced story. It is important to develop comparative type data so that results can be compared and evaluated especially with agencies that have similar operations. The significance of performance measurement is evidenced by the action of OMB in establishing 14 task forces to develop common performance measures for similar programs.

Mr. Fischer discussed the key steps in preparing the Discussion and Analysis:

- Identify missions, goals, and objectives
- Identify performance indicators and measures

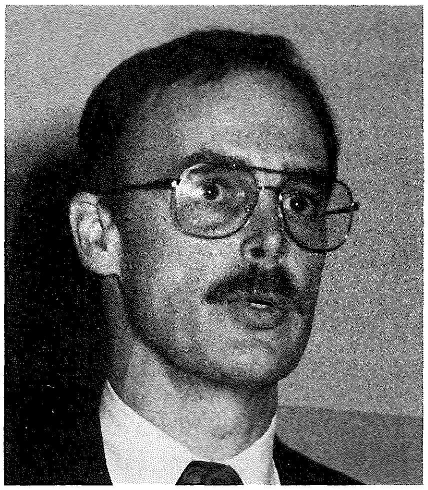
- Measure achievement of missions, goals, and objectives using the performance indicators/measures
- Analyze the results using financial analysis and techniques of analysis
- Identify trends, comparisons, and causes of results
- Write-up the results to include charts and graphs, and a narrative that summarizes the results.

HHS plans to have the Discussion and Analysis audited and reviewed by the IG, but no opinion will be expressed on it.

The SSA anticipates measuring performance for such areas as the administrative costs per SSA beneficiary, the accuracy of payments to beneficiaries, the composition of receivables and the cost to collect a receivable of $1, and how SSA is doing compared to last year. The HHS Inspector General initiates customer satisfaction surveys that are then tracked by the Department. HHS is also looking at output measures such as how much of recipients' total income derives from social security and how many of the recipients are above the poverty line because of social security.

HHS is decentralized and the effort now is to get the HHS components to develop a financial report for wide circulation and for which they will be accountable. To assist the components, HHS intends to assign representatives to the OMB task forces that are developing performance measures. The work products developed by the task forces will then be given to the components to use.

In closing, Mr. Fischer stated that HHS is trying to determine the potential users of this new financial reporting. Indicating that the Federal Accounting Standards Advisory Board is conducting a survey to identify users and their needs, he expects the results will be helpful to agencies. In order for the appropriation committees to become users of financial reports, agencies must complete their financial statements and Overview by the statutory date of March 31 together with obtaining the audit opinion on the statements.



Schuyler Lesher

Schuyler Lesher, Chief, Federal Financial Systems Branch, Office of Federal Financial Management, OMB, discussed the vision and strategy for developing and implementing financial management systems. The vision extends as far back as 1984 when OMB Circular A-127, "Financial Management Systems," required agencies to establish and maintain a single integrated financial management system which may be supplemented by subsidiary systems. More recently, the fiscal year 1992 budget presented to the Congress states the objective is to integrate agency financial systems with other administrative systems (e.g. payroll, loans, etc.) and with major program systems. The Budget Document states that agency primary systems, the Treasury system, and the OMB system will be integrated to form a single governmentwide system. These efforts are important for accountability, efficiency, and effectiveness, and better decisionmaking.

Mr. Lesher stated that a vision and a strategy are not the same and that a strategy cannot help if you do not know where you are. Agency financial system plans should reflect the strategy, but the mere existence of plans does not imply a strategy. He cautioned that technology alone is not the silver bullet for the successful accomplishment of the vision.

An overview of the relationships between the central systems of OMB and Treasury, of agency programs and financial systems, and of non-federal programs and financial systems was presented. The strategy must reflect the current environment and the focus of the system efforts will differ based on the type of system involved, whether event driven systems or information systems. Integration is the goal—and OMB is just realizing what that means. He said that while information is the objective of these systems, the best way to approach them when discussing strategy on implementation is by the processes the systems accomplish. Business needs must drive the system strategy and the systems must be developed and implemented in manageable pieces to meet the business needs.

Federal financial managers must look to solutions for all components of a financial system—hardware, software, people, policies, procedures, and communication. There must be a focus on business objectives and functionality, not just on technology, and projects must be separated from systems as we develop and apply our strategy.

Mr. Lesher discussed current OMB initiatives related to information architecture, financial systems architecture, and policy. OMB is developing a series of evolutionary steps leading to a governmentwide database that is both short term and long term and has data links to agency systems. OMB is establishing business-focused financial system design(s) to meet processing and information requirements related to central systems and agency architectures. The policy initiatives relate to revising governmentwide financial systems policy to include revising OMB Circular A-127, improving monitoring of financial systems and projects, and financial software improvement.

Lastly, Mr. Lesher unveiled a three-phase approach desirable for financial systems investments. These are:

- Phase 1: Basic financial systems capabilities supporting financial statement preparation;
- Phase 2: General functional and technological enhancements related to electronic transfer of data, financial system links to program systems, and departmental systems; and
- Phase 3: Agency initiatives to meet financial and performance measurement requirements.

For these investments, OMB anticipates projects to be organized in manageable segments, analyzed by expected returns (tangible and intangible) based on business objectives, offering multiple level improvements addressing phase one first, and providing a track record of results.

John Hill

John Hill, Director of Central Support and Analysis in GAO's Accounting and Financial Management Division, discussed his "Hall of Fame" in financial reporting. He presented his views on aspects of what good financial reporting should consist of, and he cited examples of good financial reporting by the Bonneville Power Administration, Federal Housing Administration, U.S. Postal Service, and the General Services Administration. While he indicated that he has not found any financial reports that are perfect, certain aspects of financial reports by these agencies can serve as models for preparing financial reports.

Mr. Hill provided a structure for annual financial statements. The annual financial statements include the overview, principal statements, supplemental financial and management information, and separate statistical and program information that would consist of non-critical detailed performance measures and lengthy discussion and analysis.

The overview section of the financial statements should discuss candidly the overall performance of the reporting entity and interpret the financial information for users. The overview should provide a focus for congressional oversight of the reporting entity. Mr. Hill identified eight key components for the report overview section on an entity:

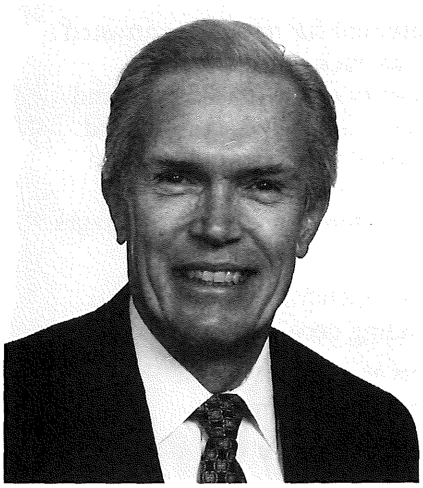
- Brief description of the reporting entity
- Highlights of financial condition and results of operations
- Assessment of whether mission was achieved
- Identification of high-risk areas

- Analysis of unusual items affecting operations
- Discussion of material events, uncertainties, and risks impacting future operations
- Highlights of programs needing future funding
- Discussion of individual program performance

Mr. Hill discussed the value of a transmittal letter from the Inspector General that accompanies the agency annual financial statements. The transmittal letter may alert readers to whether the overview section of the financial report is misleading or incomplete. The IG transmittal letter accompanies the entity's transmittal letter, precedes the overview of the reporting entity, and provides an incentive to management for candid discussions in the overview. He cited an IG transmittal letter related to financial statements of the Federal Crop Insurance Corporation as an example of a letter that addressed limitations on the accuracy and completeness of information presented in the Overview.

Finally, Mr. Hill discussed aspects of the financial reporting by the four agencies that he feels can serve as models. He cited models as including the Bonneville Power Administration's mission accomplishment (1990) and financial highlights (1991) sections; the Federal Housing Administration's candor in reporting on internal controls (1990); the U.S. Postal Service's mission achievements (1990) and financial highlights, mission accomplishments, and supplemental information (1991); and the General Service Administration's (1990) financial highlights, operations targets, and future activities.

Budgeting and Accounting Issues—Forging a New Partnership



Donald H. Chapin

Donald H. Chapin, Assistant Comptroller General, Accounting and Financial Management Division, General Accounting Office, introduced the panel discussion by remarking that the topic is a "hot" one with the federal budget nearly out of control, the deficit seemingly always going up, and the Congress decrying the measurement tools we use. He noted that the federal government is unique as an entity lacking conformity between budget and accounting.

Mr. Chapin reviewed several historical differences between accountants and budget staff, beginning with the observation that they represent different constituencies and have relatively little common background in education and training. Accountants are wedded to the ideas that cost and profit tell the whole story, while budgeteers are wedded to obligations and outlays. Accountants resist the idea of forecasting and want certainty and objectivity, while the budgeteers look to the future. Accountants focus on the entity, while budgeteers work with much more disaggregated levels.

Both accounting and budgeting systems have been neglected, there are only limited crosswalks between them, and much of the time we have inappropriate data coming from those systems. This results in a number of problems:

- non-accounting-based budget data which cannot be audited;
- Congressional focus on cash rather than cost-based results;
- budgets which do not capture the full cost of today's decisions; and
- financial statements that are not valued by Congress or the agencies.

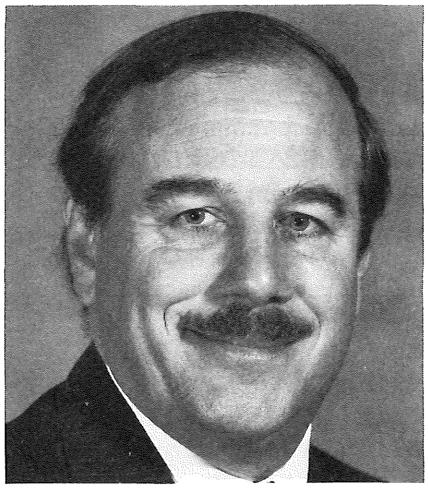
Mr. Chapin said we need to forge new partnerships, and this is a time when we can make such changes—a time of reformation. He presented one such change that he believes must be carried out. The Federal Accounting Standards Advisory Board (FASAB) must recognize that the budget is now the principal tool used to manage the federal government. Because of this reality, the desirability of consistency between accounting and budgeting principles must be given great weight. For credit programs, FASAB accepted for accounting purposes the reasonable accrual principles that have been adopted by budgeteers. Federal managers must work together to achieve consistency; compromises are necessary.

If complete consistency cannot be achieved because of historical accounting and budgeting forecasting, the remaining differences should be made clear enough to federal managers and Congress through simple reconciliations so that accounting information actually is used to manage. Financial accounting must support the budget process. The federal financial statements must be structured to account for resources entrusted to the agencies through budget allocations, to track other resources acquired by the agency, to measure the efficiency of use of resources, and to establish accountability for other resources and liabilities both funded and unfunded. He stressed that these financial statements will be a form not currently used anywhere in the public or private sectors.

Mr. Chapin suggested that improved statements will have advantages by showing

- the amount of financial resources an agency has at a point in time—basic for future funding decisions;
- data to help anticipate cash receipts and disbursements from existing loans and loan guarantee programs;
- investment information on defense and other inventories to reduce wasteful ordering and to establish future funding needs;
- trends in government programs to identify possible deficiencies, and performance measures essential to enable consideration of alternatives to current programs;
- dollar accountability for all resources and trust funds to enable measurement of losses, inefficiencies, and fraud; and
- information on important government obligations and liabilities for which the funds have not been appropriated but the need for which must be considered in determining future funding.

Mr. Chapin noted that we should develop non-duplicative information systems for financial accounting and budgeting data. Auditors can then focus on controls over budgets as well as on technical financial statement controls, and we can improve budget execution. He believes strongly that standard setters in budgeting and accounting should work for consistency while still serving the need of the accounting process for historical information and the need of the budget process for future-oriented planning information.



S. Anthony McCann

S. Anthony McCann, Chief Financial Officer of the Department of Veterans Affairs, set the stage for the discussion by reviewing the history of the Chief Financial Officers Act. He noted that it actually created very little from an agency point of view except performance measurement. The role of a CFO is not new, but it had not been exercised. Prior financial managers were authorized to act as agents of the Department of Treasury to certify agency staff, but did not routinely review staff training levels. With a centralized agency financial system, prior financial managers had the authority to cut off funds to a regional office if it was not in compliance with agency standards, but the financial managers rarely exercised this authority. The reason these powers were not exercised was not technical, but political—how do you make something happen?

Mr. McCann noted that prior to the CFO Act, financial managers even had the right to do performance measurement in order to determine how funds were spent. Program managers were not asked by agency financial managers "what did you buy and what were the outcomes?", but rather "did you go through the right process?" The Congress and the Office of Management and Budget, however, always asked about outcomes. Agency financial managers are now not only telling program managers to expend funds through the right process, they are also expecting them to accomplish something. Performance measurement forces all of us into a new environment. When we ask how much it costs to do something and compare those costs with costs elsewhere, we are at the heart of a program.

Mr. McCann concluded that the problems encountered in relating accounting and budget are not technical but are quite political. He commented that the appropriations committees, the budget side of OMB, and some budget officers do not think they need the kinds of things Mr. Chapin mentioned. He said the changes needed are far more difficult than standards development, rule writing, and enforcement. The changes are quite difficult because they are in an intensely political environment — trying to forge difficult changes in agency behavior.

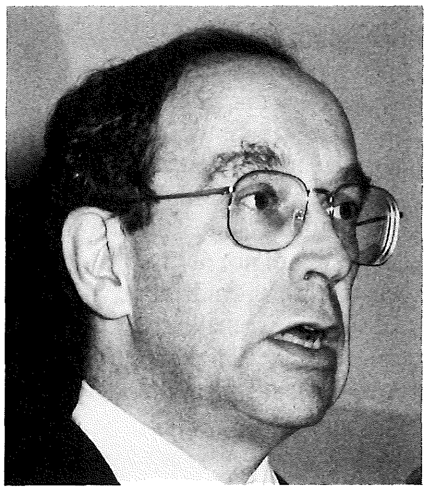
Frank Stidman

Frank Stidman, Senior Systems Accountant, Office of Management and Budget, began with a brief review of events in OMB. He noted that some believe that the linkages between budgeting and accounting began to slip in the 1960s with the implementation of the Programming, Planning, and Budgeting System (PPBS). He indicated that PPBS had failed and that its failure was because of the prevailing view in the budget side of OMB that a budget is a political document, not an analytical one. The rift was furthered by emphasizing GAO sign-off on agency statements of accounting principles and standards. Agencies set out to meet Title II (which was cost-driven then, implicitly assuming the budget process would move into a cost basis), but they found difficulties in using execution reports (SF 133) from accounting offices to prepare Program and Financial Schedules. Mr. Stidman cited a proliferation of bootleg records kept in budget offices to meet the cash-oriented requirements of OMB. Accountants increasingly did not focus on OMB Circular A-11. Further, accountants and budget staff did not use the same terminology—accounts, funds, and accrued expenditures all meant different things to the two groups.

Mr. Stidman noted that accountants and budget staff have begun to change terminology. The first event which inspired change was the automation of the SF 133 forms. As this project got underway, OMB found that over 20 percent of the accounts were not being reported and that no follow-up had occurred. Presently, OMB has a budget execution database and enhancements are underway to make it an analytic tool. The data standardization efforts of the Joint Financial Management Improvement Program were the second impetus to change within OMB. Now, there is consensus on terminology within OMB.

Mr. Stidman concurred with Mr. McCann that the CFO Act presented nothing new; it institutionalized the things we had been doing before. However, it did result in increased emphasis on OMB's management side.

Mr. Stidman stated that he believed the Credit Reform Act has increased conversations between OMB's management and budget staffs. Credit reform will require profound changes in accounting systems—the databases as well as the reports. Conversations between all sectors of OMB were ongoing for months to develop a common understanding of the program content of the law. There were concerns that the law was very specific—"how will a subsidy be computed and how should the database change?" The result were appendices to OMB Circular A-34 that published new systems requirements. The OMB staff then went out to agencies to explain the changes. Mr. Stidman concluded that he is fairly confident that accounting and budgeting increasingly will come together over the next few years.


James L. Blum

James L. Blum, Deputy Director, Congressional Budget Office (CBO), highlighted budget concepts being proposed or adopted that require a closer partnership between accounting and budgeting. These include credit reform, the growing demand for performance information as questions arise about the efficiency and effectiveness of government programs, and implementation of the CFO Act's goals to make financial reports more relevant.

Mr. Blum briefly reviewed the history of use of accrual accounting in budgeting. The 1955 Hoover Commission recommended that federal budget and Congressional appropriations be expressed as estimated annual accrued expenditures. They were interested in cost-based operating budgets and performance information, but did not focus on the revenue-side or the form of the budgets. The 1956 Amendments to the Budget and Accounting Procedures Act of 1950 required all agencies to develop and install accrual accounting measures, but not for use in budgets. The 1967 President's Commission on Budget Concepts recommended an accrual concept not for appropriations but for expenditures and receipts; however, they opposed capital budgeting. They were primarily interested in making the budget document a more useful tool in understanding the economic impact of federal activities, not in evaluating the efficiency and effectiveness of government operations. The 1955 Commission was formed primarily of accountants and the 1967 Commission was primarily budget experts—thus, the different concepts of accruals.

Mr. Blum said the Executive Branch did try to convert receipts and expenditures to accrual accounting, but just gave up because they could not find a way to provide timely reliable monthly data. Some programs, however, do use an accrual basis. Interest on the public debt has been accrued since 1955, conversely, interest on trust funds and interest on agency borrowing are on a cash basis. Certain military and federal civilian retirement payments (to trust funds) are accrued. Credit reform is the first legislation which specifies a modified form of accrual accounting which recognizes all expected costs and guarantees at the time they are made.

Mr. Blum noted that OMB proposed that deposit insurance and pension plan termination benefits (administered by the Pension Benefit Guaranty Corporation) be placed on an accrual basis. In the fiscal year 1993 budget, they assumed that this would be enacted by April 1, 1992, and made it retroactive to the beginning of fiscal year 1992. They borrowed heavily from the credit reform approach, but the definition of accrual differs. For deposit insurance, costs would be recognized when the economic insolvency occurs; with pension termination costs, costs would be recognized when they are forecast. Mr. Blum indicated that the prime motivation for these changes appears to be the Administration's desire to use the savings resulting from these proposals as a means to pay for other programs such as a tax decrease. This has caused quite a bit a controversy in Congress. The CBO believes that any savings from the deposit insurance proposals should be applied first to the newly re-estimated cost of the insurance problems before being applied to other initiatives.

In conclusion, Mr. Blum noted that a cash basis can be useful for measuring federal borrowing requirements, but is not always useful for policy decisions as it can be manipulated by such actions as shifting a payday at the end of the year. He acknowledged that accrual information also can be manipulated, and that, therefore, accruals are not always superior to cash for budget purposes. He stated that we should adopt accrual accounting only when it is demonstrably better for making decisions about the allocation and the source of resources. He indicated also that it can always be used as a supplement to the budget process or financial reporting.


Christine Bonham

Christine Bonham, Assistant Director, Budget Issues Group, Accounting and Financial Management Division, General Accounting Office, noted that the Budget Issues Group of GAO considers efforts to develop links between budgeting and accounting to be one of its major issues. She discussed a current project to evaluate the use of accounting information in budget decision-making.

The Department of Veterans Affairs (VA) was selected for a case study because it had prepared agency financial statements since 1986, which GAO has audited. The agency's most recent statements included a Discussion and Analysis section. The study included various levels of budget decision-makers and those who might influence budget decisions—Congressional staff on appropriation, authorizing, and budget committees; the VA's CFO and headquarters budget and accounting staff; the Congressional Budget Office; the Office of Management and Budget; and veterans interest groups.

Ms. Bonham indicated that it became apparent early on that the use of financial statements when making budget decisions was "underwhelming." As a result, the scope of the assignment expanded to include a second focus—the use of accounting data in VA's budget formulation process. It was determined that VA does use accounting data in budget formulation, but that a number of problems exist. Activity categories in the program and financing schedules often differed from accounting report breakdowns, thus necessitating time-consuming and error-prone manual conversions. The program and financing schedules use obligation-based reporting, while accounting reports for some accounts do not track obligations and, again, manual conversions are necessary. There is no standard general ledger which requires the accounting system to maintain data for budget accounts on an obligation basis, although the problem of different reporting categories still could exist. Data used by budgeteers are not all subject to independent audit. Post-year-end corrections resulting from financial audits are not uniformly transmitted to systems which produce budget reports.

Ms. Bonham listed several recommendations which emerged from the study, including:

- ensure that accounting data come from systems subject to independent audit;
- ensure that all changes made to financial statements by subsequent audit also are made to feeder systems for budget reports; and
- modify VA accounting systems to provide data on an obligation basis, as well as a cost basis, for the categories and object classes in the budget.

The study suggests that accrual-based budgeting should be considered for business-type programs and others, whereas cost information—instead of obligations—could be an essential element of budget analysis. It does not suggest that this be implemented now, however, because many people mentioned that the cost accounting system needs to be improved to produce reliable cost estimates before accrual-based budgeting is adopted.

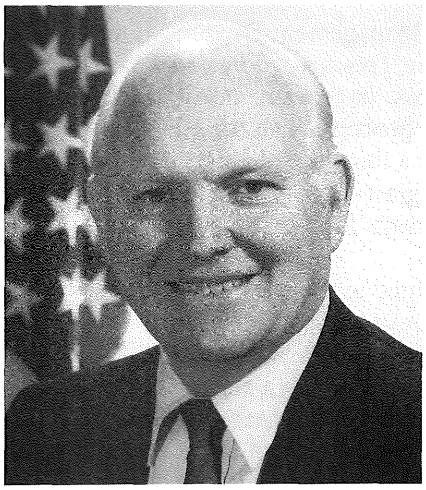
Ms. Bonham also discussed the other focus of the study, listing several reasons why current financial statements have not been used by budget decision-makers. These reasons include the following:

- Final audited financial statements for the prior fiscal year often are issued too late in the budget cycle, after many decisions already have been made.
- The focus by the budget community is on obligations, outlays and budget authority; not on cost.
- Financial reports are too aggregated for budgeteers who focus on appropriation accounts or lower detail levels.

A number of suggestions have emerged from the study. The first suggestion was from Congressional staff who stated that the Discussion and Analysis section of the entity overview could assist budget staff by presenting audited program-oriented data and analysis such as improved hospital cost information, assessments of the VA's equipment and replacement needs, and audited construction data. The second recommendation was to develop a better link to recognizable budget numbers through a new consolidated statement with bridges from obligations to net outlays to gross outlays to total operating expenses. A final suggestion, of particular interest to Congressional staff, was that credit programs initiate a table to track credit subsidy cost estimates and re-estimates for each cohort of loans over the programs' lives.

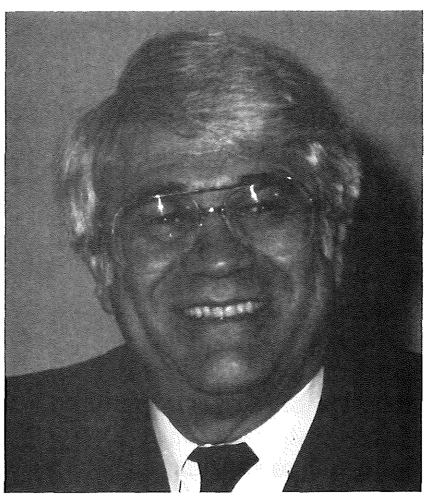
In conclusion, Ms. Bonham emphasized that it is crucial to include budget decision-makers in the design of financial statements and in the preparation of the entity overview.

Audited Financial Statements—Where Are We Going?



Alvin Tucker

Alvin Tucker, Deputy Comptroller (Management Systems), Department of Defense, represents the Defense community on the FASAB and was the moderator for the session. He introduced the session's speakers and conducted the question and answer session. The session included presentations on and discussion of the obstacles faced by inspectors general and financial managers in generating and auditing financial statements for federal agencies under the CFO Act.



James Richards

James Richards, Inspector General, Department of the Interior, presented the IG community point of view relative to implementing the CFO Act. Although he supported passage of the Act, he expressed reserved expectations for its effective implementation for the following reasons:

- The ambitious goals of the Act lack sufficient resources to implement it; however, he believed that the Act would force financial reform and improvement.
- Agencies' accounting systems are in abysmal condition.
- Employees lack experience in the preparation of financial statements.
- Performance measures are causing strife between the auditors and financial managers.

Because of these conditions, Mr. Richards stated he was unsure what to expect from the agency when the financial statements are due at the end of March.

The lack of resources to perform financial statement audits causes diversion of IG personnel to that duty, which forces postponing of performance audits. Thus, it is a difficult time for the inspectors general in the short term because customers (agency program officials) expect performance, not financial statement, reviews. How customers receive audit reports of financial statements will determine the future of audited financial statements. The statements must prove to be important to these customers; otherwise, the process will fail to gain viability and acceptance.

Joseph Donlon

Joseph Donlon, Director of the Financial Management Division, Internal Revenue Service (IRS), Department of the Treasury, addressed what IRS was doing about audited financial statements. Improvement in financial management lies in the financial statement process which the CFO Act mandated for IRS beginning this year. It is a four-step process:

1. Develop, install, and maintain integrated financial systems;
2. Design meaningful financial statements for IRS stakeholders;
3. Have the statements audited; and
4. Respond to the information contained in the statements.

Under step one, IRS is acting to improve its financial systems because they are antiquated and do not satisfy its information needs. The administrative accounting system is being converted to a new off-the-shelf software system. Also, a tax systems modernization program has been initiated. The IRS revenue accounting and control system, however, will not integrate with the administrative accounting system because of the enormous and growing tax information processing workload.

Under step two, IRS is designing its financial statements to make them meaningful to the stakeholders who will use them. They include IRS management, the Treasury Department, the Office of Management and Budget (OMB), Congress, and taxpayers. Thus, the IRS statements will contain a Balance Sheet to reflect its financial position as currently reported on the SF 220 series of reports, a Statement of Collections and Operations which presents resources provided and used, and a Discussion and Analysis section which will discuss the performance indicators and the agency's accountability to its stakeholders.

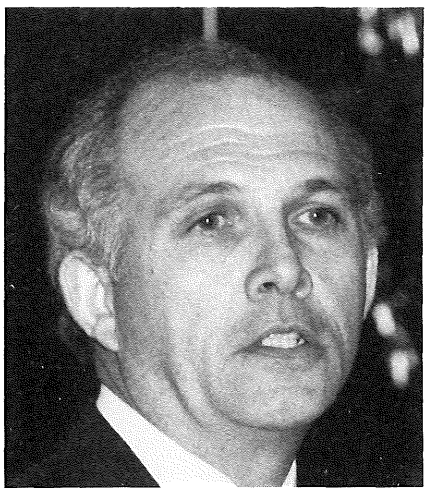
Some balance sheet issues relate to how certain types of assets and liabilities will be reflected on the financial statements. Examples of these include refunds to taxpayers, accounts receivable, and fixed assets.

IRS has long maintained financial indicators and program measures. During 1988 the IRS developed an integrated set of 15 cross-functional performance indicators useful for its management and financial needs.

Under step three, the General Accounting Office (GAO) is auditing the agency's 1991 financial statements. While any first-year audit is difficult, the IRS audit is particularly challenging due to variables such as the size of the IRS, the type and dollar amounts involved, the changing systems, and the decentralized accounting function which the IRS uses. IRS's decentralized accounting requires the auditors to spend time in the national office, all the regional offices, the district offices, and the computing center in order to follow the audit trail and form a basis for an audit opinion on IRS statements.

An outgrowth of GAO's involvement in auditing the agency's financial statements is that IRS management is alerted to problems and issues that need addressing and can begin to correct them before a report is issued. This is important due to the many ongoing changes occurring and because the goal of the audit is to improve financial management.

Under step four, IRS is regarding financial statements as a useful tool for accomplishing the agency's mission by identifying opportunities to effectively improve program operation and performance. This means looking at the way business is now being performed and reflecting on how it can be done better.



Norwood Jackson

Norwood Jackson is the Chief of the Financial Standards and Reporting Branch, Office of Federal Financial Management, OMB. Mr. Jackson's view is that the federal government's existing form and content for audited financial statements provides structural guidance what the overview, financial statements and supplemental data should look like. A basic problem, however, is the lack of a conceptual framework. A conceptual framework contains the basic concepts underlying measurement and disclosure; it is not a standard but forms the basis for accounting and reporting standards. Without the conceptual framework, accounting and reporting standards designed to solve financial accounting problems are of questionable usefulness and the process of providing useful financial information will fail. Thus, concept statements must drive the process.

Because the federal government does not have a conceptual framework, Mr. Jackson discussed the conceptual framework currently used by U.S businesses. The framework which covers four concept statements:

1. objectives of reporting,
2. qualitative characteristics,
3. elements of financial statements, and
4. recognition and measurement in financial statements.

The objectives of reporting deal with information about performance and for decisionmaking and knowledge. Qualitative characteristics address such concepts as reliability, verifiability, comparability (consistently), understandability, usefulness to make decisions, timeliness, and relevance. Elements of financial statements conceptually define what assets, liabilities, revenues, expenses, and equity (net position) are as well as their interrelationships. Recognition and measurement deals not only with how to quantify the information (i.e. cost, realizable value, accrual basis, etc.) but also how to determine what information is to be included and when (timing).

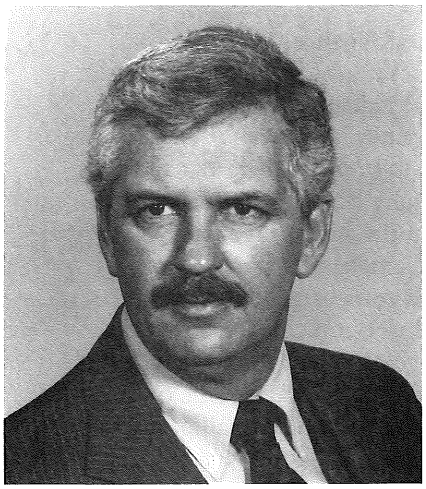
In answering the question "Where are we going?" Mr. Jackson indicated that the key to creating a useful process would be to define what should be the objective of government financial reports. He suggested two objectives as examples:

1) Assessing accountability and
2) Evaluating operations.

Mr. Jackson further indicated that every agency has different objectives. The Departments of Labor, Transportation, and Defense, and the Tennessee Valley Authority each have different reporting objectives. Thus, a requirement that the same reports to be rendered by all agencies delays and makes more difficult the development of concepts and standards.

Mr. Jackson, therefore, believes success will require active involvement of users in all aspects of the effort, recognition that financial statements may be unconventional among organizations, and definition of the objectives of reporting and the financial and performance standards.

Technology-Driven Cash Management in the 90s



Russell Morris

Russell Morris, Commissioner of the Financial Management Service (FMS), Department of the Treasury, moderated the panel. To open the session, he explained how cash management has evolved rapidly over the last 10 years, with changes focused on what we mean when we say "cash management" and the tools used in cash management. The scope or domain of cash management has evolved today from a narrowly-defined realm of activity to a broad area encompassing all money processing; this broad area encompasses the tools, techniques, procedures, and processes used by cash management practitioners to manage cash. In simplest terms, cash management still means having your money where you want it, when you want it, and at the lowest cost which includes both operating costs and opportunity costs.

In order to be effective in cash management, an infrastructure or platform of program support is needed. This platform must contain the following four implementation utilities:

- Information utility—where providing timely information on how much money you have is very important.
- Transaction utility—which involves ways to move money and is user friendly.
- Accounting and control utility—which accounts for and controls the cash.
- Forecasting or anticipation utility—to know in advance what our needs are.

These implementation utilities represent opportunities to make investments in technology. The federal government processes approximately two billion transactions per year worth $2 trillion. These numbers are open to vast opportunities to reduce costs and accrue positive rates of return on investments in technology. Mr. Morris says the domain of cash management remains very rich; the future of cash management remains very exciting.

Three areas of opportunity within the government include cash flows not currently under positive management control, increasing efficiency by changing the way we are controlling these cash flows, and learning and utilizing ongoing developments in technology.

Larry Stout

Larry Stout, Assistant Commissioner, Federal Finance, Financial Management Service, Department of the Treasury, spoke on the Cash Management Improvement Act (CMIA). He explained how the CMIA has been a driving force to bring about efficiency, effectiveness, and equity in the transfer of federal funds to states and to improve cash management in the federal government. This Act will require timely disbursements to the states and timely requests for funds from the states, involving $150 billion annually. The federal government will make increased use of effective interest funding techniques, such as zero-balance accounting, same-day payment, delay of drawdown, and electronic benefits transfer (EBT). The CMIA also requires that every government agency have as its goal by 1995 the total electronic transfer of funds to states. One of the goals within FMS is to build, in 1994, a test pilot to deliver all payments by EFT to at least five states.

CMIA will necessitate new funding techniques. A comprehensive grants management payment process is needed. The immense growth in federal grants needs innovations in payments and information processing to support program compliance in cash management. This process should be totally automated and totally paperless.

The mandate from the CMIA goes beyond the federal/state movement of funds. Federal financial managers must expand the use of direct deposit and increase the use of electronic funds transfers and EBT in non-state payment programs such as VA benefits, railroad retirement benefits, and Social Security.

On the cash collection side, one of the more significant initiatives is the use of Automated Clearing House (ACH) to establish an electronic tax collection process, with concentration initially on the Federal Tax Deposit (FTD) system. The FTD system is the largest collection system in the federal government, both in volume of accounts and in dollars. The FTD system involves 5 billion taxpayers and $800 billion per year. The goals are to eliminate paper, accelerate receipts, and facilitate better cash forecasting and investment decisions. FMS is now working with IRS, Federal Reserve Banks, and the banking community to study options for developing a nationwide tax collection system. Technology will be the driving force. This will be an enormous challenge which requires a partnership between the federal government and the state government, between the program and the financial manager, and between the banking community and the Federal Reserve. To reap the many benefits possible, FMS will need a partnership which will allow the government to use this technology to better manage Treasury's cash. The role of financial managers is to help program managers use this technology.

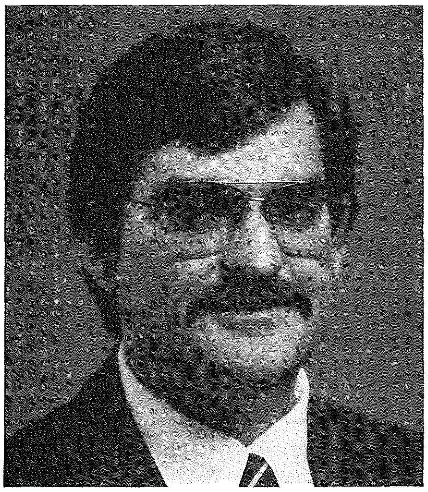
J. William Murray

J. William Murray, Senior Vice President, First National Bank of Maryland, spoke on the impact of technology, especially Automated Clearing House and electronic banking. Improvements in technology are focused on electronic payments and electronic banking. Government entities, especially the federal government, have been among the leading advocates in the electronic payments area. Electronic payments include direct deposit, corporate trade payments, and direct debit. Electronic banking involves the delivery of timely information and the initiation of electronic transactions by the customer.

In state and federal government programs, current trends in ACH involve the electronic payment of state taxes by corporations and the electronic Federal Tax Deposits. There are, however, problems concerning a lack of standardization, proof of payment questions, issues regarding timely filing of taxes, and credit risk factors. In the corporate-to-corporate payment area, the federal government has shown leadership with its Vendor Express program, which is now being used by the Department of Defense. Problems arise when banks are not able to provide electronic payment information to its customers. In using Automated Teller Machines (ATM's) and Point of Sale terminals (POS), we are using Electronic Benefits Transfers (EBT). With EBT, we have found that technology works; however, there are problems associated with this concept which need to be resolved. The biggest problem has to do with whether the bank, the retailer, or the state is going to absorb the costs of this program. Mandatory use of EBT, if directed in the future, will require improved recruitment and training, documented standards, and clear roles, responsibilities and liabilities.

Current developments involve ACH innovations. Beginning in July 1993, the ACH will be all-electronic, thus allowing direct deposit to reach all banks. The Federal Reserve System is also upgrading and improving its ACH processing capabilities through its consolidation into three data centers. Concerns which need to be addressed are Uniform Commercial Code regulations and security on unauthorized debits, especially in relation to corporate customers. Corporate-to-corporate developments involve financial electronic data interchange (EDI). More banks are using EDI and are participating inthe development of conventions or standards for special transactions.

Technology is changing the role of cash management. Trends in electronic banking are currently focused on cash management and information management. Customers are asking for more timely and accurate information, system interfaces, electronic windows, data transmission, and enhanced security. During the 1990s, electronic banking trends will be toward image processing, decision support systems, expert systems, artificial intelligence, and increased interfaces within an organization and with other organizations.


Mark Reger

Mark Reger, Assistant State Treasurer, State of Maryland, spoke on two electronic payment system initiatives: EBT (Electronic Benefits Transfers) and EFT/TAX (electronic funds transfer for payment of taxes). These two products are being used by the State of Maryland to modernize its operations, and not necessarily to improve cash management. Governments, banks, and corporations have discovered that electronic payments provide fast, safe, and efficient transfers of funds. Faced with an environment of having more things to do with either the same or fewer number of people to do the work, the State of Maryland found that electronic systems provided administrative efficiencies that are required to meet today's increasing demands. The State issues direct deposit payments to 37% of its employees. For the 63% who are not on direct deposit, the error rate is about 1%. It takes a tremendous amount of time to service these problems and reissue the checks. Direct deposit errors are less than .1%, with most of the problems caused by people-related problems. EBT systems help to eliminate and prevent problems caused by people.

Maryland's Electronic Benefits Transfer System (EBTS) is used to issue cash or food stamp and welfare benefits electronically though automated teller machines (ATMs) and Point-of-Sale (POS) machines located at participating grocery and retail stores. Individuals are able to access benefits using a plastic card, encoded with information on a magnetic strip. Maryland has learned much from others in its implementation of EBT, and based on its experience, can make payments cheaper using EBT. Both EBT and the use of ATMs have received high public acceptance.

EFT/TAX is the electronic funds transfer for the payment of corporate and retail sales taxes. This system includes ACH debits, ACH credits, and FEDWIRE payments. EFT/TAX demonstrates that electronic banking reduces the burden of administrative costs.


Claude Vickers

Claude Vickers, Director, Fiscal Division, State of Georgia, spoke on cash as an income producing asset and described various goals of cash management. He said the State of Georgia increased its cash management efforts, when interest rates were high years ago, by investing its cash balances. The income from investments, in fact, became the State's fifth largest source of revenue. The goal of cash management is to reduce cash balances and float, which includes mail, processing, collection, and disbursement float. Technology and personal computers have had an important impact on today's operations. Computers have eliminated paper, accelerated the flow of information, and improved the accuracy and reliability of financial data.

The Cash Management Improvement Act of 1990 (CMIA) has been a driving force behind cash management innovations. Two initiatives used by the State of Georgia are zero balance accounts and check clearing accounts. Zero balance accounts involve check clearance methods where the account balance is zero. The account is funded as the checks clear, thus resulting in a zero balance of uninvested funds. Check clearing accounts are controlled disbursement accounts which are managed using clearance patterns and cashflow forecasting. The renewed emphasis in cash management is the result of improvements both in technology and the CMIA.

Award Winners

Donald L. Scantlebury Memorial Award Winners

1991
Richard P. Kusserow
Inspector General
Department of Health and Human Services

Mary Ellen Withrow
Treasurer of State
State of Ohio

1990
Tom L. Allen
State Auditor of Utah
State of Utah

Robert L. Yates
Vice President and Controller
Tennessee Valley Authority

1989
William L. Kendig
Director of Financial Management
Department of the Interior

Ellen O'Connor
Budget Director, Fiscal Affairs Division, Executive Office for Administration and Finance
Commonwealth of Massachusetts

1988
Kenneth P. Boehne
Chief Executive Officer
U.S. Railroad Retirement Board

Louis L. Goldstein
Comptroller of the Treasury
State of Maryland

Elizabeth E. Smedley
Deputy Assistant Secretary for Financial Management and Controller
Department of Energy

1987
Conrad R. Hoffman
Director, Office of Budget & Finance (Controller)
Veterans Administration

William R. Snodgrass
Comptroller of the Treasury
State of Tennessee

1986
William R. Douglas
Commissioner, Financial Management Service
Department of the Treasury

Douglas R. Norton
Auditor General
State of Arizona

John R. Quetsch
Principal Deputy Asst. Secretary (Comptroller)
Department of Defense

1985
C. Morgan Kinghorn
Comptroller
Environmental Protection Agency

Edward J. Mazur
State Comptroller
Commonwealth of Virginia

1984
Clyde E. Jeffcoat
Principal Deputy Commander
U.S. Army Finance and
Accounting Center
Department of the Army

Earle E. Morris
Comptroller General
State of South Carolina

1983
Roger B. Feldman
Comptroller
Department of State

James F. Antonio
State Auditor
State of Missouri

1982
Harold L. Stugart
Auditor General
Department of the Army

Roland W. Burris
Comptroller
State of Illinois

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

Thomas W. Hayes
Auditor General
State of California

Financial Management Improvement Award Winners

1980
Marcus Page
Director, Division of Financial
Management
Environmental Protection
Agency

Robert Cronson
Auditor General
State of Illinois

1979
June Gibbs Brown
Inspector General
Department of the Interior

Anthony Piccirilli
Auditor General
State of Rhode Island

1978
William M. Henderson
Fiscal Affairs Specialist
Department of the Treasury

Frank L. Greathouse
Director, Division of Department
of the Treasury
State and Municipal Audit
State of Tennessee

1977
Rear Admiral James R. Ahern
Deputy Comptroller of the Navy
Department of the Navy

Lloyd F. Hara
Auditor, King County
State of Washington

1976
Alice M. Rivlin
Director
Congressional Budget Office

Joseph T. Davis
Assistant Commissioner
(Administration)
Internal Revenue Service

1975
Terrence E. McClary
Assistant Secretary of Defense
(Comptroller)
Department of Defense

John E. Dever
City Manager of Sunnyvale
State of California

1974
Bernard B. Lynn
Director
Defense Contract Audit Agency

Martin Ives
Deputy Comptroller
State of New York

1973
Edward S. Stepnick
Director, HEW Audit Agency
Department of Health, Education
and Welfare

Robert R. Ringwood
State Auditor
State of Wisconsin

1972
Robert C. Moot
Assistant Secretary of Defense
(Comptroller)
Department of Defense

Richard W. Miller
Associate Assistant Secretary for
Administration
Department of Labor

1971
J. Patrick Dugan
Treasurer-Controller
Export-Import Bank
of the United States

John P. Abbadessa
Controller
Atomic Energy Commission