

REMARKS BY VIRGINIA B. ROBINSON
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AT THE
THIRD ANNUAL CONFERENCE
OF THE
DEPARTMENT OF AGRICULTURE'S
FINANCIAL COUNCIL
ON
OCTOBER 12, 1982



IT IS INDEED A PLEASURE TO BE HERE WITH YOU TODAY. ON BEHALF OF
COMPTROLLER GENERAL BOWSER, I WOULD LIKE TO CONVEY HIS PERSONAL REGRETS
THAT DUE TO OTHER COMMITMENTS, HE WAS UNABLE TO ACCEPT LARRY WILSON'S
KIND INVITATION TO BE TODAY'S LUNCHEON SPEAKER. HOWEVER, I UNDERSTAND
HE HAS ALREADY PROMISED TO SPEAK AT NEXT YEAR'S MEETING.

THE TOPICS WHICH I AM GOING TO DISCUSS WITH YOU TODAY ARE ONES THAT
HAVE BEEN OF PRIME CONCERN TO MANY OF US IN GAO, AND I'M QUITE SURE THAT
THEY ARE OF EQUAL CONCERN AND INTEREST TO A GROUP SUCH AS YOURS.

SINCE COMING TO GAO ONE YEAR AGO, MR. BOWSER HAS SHOWN A STRONG
COMMITMENT TO IMPROVING FINANCIAL MANAGEMENT. HE HAS PUSHED STRONGLY
FOR THE PASSAGE OF THE RECENTLY ENACTED FEDERAL MANAGERS' FINANCIAL

INTEGRITY ACT OF 1982. HE HAS BEEN A STRONG SUPPORTER OF THE ROLE OF THE INSPECTORS GENERAL AND HAS BEEN IN THE FOREFRONT OF EFFORTS TO IMPROVE THE CURRENTLY EXISTING BUDGETING, ACCOUNTING SYSTEMS APPROVAL, FINANCIAL REPORTING AND AUDITING PROCESSES. MR. BOWSER BELIEVES QUITE STRONGLY THAT MORE ATTENTION TO THE PROBLEMS IN EACH OF THESE AREAS IS URGENTLY NEEDED, ESPECIALLY IN LIGHT OF PRESIDENT REAGAN'S GOAL TO REDUCE FEDERAL EXPENDITURES AND MAKE THE GOVERNMENT MORE RESPONSIVE TO THE NEEDS OF ITS CITIZENS.

IF GOVERNMENT IS TO SATISFY THE PUBLIC'S EXPECTATION OF GREATER ACCOUNTABILITY OVER PUBLIC FUNDS, ESPECIALLY WITH THE SHIFT IN FOCUS AWAY FROM THE FEDERAL LEVEL, GOVERNMENT FINANCIAL MANAGEMENT SYSTEMS MUST BE IMPROVED. THE STRONG LEADERSHIP AND COMMITMENT OF THE EXECUTIVE BRANCH ALONG WITH THE DEDICATED EFFORTS OF GAO AND OTHERS, WILL BE REQUIRED IF THE NEEDED IMPROVEMENTS ARE TO BE MADE AND IF THE PUBLIC'S DEMAND FOR EFFICIENT GOVERNMENT OPERATIONS IS TO BE MET.

LET ME NOW TURN TO SOME OF THE KEY ISSUES AFFECTING ALL OF US FINANCIAL MANAGERS.

FEDERAL MANAGERS' FINANCIAL
INTEGRITY ACT OF 1982

INTERNAL CONTROL IS ONE AREA IN WHICH ALL OF US CAN MAKE A NOTABLE CONTRIBUTION TO IMPROVED GOVERNMENT OPERATIONS. ONE REASON ACCOUNTING SYSTEMS DO NOT FUNCTION AS INTENDED IS THEIR LACK OF GOOD INTERNAL CONTROLS. ADEQUATE INTERNAL CONTROLS FORM THE CORNERSTONE OF A GOOD ACCOUNTING SYSTEM, BUT ONLY RECENTLY HAVE THEY BEGUN TO RECEIVE THE LONG OVERDUE ATTENTION THEY RIGHTFULLY DESERVE.

EVEN THOUGH EFFECTIVE INTERNAL CONTROLS HAVE BEEN MANDATED BY LAW FOR FEDERAL AGENCIES FOR OVER 30 YEARS, THE EVER-INCREASING DISCLOSURES OF FRAUDULENT ACTIVITIES AND INEFFECTIVE FINANCIAL PROCEDURES EXISTING IN MANY AGENCIES DEMONSTRATE THAT MANY OF THE INTERNAL CONTROLS ARE INADEQUATE. GAO, AS WELL AS MANY OTHER ORGANIZATIONS THROUGHOUT THE ACCOUNTING PROFESSION, FEEL THAT THIS SITUATION WILL IMPROVE SUBSTANTIALLY IN THE NEAR FUTURE AS A RESULT OF THE RECENTLY PASSED FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982.

AS MOST OF YOU ALREADY KNOW, THE LEGISLATION REQUIRES ONGOING EVALUATIONS OF THE ADEQUACY OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROL SYSTEMS OF EACH EXECUTIVE AGENCY. THESE EVALUATIONS, CONDUCTED ACCORDING TO OMB

GUIDELINES, WILL DETERMINE WHETHER THE AGENCIES' INTERNAL CONTROL SYSTEMS COMPLY WITH STANDARDS TO BE SET BY THE COMPTROLLER GENERAL. THE LEGISLATION CALLS FOR AN ANNUAL STATEMENT, SIGNED BY THE AGENCY HEAD, ATTESTING TO THE EFFECTIVENESS OF THE AGENCY'S INTERNAL CONTROLS, OR, IF NECESSARY, OUTLINING A PLAN AND A TIMETABLE FOR STRENGTHENING ANY WEAKNESSES FOUND IN THE CONTROLS.

TO CARRY OUT ONE OF GAO'S RESPONSIBILITIES UNDER THE ACT, THE COMPTROLLER GENERAL HAS ESTABLISHED A TASK FORCE IN GAO ON INTERNAL CONTROLS. ITS TASK WILL BE TO CONSOLIDATE INTO A SINGLE DOCUMENT THE NUMEROUS PUBLICATIONS WE HAVE DISTRIBUTED OVER THE YEARS STATING GAO POLICY AND STANDARDS ON INTERNAL CONTROLS. AS PART OF THIS PROJECT, THE TASK FORCE IS CONSULTING WITH VARIOUS PUBLIC ACCOUNTING FIRMS TO DISCUSS THEIR VIEWS ON INTERNAL CONTROL STANDARDS, AND WE EXPECT TO PUBLISH THIS DOCUMENT BY THE END OF THIS YEAR.

INSPECTORS GENERAL WILL ALSO PLAY A SIGNIFICANT ROLE IN IMPLEMENTING THE LEGISLATION BECAUSE OF THEIR CONTINUING RESPONSIBILITY FOR ASSESSING AGENCY ACCOUNTING AND ADMINISTRATIVE CONTROL SYSTEMS. BEFORE THE FIRST OFFICE OF INSPECTOR GENERAL WAS CREATED IN 1976 AT THE DEPARTMENT OF HEALTH,

EDUCATION, AND WELFARE, THE FEDERAL AGENCY AUDIT FUNCTIONS, INCLUDING AGENCIES' ASSESSMENTS OF THEIR OWN ACCOUNTING AND ADMINISTRATIVE CONTROL SYSTEMS, WERE RELATIVELY WEAK. SINCE 1976, HOWEVER, THE CREATION OF 18 STATUTORY OFFICES OF INSPECTOR GENERAL HAS RESULTED IN A SIGNIFICANT CHANGE IN THE ORGANIZATIONAL PLACEMENT AND THE ACTIVITIES AND RESPONSIBILITIES OF FEDERAL AGENCY AUDIT OPERATIONS. WE EXPECT THAT THE ASSESSMENTS THESE OFFICES MAKE OF THEIR AGENCIES' INTERNAL CONTROL SYSTEMS (AS REQUIRED BY THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982) WILL CONTRIBUTE GREATLY TO IMPROVING INTERNAL CONTROLS IN THE FEDERAL GOVERNMENT.

WE AT GAO PLAN TO WORK CLOSELY WITH OMB, INSPECTOR GENERAL AND AGENCY REPRESENTATIVES TO INSURE THAT THE ACT IS IMPLEMENTED IN AN EFFECTIVE MANNER. WE ARE ALSO ASSESSING JUST HOW WE WILL CARRY OUT OUR RESPONSIBILITIES UNDER THE ACT, AND WE ARE NOW PLANNING AND INITIATING WORK IN SEVERAL DIFFERENT AREAS TO DEVELOP METHODS AND PROCEDURES FOR ASSURING THAT THE REQUIREMENTS OF THE ACT ARE MET.

THE ROLE OF INSPECTOR GENERAL

THE COMPTROLLER GENERAL HAS INDICATED ON SEVERAL OCCASIONS THAT HE PLANS TO RELY ON THE WORK OF THE INSPECTORS GENERAL. HE CONSIDERS THEIR ROLE TO BE SIGNIFICANT IN THE IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT.

SOME OF THE INSPECTORS GENERAL HAVE ALREADY INDICATED THAT THEY EXPECT TO DO CONSIDERABLE WORK IN THE ACCOUNTING SYSTEM AREA, ESPECIALLY WITH RESPECT TO INTERNAL CONTROLS. SOME OF THE INITIATIVES CURRENTLY UNDERWAY EXTEND BEYOND INTERNAL CONTROLS IN ACCOUNTING SYSTEMS TO ADMINISTRATIVE CONTROLS THROUGHOUT THEIR RESPECTIVE AGENCIES.

IT IS EXPECTED THAT GAO WILL PLACE CONSIDERABLE RELIANCE ON THEIR WORK IN EXECUTING IT'S ROLE UNDER THE ACT.

MONITORING AND OVERSIGHT OF THE WORK OF IG'S BY GAO CAN BE AN EFFECTIVE WAY OF AVOIDING DUPLICATIVE EFFORTS. MR. BOWSER HAS INDICATED HIS DESIRE TO COOPERATE FULLY WITH THE IG'S AND RELY HEAVILY ON THEIR WORK,

NOW THAT I HAVE MENTIONED THE IMPORTANCE OF IMPROVED INTERNAL CONTROLS, AND THE ROLE OF AUDITORS I WOULD LIKE TO GO BACK TO THE BEGINNING OF THE FINANCIAL MANAGEMENT PROCESS AND DISCUSS SOME CHANGES UNDERWAY IN THE BUDGETARY PROCESS, AND THE ACCOUNTING SYSTEMS APPROVAL PROCESS.

THE BUDGETARY PROCESS

THE FIRST PROCESS OCCURRING IN THE GOVERNMENT FINANCIAL MANAGEMENT CYCLE, AND ONE WHERE IMPROVEMENTS ARE CRITICAL, IS THE BUDGETARY PROCESS. COMBINED FEDERAL, STATE, AND LOCAL BUDGETS ARE NEARLY \$1 TRILLION A YEAR. THIS LEVEL OF FUNDING HAS SEVERELY STRAINED EXISTING BUDGETARY PROCESSES.

AT THE FEDERAL LEVEL, THE BUDGET PROCESS HAS BECOME EXTREMELY COMPLICATED AND CUMBERSOME. IT IS BESET WITH SEVERE TIMING PROBLEMS, DUPLICATION, AND AN ALARMING INCREASING IN THE USE OF THE CONTINUING RESOLUTION TO FINANCE GOVERNMENT OPERATIONS IN THE ABSENCE OF APPROPRIATIONS. ALSO, AND EVEN MORE DISHEARTENING, ARE THE DELAYS IN FUNDING DECISIONS WHICH THREATEN TO INTERRUPT OPERATIONS AT MOST FEDERAL AGENCIES.

THIS STATE OF AFFAIRS IS IN NO SMALL MEASURE THE RESULT OF THE BUDGET PROCESS. THIS PROCESS REQUIRES 13 APPROPRIATION BILLS TO BE PASSED EACH YEAR TO FUND FEDERAL GOVERNMENT OPERATIONS. WHEN ANY OF THE APPROPRIATIONS BILLS DOES NOT PASS, VARIOUS GOVERNMENT AGENCIES OPERATE ON CONTINUING RESOLUTIONS--ESSENTIALLY PERMISSION TO CONTINUE SPENDING AT THE PRIOR YEAR SPENDING LEVELS EVEN THESE RESOLUTIONS MAY NOT BE PASSED, AND EVEN IF PASSED,

THEY ARE NOT AN EFFICIENT WAY TO RUN A COUNTRY. FOR EXAMPLE, IF THE NEW FISCAL YEAR APPROPRIATION WAS TO BE HIGHER OR LOWER, SPENDING AT A PREVIOUS YEAR'S LEVEL DISTORTS WHAT THE CONGRESS INTENDS WITH THE NEW APPROPRIATION. ALSO, IT SEEMS THAT LATELY, CONGRESS IS DELAYING VOTING ON MORE AND MORE FUNDING DECISIONS-- EITHER APPROPRIATION BILLS OR CONTINUING RESOLUTIONS--UNTIL AGENCIES ARE THREATENED WITH SHUTDOWNS OR, AS HAPPENDED, IN NOVEMBER OF 1981, UNTIL AFTER SOME AGENCIES ACTUALLY DO SHUT DOWN. THESE DELAYS NOT ONLY AFFECT THE EFFECTIVE AND EFFICIENT OPERATION OF GOVERNMENT PROGRAMS, BUT ALSO THE FINANCIAL MARKETS AND THE ECONOMIC STABILITY OF THE COUNTRY.

IT IS CLEARLY TIME FOR THE FEDERAL BUDGET PROCESS TO BE OVERHAULED. THE COMPTROLLER GENERAL BELIEVES SUCH AN EFFORT REQUIRES THE CREATION OF A HIGH-LEVEL BUDGET STUDY GROUP OR COMMISSION TO ACT AS CATALYST FOR BADLY NEEDED CHANGES IN THE FEDERAL BUDGETARY CONCEPTS AND PROCEDURES. THE FEDERAL BUDGET PROCESS WAS LAST EXAMINED COMPREHENSIVELY IN 1967.

MEANWHILE, CONGRESS IS CONSIDERING CHANGES TO THE FEDERAL BUDGET PROCESS. ONE OF THESE CHANGES IS THE ESTABLISHMENT OF A 2-YEAR BUDGET CYCLE, WHICH IS A MAJOR PROVISION OF THE PROPOSED BUDGET REFORM ACT OF 1982. IN ADDITION TO THIS PROVISION, THE BILL IS DESIGNED TO IMPROVE CONGRESSIONAL CONTROL OVER THE BUDGET, STREAMLINE THE REQUIREMENTS OF THE BUDGET PROCESS, IMPROVE THE LEGISLATIVE AND BUDGETARY PROCESS BY PROVIDING ADDITIONAL TIME FOR OVERSIGHT AND OTHER LEGISLATIVE ACTIVITIES, AND PROVIDE STABILITY AND COHERENCE FOR RECIPIENTS OF FEDERAL FUNDS. AS HE RECENTLY TESTIFIED BEFORE CONGRESS, THE COMPTROLLER GENERAL BELIEVES THAT ENACTMENT OF THIS BILL OR SOME FEATURES OF IT WILL BE AN IMPORTANT FIRST STEP TOWARD BRINGING GREATER STABILITY TO OUR GOVERNMENT'S ACTIVITIES, AND THUS TO OUR ECONOMY.

BY THEMSELVES, PROPOSED CHANGES TO THE FEDERAL BUDGETARY PROCESS CAN SOLVE ONLY SOME OF THE PROBLEMS IN FEDERAL FINANCIAL MANAGEMENT. THE OTHER FINANCIAL MANAGEMENT PROCESSES AND SYSTEMS THAT SUPPORT FEDERAL POLICYMAKING--ACCOUNTING AND FINANCIAL REPORTING IN PARTICULAR--ALSO NEED TO BE STRENGTHENED AND INTEGRATED WITH THE BUDGETARY PROCESS TO MEET THE NEEDS OF CONGRESS AND THE EXECUTIVE BRANCH.

INTEGRATING BUDGET PROCESSES AND
ACCOUNTING SYSTEMS

CURRENTLY, DECISIONMAKERS IN BOTH THE EXECUTIVE BRANCH AND THE CONGRESS HAVE TO COPE WITH SEPARATE AND SOMETIMES UNCOORDINATED BUDGETING AND ACCOUNTING SYSTEMS. THESE SYSTEMS BADLY NEED TO BE INTEGRATED. ONE PROBLEM WITH NONINTEGRATED SYSTEMS IS THE INABILITY TO TIE EXPENDITURES TO SPECIFIC AREAS OF CONCERN. BUDGETS USUALLY ADDRESS SIGNIFICANT AREAS OF CONCERN TO THE PUBLIC, SUCH AS MILITARY READINESS. MANY OF THE FEDERAL ACCOUNTING SYSTEMS, HOWEVER, ARE DESIGNED TO TRACK EXPENDITURES BY TYPE, SUCH AS MATERIALS, RATHER THAN BY AREA OF CONCERN. SO, A DIRECT RELATIONSHIP BETWEEN FUNDS EXPENDED AND AREAS OF CONCERN IS USUALLY NOT POSSIBLE, AND NO ASSURANCE CAN BE MADE THAT FUNDS ARE EXPENDED AS PLANNED.

AN EXCELLENT EXAMPLE OF THIS INEFFICIENT RELATIONSHIP BETWEEN FUNDS EXPENDED AND AREAS OF CONCERN IS CONTAINED IN GAO'S RECENT REPORT ON HOW THE \$72 BILLION INCREASE BETWEEN THE FISCAL 1980 AND 1982 DEFENSE BUDGETS WAS SPENT. THE PRESIDENT REQUESTED THE LARGE INCREASE AND THE CONGRESS PASSED IT TO IMPROVE MILITARY READINESS, MODERNIZE THE FORCES, AND IMPROVE THE QUALITY OF LIFE FOR MILITARY PERSONNEL. OUR EXAMINATION AT SELECTED MILITARY BASES SHOWED THAT

SOME OF THE READINESS FUNDS WERE USED TO BUY AND INSERT SIMULATED REDWOOD SLATS IN A CHAIN LINK FENCE AT ONE LOCATION AND TO BUILD A NEW GATEHOUSE, A VISITORS CENTER, AND A PARKING AREA AT ANOTHER. OBVIOUSLY, THE RELATIONSHIP BETWEEN THESE EXPENSES AND MILITARY READINESS IS NOT APPARENT.

AS THAT SAME REPORT DEMONSTRATES, SEPARATE SYSTEMS INHIBIT EFFECTIVE COMMUNICATION BETWEEN THE EXECUTIVE AND LEGISLATIVE BRANCHES OF GOVERNMENT. INTEGRATED SYSTEMS, HOWEVER, CAN PROVIDE ASSURANCE THAT THE BUDGET IS EXECUTED, ACCORDING TO SPENDING PLANS AND THAT ALL FUNDS ARE ACCOUNTED FOR, INCLUDING THOSE PROVIDED TO GRANTEES. SO, IT IS CLEAR: THE SEPARATE SYSTEMS MUST BE INTEGRATED.

ACCOUNTING SYSTEMS

IN ADDITION TO THE IMPROVEMENTS NEEDED IN GOVERNMENT BUDGETARY PROCESSES, AND IN THE INTEGRATION OF THESE PROCESSES WITH ACCOUNTING SYSTEMS, THE ACCOUNTING SYSTEMS THEMSELVES NEED TO BE IMPROVED. WE IN GAO ARE DEDICATED TO IMPROVING THE USEFULNESS AND THE RELIABILITY OF THE INFORMATION PROVIDED BY FEDERAL GOVERNMENT ACCOUNTING SYSTEMS.

OUR REVIEWS OF ACCOUNTING SYSTEMS IN OPERATION HAVE SHOWN THAT MANY AGENCIES MAINTAIN MARGINAL SYSTEMS WHICH DO NOT FUNCTION THE WAY THEY ARE INTENDED NOR PROVIDE FINANCIAL MANAGERS WITH THE INFORMATION THEY NEED TO CONTROL AND ACCOUNT FOR ACTIVITIES, WHY? BECAUSE MANY OF THESE SYSTEMS ARE POORLY DESIGNED, IMPROPERLY IMPLEMENTED, OR CONTAIN INADEQUATE INTERNAL CONTROLS.

GAO IS REQUIRED BY LAW TO REVIEW AND APPROVE THE ADEQUACY OF FEDERAL AGENCIES' ACCOUNTING SYSTEMS. WE AT GAO ARE CURRENTLY STUDYING OUR ACCOUNTING SYSTEMS' WORK TO SEE WHAT IMPROVEMENTS CAN BE MADE TO ENCOURAGE AGENCIES TO SEEK REVIEW AND APPROVAL AND TO OPERATE MORE EFFECTIVE AND EFFICIENT ACCOUNTING SYSTEMS. WE ARE CONSULTING WITH TOP FINANCIAL MANAGERS WITHIN THE GOVERNMENT, THE PUBLIC ACCOUNTING PROFESSION, AND ACADEMIA TO LEARN HOW WE CAN IMPROVE OUR ACCOUNTING SYSTEMS APPROACH. WE, OF COURSE, NEED AND WELCOME YOUR SUGGESTIONS.

AND NOW, I WOULD LIKE TO TELL YOU MORE ABOUT ALL THE "STUDYING" WE ARE DOING IN THE ACCOUNTING SYSTEMS AREA.

UPDATING TITLE 2

FIRST, MR. BOWSER HAS DIRECTED US TO UPDATE TITLE 2 OF THE GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES. TITLE 2 CONTAINS THE BASIC ACCOUNTING PRINCIPLES AND STANDARDS THAT EXECUTIVE BRANCH AGENCIES ARE REQUIRED TO FOLLOW. A WORK GROUP OF GAO STAFF MEMBERS AND REPRESENTATIVES OF THREE ACCOUNTING FIRMS WILL BE WORKING HARD OVER THE NEXT 2 MONTHS TO REWRITE TITLE 2. WE EXPECT THE REVISION TO BE LESS DETAILED THAN THE CURRENT VERSION AND INCORPORATE THE ACCOUNTING STANDARDS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD TO THE EXTENT POSSIBLE AS THEY APPLY TO THE FEDERAL GOVERNMENT. THE REVISED DRAFT OF TITLE 2 WILL BE PROVIDED TO GOVERNMENT AGENCIES AND OTHERS FOR COMMENT, AND WE EXPECT TO ISSUE THE FINAL UPDATED VERSION IN FEBRUARY OR MARCH. THE REASON WHY GAO IS RUSHING TO REVISE TITLE 2 IS THAT THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 REQUIRES THAT THE INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS OF EACH EXECUTIVE AGENCY SHALL BE ESTABLISHED IN ACCORDANCE WITH STANDARDS PRESCRIBED BY THE COMPTROLLER GENERAL, TO ASSIST THE AGENCIES AND AVOID CONFUSION, GAO IS THEREFORE UPDATING TITLE 2 TO MAKE IT CLEARER AND

MORE CONCISE ON THE SALIENT STANDARDS THAT AGENCIES MUST FOLLOW, THE REVISED TITLE 2 ALONG WITH THE CONSOLIDATION OF INTERNAL CONTROL REQUIREMENTS I MENTIONED EARLIER SHOULD SERVE AS EXCELLENT GUIDANCE TO ALL OF US.

CHANGES IN THE APPROVAL PROCESS

AT THIS TIME, THE FUTURE DIRECTION OF THE APPROVAL PROCESS HAS NOT BEEN FINALIZED. GAO DID AN INTERNAL STUDY OF THE PROCESS AND IN MAY AND JUNE OF THIS YEAR WE DISCUSSED OUR PROPOSED CHANGES WITH AGENCY REPRESENTATIVES. BRIEFLY, OUR PROPOSED CHANGES IN THE APPROVAL PROCESS CALLED FOR:

- DEVELOPMENT AND PUBLICATION OF INSTRUCTIVE ACCOUNTING REQUIREMENTS AND SYSTEM DESIGN DOCUMENTATION MODELS FOR AGENCY USE.
- REVIEW OF AGENCY DETAIL DESIGN DOCUMENTATION ONLY TO DETERMINE THAT SELECTED CRITICAL ELEMENTS ARE COVERED, E.G., GOOD DOCUMENTATION, ACCRUALS, FUND CONTROL.
- COMPTROLLER GENERAL APPROVAL BASED ON SYSTEMS TEST AND VALIDATION OF THE OPERATING SYSTEM RATHER THAN A DETAILED EVALUATION OF THE DESIGN.
- MORE FREQUENT AND TIMELY AUDITS OF THE SYSTEMS IN OPERATION BY GAO AND THE IG'S.

--WITHDRAWAL OF APPROVAL OR DISAPPROVAL OF SYSTEMS THAT ARE NOT DESIGNED IN ACCORDANCE WITH GAO STANDARDS.

IN JUNE OF THIS YEAR THE COMPTROLLER GENERAL REQUESTED A GROUP OF OUTSIDE EXPERTS TO REVIEW ALL OF GAO ACTIVITIES RELATED TO OUR ACCOUNTING SYSTEMS WORK, INCLUDING THE APPROVAL PROCESS, AND THIS GROUP EXPECTS TO MAKE ITS RECOMMENDATIONS TO THE COMPTROLLER GENERAL IN OCTOBER. FOR THIS REASON, NO FINAL ACTION HAS BEEN TAKEN ON CHANGING THE APPROVAL PROCESS. WE ARE WORKING ON THE MODELS AND THE FIRST DRAFTS HAVE RECENTLY BEEN COMPLETED. ALSO, THE COMPTROLLER GENERAL HAS ACCEPTED THE ONE RECOMMENDATION CONCERNING WITHDRAWAL OF APPROVALS AND DISAPPROVAL OF SYSTEMS. DURING THE PAST MONTHS, HE HAS DISAPPROVED ONE SYSTEM AND WITHDRAWN THE APPROVAL OF TWO. OTHER WITHDRAWALS AND DISAPPROVALS ARE EXPECTED IN THE NEAR FUTURE.

WE HAVE ALSO WORKED WITH ONE AGENCY--THE NUCLEAR REGULATORY COMMISSION TO TEST THE FEASIBILITY OF REVIEWING A SYSTEM BASED ON A SYSTEMS TEST AND VALIDATION OF THE OPERATING SYSTEM RATHER THAN RELYING SOLELY ON THE DESIGN DOCUMENTATION. THIS PROCEDURE WORKED WELL AND WITH THE COOPERATION OF THE AGENCY AND USING A

RISK-ORIENTED APPROACH TO TESTING THE OPERATION OF THE SYSTEM, WE COMPLETED OUR EVALUATION IN A TIMELY MANNER, THE COMPTROLLER GENERAL APPROVED NRC'S PAYROLL SYSTEM ON SEPTEMBER 28TH OF THIS YEAR.

OTHER CHANGES TO IMPROVE
GOVERNMENT FINANCIAL MANAGEMENT

I HAVE DISCUSSED WITH YOU SEVERAL ONGOING AND PROPOSED CHANGES IN THE GOVERNMENT FINANCIAL MANAGEMENT CYCLE. THESE IMPROVEMENTS CANNOT BE MADE WITHOUT THE DEDICATED EFFORTS OF ALL OF US.

THE ATTENTION FINALLY BEING PLACED ON INTERNAL CONTROLS, IS AN IMPORTANT STEP TOWARD IMPROVING THE FEDERAL GOVERNMENT'S FINANCIAL MANAGEMENT SYSTEMS AND PROCEDURES. SEVERAL EFFORTS ARE UNDERWAY TO STUDY WHAT OTHER MEASURES CAN AND SHOULD BE TAKEN TO BRING ABOUT IMPROVEMENTS. FOR EXAMPLE, THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL IS STUDYING SEVERAL OF THE PROBLEMS I HAVE DISCUSSED HERE TODAY. IN ADDITION, THE REAGAN ADMINISTRATION IS UNDERTAKING A MULTIPHASED MANAGEMENT EFFORT, ENTITLED REFORM 88, WHICH WILL ADDRESS, AS ONE OF ITS FOUR PRINCIPAL CONCERNS, FEDERAL BUDGET AND FINANCIAL MANAGEMENT SYSTEMS.

THE FACT THAT THESE STUDIES ARE ONGOING SHOWS THAT THE LEVEL OF INTEREST IN IMPROVING GOVERNMENT FINANCIAL MANAGEMENT IS HIGH.

WHEN DEVELOPING THEIR PROPOSALS FOR THE NEEDED IMPROVEMENTS, IT IS THE COMPTROLLER GENERAL'S THINKING THAT THESE GROUPS SHOULD CONSIDER SEVERAL ITEMS. IN ADDITION TO A STREAMLINED BUDGET PROCESS AND AN INTEGRATION OF BUDGET, ACCOUNTING, AND OTHER SUPPORTING SYSTEMS, THESE ITEMS INCLUDE:

- ESTABLISHING QUALIFIED CHIEF FINANCIAL OFFICERS AT EACH MAJOR AGENCY IN THE FEDERAL GOVERNMENT WITH STRONG, WELL-QUALIFIED STAFFS TO SUPPORT THEM;
- ESTABLISHING A STRONGER CENTRAL FINANCIAL MANAGEMENT FUNCTION IN THE EXECUTIVE BRANCH THAT WOULD BE RESPONSIBLE FOR KEEPING THE CENTRAL BOOKS OF ACCOUNT;
- CONTINUING TO DEVELOP CONSOLIDATED FINANCIAL STATEMENTS FOR THE FEDERAL GOVERNMENT, WHICH WILL REQUIRE GOOD ACCOUNTING AT THE AGENCY ACCOUNTING AND FINANCE CENTERS AND THE PROPER FLOW OF INFORMATION TO THE CENTRAL ACCOUNTING FUNCTION AND;
- IN THE LONG RUN, PERFORMING AN ANNUAL FINANCIAL AUDIT OF THE FEDERAL GOVERNMENT.

IF THE NEEDED IMPROVEMENTS ARE MADE TO THE FEDERAL GOVERNMENT'S FINANCIAL MANAGEMENT SYSTEMS, THE COMPTROLLER GENERAL BELIEVES AN ANNUAL FINANCIAL AUDIT OF THE FEDERAL GOVERNMENT MIGHT BE BOTH DESIRABLE AND ECONOMICAL. SINCE 1975, MANY OF OUR LARGER CITIES

AND COUNTIES HAVE MOVED TOWARD AN ANNUAL AUDIT AND IMPROVED ACCOUNTING SYSTEMS. SEVERAL OF THE STATES ARE NOW MOVING IN THAT DIRECTION. SOON, PEOPLE WILL ASK, "WHY NOT THE FEDERAL GOVERNMENT?"

WE SHOULD NOT HOWEVER, EMBARK ON AN ANNUAL AUDIT UNTIL WE KNOW IT CAN BE DONE EFFICIENTLY. THESE IMPROVEMENTS WILL REQUIRE A SUBSTANTIAL INVESTMENT IN PERSONNEL AND SYSTEMS, AND SUPPORT AT THE HIGHEST LEVELS OF GOVERNMENT WILL BE VITAL. WITH THIS SUPPORT AND OUR MUTUAL EFFORTS, WE WILL ULTIMATELY ACHIEVE WHAT WE ALL WANT--IMPROVED FINANCIAL MANAGEMENT IN THE FEDERAL GOVERNMENT

WITH THE PUBLIC'S EVER-INCREASING DEMAND FOR GOVERNMENT ACCOUNTABILITY AND WITH THE ADMINISTRATION'S SHIFT IN EMPHASIS FROM THE FEDERAL LEVEL TO OTHER LEVELS OF GOVERNMENT, IT IS EXTREMELY IMPORTANT THAT IMPROVEMENTS NOT ONLY CONTINUE TO BE MADE, BUT THAT THEY CONTINUE WITH THE FULL INVOLVEMENT OF THE FINANCIAL MANAGEMENT COMMUNITY. WE CAN MAKE THE IMPROVEMENTS

THAT OUR PROFESSION ENVISIONS AND CAN MEET THE PUBLIC'S DEMAND
FOR BETTER ACCOUNTABILITY ONLY IF WE CONTINUE TO WORK TOGETHER
WITH A STRONG SENSE OF COMMITMENT AND DEDICATION TOWARD A COMMON
GOAL--EFFECTIVE AND EFFICIENT GOVERNMENT FINANCIAL MANAGEMENT.