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ACCURATE INFORMATION - GOVERNMENT MANAGERS CANNOT DO WITHOUT IT

It is a great pleasure to address the JFMIP Annual Financial Management Conference. These conferences were started only 9 years ago but in those few years they have become one of the most important events on the financial management calendar and I am very pleased to be a part of this one.

THE EFFECT OF POOR INFORMATION ON MANAGEMENT DECISIONS

My subject today is information, or more particularly the lack of the right kind of information and how this lack affects the way our Government functions.

Currently, the media is filled with news stories of mismanagement of various Federal programs, projects, and departments. These stories emphasize the general inadequacies of financial controls as well as cost overruns, missed deadlines, the poor quality of government services, and fraud involving Federal funds. And these news reports have strengthened the popular fear that the Federal Government is poorly managed and that it may be uncontrollable.

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The people who are managing our Federal agencies certainly do not want these fears to become fact in their agencies. Then why do these events occur? Because managers do not have the information they need to stop them.

Let me give some examples from our audit work. We have found that managers

--buy parts they don't need,

--have chosen the most costly alternative,

--allow ineffective programs to continue,

--do not stop fraud even when they have found it in their agencies,

--buy weapons for sale to foreign governments and sell it for less than it cost, and

--ignore growing problems in collecting debts.

What manager worth his salt would do any of these things intentionally? It goes without saying--virtually none.

Let's examine some of these cases further.

<u>Managers buy parts they do not need</u>

We have made a number of reviews in which managers authorized purchases of more spare parts than they needed to support the equipment on which the parts were to be installed. In many of these cases, the information available to the manager was inaccurate or incomplete. The manager may have ordered an excess amount because the report he based his order on did not list all the stock on hand. Or, the manager may have based his computation of needs on data that was inaccurate and, as a result, his final computations of how much to buy were wrong. In one case, we found that due to faulty information and a permissive policy regarding overstocking, one agency had on order over $50 million in excess parts for items for which they already had over $8 million of excess parts on hand.

Managers have chosen the most costly alternative

Over the years, our auditors have found many cases in which managers chose, unnecessarily, what turned out to be the most costly of alternative courses of action. We have reviewed numerous make-or-buy decisions in which the most costly alternative was chosen because the cost data presented to the manager was incomplete. In other cases, managers made the least economical choice of weapon or item of equipment because life cycle costs were not provided or because the data that was provided left out or underestimated important cost elements. In a very recent case, we studied six computer procurements. In two of those procurements the managers chose what appeared to them to be the lowest cost alternative, but the information on conversion costs was so inaccurate that the managers actually chose the most costly alternative. I am not sure how precise these estimates could have been, but they certainly could have been more accurate and if they had been, the Government could have saved money--about $2.5 million in one of the procurements and $2.6 million in the other. In the latter case, the conversion costs were estimated at $366,000. It now appears they will be nearly 10 times that.

Managers continue ineffective programs

Our work in evaluating the effectiveness of Government programs has repeatedly shown us that many program managers simply do not know what their programs are accomplishing. They have information on dollars spent and what those dollars were spent for but they do not know the results of that spending. If they had better information on the results, they frequently could alter the programs to make them achieve more.

Managers have fraud occurring in their agencies and do not stop it

No honest manager will knowingly tolerate fraud in his agency but many do so unwittingly. In a review now underway, we have been astonished to find that in the last 2-1/2 years 130,000 cases of fraud and related illegal acts have been alleged against 21 major agencies. The individual losses resulting from that fraud range from under $100 to over $1 million. Some involve Federal employees; others involved grantees and welfare recipients; virtually every category of recipient of Federal money has been questioned.

Not much information on these cases is available to Washington level managers. We had to go to the field offices of agencies to get any real information. Very little was done about this problem until the scandal in GSA which led the Congress to establish Inspector General offices in a number of major agencies. Surely agency managers would have acted on this matter themselves if they understood the full scope of the problem.

Managers sell weapons below cost

At the request of congressional committees, we have issued a number of reports on what the Government charges for weapons it sells to friendly foreign Governments. By law, the Department of Defense is required to recover the cost it incurs in acquiring such weapons. Our reviews have identified over $1 billion of costs that were not included in the prices originally charged for the weapons that were sold. Some of this amount has been recovered by action taken in response to our audits; however, a substantial portion has not. Moreover, we have not audited every weapons program or every cost, so what we have found is probably only a part of a widespread problem. Would Defense managers have charged less than cost for these weapons if they had had accurate up-to-date information on cost?

Managers ignore growing problems in collecting debts

Accounts and loans receivable in the Government jumped a total of $50 billion from 1975 to 1978. Many of the loans were past due; some for long periods. Yet before we brought out this problem in our reports to the Congress, most managers in the agencies seemed to know little about the problem. In many agencies, there was no reserve for bad debts to highlight bad debt problems. Accounts and loans receivable were not aged to tell managers how many were past due and for how long.

Perhaps even more significant was the fact that many agencies had no record of amounts due from grantees and contractors as a result of disallowances by agency auditors. We found $4.3 billion in unresolved auditor's findings, about three-quarters of which constituted claims against grantees and contractors.

How much information did agency managers have on these problems? As far as we could tell, in many agencies, not much.

We all want to make Government more effective, more efficient, more economical, and more respected by those outside Government. What better way to do that than to have our Government managers make sound decisions. To do this, they must have accurate and timely financial and programatic information.

I would now like to talk about how such information can be provided. This is a big topic so naturally I do not have all the answers, nor would I have time to cover them all if I did. So please regard these comments as only a few suggestions for improving the information to be provided to Government managers.

WHY DON'T MANAGERS HAVE THE INFORMATION THEY NEED?

Financial information

Let's first turn to financial information. In discussing the financial information managers need, I will draw from a booklet we published in May 1979 entitled, "Managers, Your Accounting System Can Do a Lot For You." We believe the message in the booklet is an important one, and I recommend it to you as a good resource on today's subject.

The manager's job, basically, is to achieve goals at the least practicable cost, to make the best possible use of the resources entrusted to him or her, and to stay within spending and other limitations. To do this job, managers need timely, complete, and accurate information on:

--Legal limits and resources available.

--Obligations and costs incurred and their relationship to budgeted amounts.

--Work goals achieved and their cost.

--The degree to which work goals are met.

--Opportunities to achieve goals at a lower cost.

These basic kinds of information must be tailored to the needs of managers at different levels in the organizational hierarchy:

--Top agency executives need summaries of allotments, obligations, and disbursements to help them keep the agency within the limits set by the Congress.

--Operating managers need comparisons of estimated costs versus costs incurred to help them keep within spending plans in the operating budget.

--Financial managers need detailed analyses of allotments, obligations, and disbursements for each unit within the agency.

This is where the accounting system comes into play. It should serve the informational needs of each level of manager in the agency by summarizing information so that each manager is not burdened with extraneous information.

Some managers might contend that I have just described the outputs of a management information system (MIS) instead of an accounting system. The accounting system is an integral part of the MIS, but to pinpoint just where a good accounting system ends and the larger MIS begins is difficult. My purpose is not to settle the accounting system versus MIS question. Rather, to define, as accounting system outputs, the financial and related quantitative information and analyses managers need to (1) control public funds and other resources, (2) decide how best to use these resources to achieve goals, and (3) monitor and evaluate program accomplishments.

The accounting system is there to serve managers, but it cannot do the manager's job. It should produce and deliver the information a manager needs, but from there on it is the managers' responsibility to use this information in deciding what needs to be done to keep operations on track. In short, financial reports and analyses must be coupled with prompt, decisive managerial action.

Our booklet highlights examples of (1) the kinds of information managers can get from their accounting system, (2) how managers can use the information, and (3) how managers can promote effective financial management in their agencies.

Topnotch accounting systems do more than just record and report financial and related quantitative information. They also (1) signal when controls over funds and other resources have broken down, (2) alert managers when operations deviate from financial plans, (3) compare planned spending levels to obligations and costs incurred, (4) contrast planned work units with work units actually done, and (5) provide financial analyses needed to predict the consequences of alternative courses of action.

Our reviews of agency accounting systems show that some agencies have sound accounting systems and can and do use the information produced, while many other agencies maintain marginal systems or make scant use of the financial information available to them.

Accounting systems that are only marginal are a result of poor system designs, failure to implement systems as designed, incomplete files, inadequate controls--particularly edits of information submitted for computer processing--or poor follow-up of errors and unreliable reports. In most cases these problems are caused by managers, accountants, auditors, and computer professionals not working together to develop and operate systems that give managers the information they need to do their jobs.

In many cases executives do not foster, get involved in, or actively support changes needed to improve their accounting systems and computer operations. For example, operating and financial managers often do not work with the system design team to help assure that designers know and understand financial information needs. Accountants many times do not try to review financial reports from the manager's perspective, and computer professionals often do not take time to understand accounting and managerial principles and techniques.

Our booklet, which I mentioned earlier, lists some steps that managers can take to foster effective accounting systems in their agencies. Before going on to my second topic, I would like to mention those suggested steps.

--Make accounting and computer support staffs part of the management team.

--Open up and maintain communications with accounting and computer staffs.

--Encourage participation by the controller and his or her staff in decisionmaking.

--Provide continuing education programs for managers, accountants, auditors, and computer professionals.

--Use computer and software systems to produce the financial information and analyses needed in making decisions.

--Make sure accounting systems are properly designed. Managers must support the project team designing new systems and must participate in setting information requirements for new systems.

--Make sure accounting systems are working properly.

Managers should require internal auditors to evaluate the design and all phases of accounting system operations. Managers must also look at the effectiveness of accounting systems and the quality of information produced.

Programatic information

The growth in the size and complexity of the functions and activities of our Government over the past few decades has made necessary an extensive search for ways to better monitor the results of Government programs. This is an important objective of the Congress, the President, public administrators, GAO, indeed, everyone interested in administrative reform. Improving program accountability and performance is and can be expected to remain a high priority for the Federal Government for the foreseeable future.

However, as I reflect on the cumulative effect of the various reforms in the executive and legislative branches over the past few decades--for example, the Legislative Reorganization Acts of 1946 and 1970, the Accounting and Auditing Act of 1950, the two Hoover Commissions, the Congressional Budget and Impoundment Control Act of 1974, the Civil Service Reform Act of 1978, and the Inspectors General Act of 1978--it appears to me that we have established a fairly strong institutional base for achieving program accountability. What we need are improvements in the reporting, analysis, and oversight processes now in place rather than the addition of new processes and institutions. For example, the proposed sunset review process should strengthen the existing legislative and oversight functions of the Congress without establishing new functions. Also, our booklet provides ideas on how to improve accounting information.

In the long run, what Government managers need on individual programs is a steady flow of information on the results of these programs. Managers get a continual flow of information on financial matters, but programatic information--at least the part relating to accomplishments--is often sporadic. At best, for many programs, managers currently can only get such information as

--their own agencies' evaluation of program accomplishments, usually as of a given time;

--reports from other agencies--principally GAO--which provide similar information;

--information from interested citizens and public interest groups; and

--studies and investigative reports by commissions, academics, journalists, and the like.

This information is, of course, very useful but it does not enable the manager to make prompt changes in his program the way current information on a continuous basis would nor does it provide an immediate feedback when changes have been made.

The challenge here is to steadily increase the flow of information to the manager on what his programs are accomplishing.

LEGISLATION THAT WILL AFFECT INFORMATION REQUIREMENTS

Next, I would like to turn to some legislative initiatives which, if enacted, will have considerable effect upon information requirements.

Congressional control legislation

In the past few months, we have considered and commented on many proposals for improving congressional and administrative decisionmaking and control processes, including sunset and sunrise legislation, legislative veto, regulatory reform, grant reform, debt ceiling, multiple-year authorization and funding for research and development, and prevention of fraud and abuse.

In each of these presentations we focused on the particular reform being considered. But several common threads kept reappearing which underly our views on this entire area. In summary, we believe that the Congress, the executive branch, and ultimately the Nation must strive to

--think, debate, and act with a much greater concern for the future, recognizing that the full implications of policies will often not be felt for several years or even decades;

--focus more of its analysis, debates, and actions on broad policy areas and groups of interrelated programs;

--make a greater effort to analyze the effects of policy changes <u>before</u> they are enacted, along the lines now required by Senate rules;

--be more specific and realistic when establishing goals and expectations for policies, programs, and administrative reforms;

--provide administrators the authority and resources needed to realize such goals and expectations or to revise them to fit the available resources or degree of authority granted;

--establish evaluation and reporting procedures which provide policy officials clear statements by the administrators on the performance of the programs and activities for which they are accountable; and

--take prompt action to make changes when needed.

In commenting on these reforms we have also pointed out that in actual implementation of even the best designed decisionmaking and control processes, the key element is the commitment of the leaders and participants to the goals of the reform. New laws cannot dictate this commitment; they can only create mechanisms and procedures which will permit the commitment to be translated into action as efficiently and systematically as possible.

<u>Internal control reporting</u>

Lately, certain congressional committees have shown an interest in internal controls as a way of improving Government operations. An outgrowth of this interest is a proposed requirement that the head of each agency report by December 31 of each year on the adequacy of their agency's systems of internal accounting control, just as corporate heads are required to do under the Foreign Corrupt Practices Act. Any inadequacies or material weaknesses in internal controls would have to be identified and the plans and schedule for remedying those inadequacies or material weaknesses described in detail.

Financial management reports study

Since we are meeting under the JFMIP banner today, I must also advise you of a JFMIP-sponsored study of financial management reports. The goal of this project is to draw good financial management reports from various sources and to share this information with agencies through a JFMIP pamphlet. The project is underway and we think the pamphlet will be helpful to managers and a valuable addition to other available literature on Government financial management.

Conclusion

In concluding, I want to make an appeal to you to do your best as financial managers to work toward providing good, sound financial and programatic information for your own use when you are the decisionmaker and for your other managers use when they make the decisions. No one will make the right decisions all of the time, but I think most decisionmakers' batting averages would greatly improve if, in making their decisions, they had accurate information to guide them.

Unfortunately, the Government reputation is not one of efficiency, effectiveness, and economy. Better decisions can improve that image tremendously and better information cannot help but produce better decisions.