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THE JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM--POTENTIAL FOR THE 1970's

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Two weeks ago the President sent to the Congress a budget calling for expenditures of considerably more than $200 billion, a deficit forecast of approximately $25 billion, and a request that the Congress raise the debt ceiling from $430 to $480 billion. The cumulative deficit in three years, if this forecast holds, will be about $90 billion, which is 1 1/2 times the deficit accumulated in the previous ten years. The budget request, moreover, would represent an increase of about 150 percent in this ten year period.

I remember working with President Johnson on the first budget he presented. He became President just a few days before we had to lock up the budget. The budget at that point was $102.3 billion. In order to get the tax bill through the Congress, he said that we just had to get this figure down below $100 billion. So we went back to the drawing board and came back to him with a figure of $99.8 billion. That figure wasn't good enough because it was too close to $100 billion. So we tried again and got it down to $97.8 billion. I will always remember these figures.

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This is an election year. The budget deficit is bound to be an issue, as it usually is of course, but in an election year the issue is always more intense.

I read a story some time ago about a debate in the Democratic Platform Committee. It was holding hearings, and Senator Benton of Connecticut was the chairman. An irate witness appeared before the Committee and he was against Federal spending increases. It was a pretty heated session, and after some debate, the witness got up and shouted: "Senator, if we don't stop shearing the wool off the goose that lays the golden egg, we're going to pump the well dry." He had a good point, but his metaphors were slightly mixed up.

Now you may ask: "What does the size of the budget and the deficit have to do with the Joint Financial Management Improvement Program?" The short answer is that it is a very direct and important relationship-a relationship brought about by the need for those engaged in accounting, auditing, budgeting, and any other aspect of financial management to find ways to:

--Carry out programs more effectively.

--Provide better financial information to top decision makers.

--To relate costs to outputs.

And I should add the question of credibility and confidence on the part of those in the Congress who must review view budgets of the agencies. I refer to the problem which has recently developed between the District of Columbia Government and the Senate Appropriations Committee as to the lack of confidence that the District's figures are correct. Someone commented that the subject of accounting really is not very exciting. Accurate accounting habits are like good health habits. Nobody really considers them very seriously or very important until somebody gets sick. I think that is perhaps appropriate to the situation with respect to the District's accounting system.

The Federal budget reflects the programs of the President. The Budget Director must therefore wear, as one of his hats at least, that of the salesman for the President's program. After all the toil and turmoil, after all the cuts and reclaims, and the allowance letters are written, it is still the OMB's job to try to convince the Congress and the public that the program is the best among the choices available to the President. He is in a sense, therefore, a salesman.

The Joint Financial Management Improvement Program

The Budget Director also has another role relevant to our topic today, which he shares with the Secretary of the Treasury, the Chairman of the Civil Service Commission, and the Comptroller General. That role is to improve the financial structure of the Federal Government, to stimulate the best financial management practices, and to foster the training and technical development of financial management personnel. This cooperative program has come to be known as the Joint Financial Management Improvement Program--the JFMIP for short. No professional society has more to contribute, and I should add, more at stake in the success of this venture than the Federal Government Accountants Association.

The contributions of the JFMIP, since its beginning in 1949, are many and impressive indeed, but I will not delve into them today. One of its important current activities is the sponsoring of a two-day State-Federal financial management conference starting here in Washington today. The purpose of this important conference is to seek ways of improving the management of programs involving Federal assistance to State and local governments. The flyer sent to the agencies on this conference by Dwight Ink of the OMB says: "This meeting begins where last year's left off-- focusing on the need for better communications between financial officials of the States and financial officials of the Federal Government."

A year after the Joint Program was launched by agreement, between Jim Webb, who was then Director of the Budget, Secretary of the Treasury John Snyder, and Lindsay Warren, one of my predecessors as Comptroller General, the Congress in 1950 gave it statutory blessing and statutory responsibilities in the Budget and Accounting Procedures Act. Since that time it has worked quietly but effectively. It has gained few headlines but a roster of its achievements would fill a book.

The chairmanship, this year with the OMB, rotates annually. The full time executive secretary is paid for jointly by the four central agencies. A steering committee provides coordination and guidance for the joint staff work. This is truly a cooperative venture.

Most of you have heard of the letter of credit procedure, under which funds to finance grants to States, localities, and other organizations are advanced to them only as they are required. This procedure which evolved from a JFMIP project is saving the Federal Government each year about $25 million in interest costs.

Some of you may have heard of the Joint Agency Transportation Survey, the first comprehensive study ever made of the way in which the Government buys some $2 billion of transportation services each year. A large number of the recommended improvements in the present procedures are in the process of implementation.

I could go on at length, but you can read the annual progress reports on the JFMIP if you want more examples.

What I would like to do here is briefly outline six areas in which I believe that the JFMIP, as a cooperative venture, among the agencies concerned, can play an important role.

Revenue Sharing

The first of these has to do with the subject of revenue sharing. There is in the Congress pending legislation that would provide for revenue sharing. There is not time to go into details on this, but the optimism is great that there will be some kind of revenue sharing legislation.

Someone has said that there is an issue between the Administration and the Congress on this subject--that the Administration would take anything that it could call revenue sharing, and Mr. Mills would take anything if he could call it the Mills Bill. But the attitude is one of compromise. The Mills Bill is under review at the moment. Among other things it would identify high priority expenditure areas in which local governments could spend money received from the Federal Government based partly on population and partly on the number of low income families.

The reason I include this subject on the list is that there is involved here a serious problem of accountability. This is reflected in the bill itself. It requires that while the funds are unrestricted, except for those high priority categories, nevertheless there must be preserved some accountability in accounting for these funds. Otherwise there is no way in which we can be sure that the money does flow to these high priority areas. Also there will be problems, there will be investigations, and there will be a need for accountability. This is an area that the Joint Program effort should deal with and make some constructive suggestions.

<u>Expanding State and Local Governmental Audit Capabilities</u>

The second area has to do with the audit capabilities of State and local governments. One of the stumbling blocks to obtaining adequate accountability under revenue sharing would be the need for whatever Federal agency is assigned responsibility for administering the program to rely heavily on audits performed by or for State and local governments.

The sheer magnitude of the audit work required precludes the undertaking of such examinations with Federal resources. Reliance on audits by or for State and local governments will depend on the auditing capabilities available to these governmental units, either through their in-house organizations or outside sources, and on the breadth and depth of the audits conducted at these levels.

Our office has been concerned about this problem for quite some time. We are presently engaged in an interagency effort, with the cooperation of eight of the Federal agencies having the largest grant programs, to develop a body of standards for use in auditing Federal grant programs. This work was begun because of proliferating accountability problems in the grant programs. However, these standards will, we hope, be adaptable to audits of other operations in the public sector.

It would be difficult to identify an area of government having problems of management more varied and challenging than those encountered in the 1300 separate Federal assistance programs carried out by State and local governments or by other organizations on their behalf.

It would be difficult also to identify an area where there is more need for competent, progressive auditing than in this area of Federal grants-in-aid which will cost taxpayers over $43 billion next year with the peak not in sight.

The manpower requirements for such a vast auditing program are quite beyond the capabilities of the Federal government. Accordingly, much of the audit work needed to determine whether these funds are properly accounted for must be done by State and local auditors or independent public accountants.

However, to adequately serve the need for useful and reliable information on such programs at all interested levels of government, the auditor must be concerned with three types of accountability.

--fiscal accountability, which includes financial integrity, disclosure, and compliance with applicable laws and regulations;

--managerial accountability, which is concerned with efficient and economical use of resources; and

--program accountability, which is concerned with accomplishments and objectives, that is to say, whether the statutory objectives of the program have indeed been accomplished.

I should say that within the GAO, we have made an effort to program our audit work around these three areas of accountability. We have found this to be the most useful way to delimit the areas of audit. This is a far broader scope of auditing (I refer here particularly to managerial accountability and program accountability) than most auditors including independent public accountants perform at the State and local levels. These organizations are not customarily concerned with these two types of audits. Most audits by or on behalf of subordinate units of government such as cities and counties are limited to fiscal examinations. They do not include the compliance aspects such as compliance with rules and regulations concerning minority rights or racial discrimination, or with efficiency, economy, or program aspects of operations. In some cases, expanded examination work has been conducted by management consultant firms and some of the public accounting organizations are now beginning to experiment, at least with the broader concepts of auditing.

Overall, however, we do not believe that current audits in State and local governments, with some exceptions, would provide sufficient information to permit a judgment on whether the funds have been spent with due regard to economy and effectiveness and the degree of compliance with laws and regulations governing the use of public funds.

Many problems will have to be faced and solved before a reasonably satisfactory auditing program will exist. I might add also that not all of the problems of an expanded scope of auditing have been solved in the auditing work of Federal agencies.

The audit standards working group which I referred to has almost finished its work. We are hopeful that the standards will be published in the next few months but they are only an early stage or beginning of the effort to improve audit capabilities. Having audit standards is one thing; applying them is quite another.

The implementation of the audit standards now being developed should be vigorously supported by all agencies of the Federal government. This support could be by way of assisting in providing training for State and local auditors and by working with professional associations, encouraging their adoption of these standards. The Civil Service Commission could develop and expand further its training efforts under the Intergovernmental Training Act. There will be a need to establish better machinery for coordinating the work of Federal, State, and local auditors in auditing federally assisted programs.

These are far-reaching and difficult problems. It will take years to develop the kind of accountability system that is needed. If the Federal Government is to continue to provide financial assistance in ever-increasing quantities to State and local governments, the Federal financial management community must do everything it can to assist in providing the capability for adequate accounting and control over such funds. In looking forward, I believe that the Joint Program should play a major role at all levels of government in this up-grading effort.

I should say here by way of emphasis that if revenue sharing is enacted without some degree of accountability built into it, then the Federal Government will be raising money which would be administered by State and local governments. And if these State and local governments do not have adequate accountability systems, and good audit personnel, then we are in for serious trouble in my opinion.

Measuring Changes in Governmental Productivity

The third problem area which I would like to refer to is of a somewhat different nature. With the advent of the current Administration's economic plan, productivity has become an important word to many workers who gave it little thought in earlier days. Tying wage increases to productivity gains is a sound approach in preventing us from pricing ourselves out of the world markets. It therefore seems to me that national productivity will be an important subject throughout the 1970's and beyond.

If productivity gains are important, it becomes important to measure productivity accurately. At the present time, one major element of the economy is completely omitted from national productivity computations. The annual figures released on productivity increases in the United States now show zero productivity gains for the governmental sector of the economy, that is, Federal, State, and local government. Now this is simply because we have not found a way to measure productivity in government. In the aggregate, Federal, State, and local governments in the United States account for more than 18 percent of the work force and 30 percent of the gross national product. To omit such an important segment of the work force in the productivity computations undoubtedly results in serious distortion.

About a year ago, the Joint Economic Committee asked the General Accounting Office to determine whether productivity indices could be constructed for the Federal sector of the economy. To make this determination, a joint project was organized with the Office of Management and Budget and the Civil Service Commission. We also obtained the cooperation of the Bureau of Labor Statistics, the National Commission on Productivity, and the President's Advisory Committee on Manpower Improvement.

Seventeen executive agencies are now cooperating in this effort. At this time, prospects look promising for having a series of productivity indices covering about 1.3 million civilian employees by next summer or roughly one half of the total Federal work force. These indices will be developed by functional areas such as administrative, industrial, and services to the public. We do not plan to identify separate agencies or programs.

As a part of this effort we are trying to encourage the use of other measurement techniques such as unit costs. It has been our experience over the years that much of the financial information presented for top managers' use is ignored. Such managers complain that the financial information they get is too voluminous, it takes too much study to understand, it does not relate specifically to the matters on which decisions are required of them, or it does not answer some of the main questions they have concerning the financial aspects of their operations.

Measurement techniques such as unit costs, productivity indices, manpower measures, and engineering performance standards permit financial information to be displayed so that the gist of it can be grasped almost instantly. Greater use of these techniques could help the top manager get more effective use of financial information and make the financial manager far more useful to his principals.

As you know, the GAO has the responsibility for approval of accounting systems in the executive agencies. As we review the systems, we are becoming increasingly concerned with not only whether these systems produce accurate data in accordance with prescribed principles and standards, but also whether the information produced by these systems finds acceptance and is used by operating managers. Actual use is ultimately the test. We believe that measurement techniques provide a basis for making accounting information more meaningful to such managers.

The challenge to financial managers in the 1970's is to make measurement techniques an integral part of the accounting discipline and produce accounting information in forms that will keep operating managers better informed on the achievements of those under their supervision.

As I see it, in the 1970's, the Joint Program should be the leader in promoting the use of productivity measurement techniques, not only in the Federal agencies but also in State and local governments. Getting effective use of such measures at the Federal level will be a difficult task. Getting effective use of such measures at State and local levels will be a further challenge of equal importance.

Making Effective Use of Computers

I would like to say also a few words about the use of computers. The size of the Federal Government's operations in almost every dimension has increased--increased expenditures, proliferation of programs, relations with State and local governments. One result has been the unmet need for better information. To manage reasonably well, the man who makes decisions must have reliable information on which to base his decisions.

In the present day world, collection and analysis of masses of data are usually processed through electronic computers. President Johnson in 1966 told the heads of Federal agencies that he wanted priority interest given to two objectives: (1) using electronic computers to do a better job, and (2) managing computer activity at the lowest possible cost. He said he wanted every agency head to give thorough study to new ways in which the computer might be used to provide better service and to improve agency performance and reduce costs. How well that mandate has been carried out, of course, is an open question.

While nearly every Federal agency uses computers, they are used for such purposes as supply management, accounting, payroll, personnel management, and other internal management requirements. Little consideration has been given to broader uses, except possibly the production of summarized reports required by the Treasury Department, the OMB, the Civil Service Commission, and the Internal Revenue Service.

More attention must be given to meeting the need for more extensive information and this will necessitate better integration of the numerous independently developed systems that we have in the Federal Government.

Stated in concept, a total management information system for government activities involves collecting data relating to the planning, execution, and control of all operations--from the levels of formulating legislation and authorizing funds to the level of carrying out activities.

Planning and designing such a system is certainly beyond the capabilities of any one group of experts. It must involve representation all facets of the Government. Financial managers must be involved to the extent necessary to see that their needs are satisfied. All other components of management must make their input to the development of the total system. The interfaces or shared boundaries between the various subsystems such as the financial management system with the personnel system and the program system must be clearly recognized and planned for.

The extent to which such a concept of an information system in government is feasible you may debate. But it seems clear that substantial improvement is needed in what we have today. The Congress itself recognized this inadequacy when it enacted the Legislative Reorganization Act of 1970. Much of that law is devoted to generating more and better information, particularly for legislative needs.

A technical aspect of auditing in the 1970's that will assume increasing importance also involves computers. If government agencies use computers in their financial management and operating systems, it is incumbent upon the auditor to concern himself with those systems in several ways:

--He should consider examining into the efficiency, economy, and effectiveness with which the agency acquires and uses such equipment.

--He should make effective use of computer techniques in making audits of data that is stored in and processed by electronic computers.

--He should also use computer techniques where possible in the review and evaluation of agency programs.

The computer will serve us only to the extent that we wish to be served and we apply the skills necessary to insure that we are properly served. If guided by intelligent planning and operation, the computer will produce great benefits. The computer however, will not do the planning or the managing of government. That is our job--man's job.

In the years to come, I think the Joint Program should play a more active role in the development of efficiently operated computer systems, particularly as they affect the Government's management information systems.

Providing Budgetary and Fiscal Information to the Congress

The fifth problem that I would like to refer to here is one we all have in common--providing budgetary and fiscal information that the Congress needs.

Section 201 of the Legislative Reorganization Act of 1970 requires the development of a standard budgetary and fiscal data system for use by all Federal agencies. Responsibility to establish and maintain this system is given, in the statute, to the Secretary of the Treasury and the Director of the OMB.

Section 202 of the act requires the same two officials to develop standard classifications for programs, activities, receipts, and expenditures of Federal agencies. In pursuing these responsibilities, the two agencies have established four task groups which are working on the required classifications as a preparatory step to the development of the budgetary and fiscal information.

Now the GAO is also involved in this project. Its main job is to act as the agent of the Congress to insure that the information needs of the Congress will be adequately considered in developing, establishing, and maintaining this system.

In carrying out this responsibility, we have interviewed 249 individuals representing 42 committees and 68 members of Congress as to their needs for budgetary and fiscal information.

Our work to date which has been summarized in a report to the Congress has shown that the Congress wants information on budget requests, authorizations, appropriations, obligations, and expenditures, and it wants that information classified by committee jurisdiction, responsible Federal organizations, broad objectives or subjects, rural and urban areas, and target groups.

The Congress also wants information on national estimates and social-economic information, such as the Gross National Product, consumer income, and cost of living indices. Further, the Congress wants information on revenues and outlays by States and other political subdivisions. These are some of the preliminary findings.

Providing a system to serve the needs of all Federal agencies and the Congress presents an unprecedented challenge. Greater uniformity than has ever before been achieved in accounting systems and other sources of information will be necessary. Furthermore, a very sophisticated computer system will be needed to respond to these needs in a timely manner with easily interpretable information.

As we see it, such an ambitious project will require cooperation of all of the agencies whose data will find its way into the system as contemplated by the act. Moreover, the central financial agencies in the Joint Program must play key roles in developing this system. The participation of all other Federal agencies--all of whom are partners in the Joint Program--is essential.

Establishing Measures for Evaluation of Social Programs

This is an area that is becoming increasingly important because the size of the budget for human resources is increasing. In the current budget of the Administration, about 35¢ out of every budget dollar, in 1973, is scheduled to go for human resources. The budget of the Department of Health, Education, and Welfare in 1973, for the first time, will be larger in absolute dollar terms than that of the Department of Defense.

I am sure most of you are aware of many cases in which sizable sums have been appropriated for programs without any provision being made for evaluating results. The results of programs like Head Start, Neighborhood Youth Corps, or the numerous programs devoted to education, housing, and the like are not readily determinable. We cannot tell by casual observation whether a program is working or whether it is worth the money being spent to carry it out. Often we can only approach the answer by raising general questions. What we need is to extend our sophisticated systems of analyses to determining the results being achieved.

Admittedly, making such analyses is very difficult and exacting work. But somebody must make these evaluations and they are going to do it with or without the information that would help them make the best decision.

The size of the expenditures for such programs makes it essential that we have sound information on whether we are getting adequate results for the money we are spending. It seems to me that promoting such evaluations and developing usable measures of benefit or accomplishment should be important concerns for the Joint Financial Management Improvement Program. It is a new dimension for financial management and disciplines other than those of the financial manager are involved. However, the subject and the problems are too important to be left entirely to others. I think the disciplined approach of professional accountants and auditors should be utilized to help develop these needed resources.

Concluding Remarks

There are many other problems confronting government financial managers that will call for serious and vigorous attention in the 1970's. I have mentioned only six of them. You could undoubtedly think of others.

I think you will agree that from the six examples I have given that the challenges that face us in the financial management area in the 1970's are indeed formidable. Achieving what needs to be done will be difficult if we all cooperate effectively. If we don't cooperate effectively, we will almost certainly fail to provide the supporting services that efficient and effective management of governmental programs require.

I have confidence and faith that the Joint Financial Management Improvement Program offers a good mechanism for getting things done and the best vehicle we have yet developed for achieving the cooperation that we need. In the 1970's we need to make the Joint Program more dynamic than ever before. I urge all of you to give this program your earnest support and full cooperation. I would like to pledge my own personal support for the program and that of the General Accounting Office.

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QUESTIONS FROM THE FLOOR

QUESTION: Mr. Staats, during your years in the Bureau of the Budget, you named and used two measures of the budget deficit: the consolidated cash budget and the administrative budget. President Johnson added two new measures--the unified budget and the national income accounts budget. President Nixon added a further version--the full employment budget. Now, Mr. Staats, in your opinion, which of these measures provides the best general measure of the deficit?

MR. STAATS: I feel that the unified budget is the best overall measure. The reason that there have been so many different ways of measuring the total budget and the deficit is because so many people use the budget for different purposes. The economist is more interested generally in the national income accounts approach because it more accurately reflects the accrued impact of Federal expenditures on the economy.

The administrative budget is probably the least useful for most purposes. Now the only argument that I know of of any consequence against the unified budget has been that it does include the trust funds. The trust funds are running a surplus, about $8 billion in 1973. There are some who feel that this surplus therefore distorts the full extent of the deficit. But the Social Security tax is like any other tax, in terms of its being a measure of what you take out of the economy and what you are paying out in terms of cost for different kinds of services. If you excluded the trust funds from the budget you would not accurately reflect the amount of money going, for example, into human resources. That is where I come out and that is where the Commission on Budget Concepts came out in 1967, which is that the unified budget best represents the extent of governmental operations and does about as much as can be done for the economists.

Now there is some follow up work that needs to be done and it is under discussion currently between our office and Treasury and OMB. This work involves how we can reflect more the accrual concept in the revenue and expenditure figures. The national income account figures that the Commerce Department uses today are really not very good, but they are the best they can get.

Until the big agencies like Defense and the grant agencies like HEW can do a better job of reflecting the accrued impact of their programs in their financial reports, then the national income accounts figures are not going to be as good as they should be. More work needs to be done in this area.

This problem might have well been included in my list of major areas requiring emphasis. However, work is still going forward on this problem and I hope we will see some changes there.

QUESTION: Is it anticipated in the near future that OMB and/or Congress will request from the individual agencies budget requests and information in justifications based on productivity measures. What will happen to savings achieved by increased productivity as shown in such justifications and the other traditional methods and techniques used in making the agencies' budget presentations before OMB and the Congress?

MR. STAATS: I said earlier that we would not recommend that there be a breakdown by agency of productivity data for publication purposes. The significance of this is--based on my own experience and reenforced by the experience of others--that one of the surest ways to kill off the use of productivity measures is to take money away from the agencies as soon as they earn or save it or to anticipate the growth of productivity and then cut the budget in advance. This is a realistic problem. Furthermore, we think that it is more significant to be able to break down, overall, what we are doing productivity-wise in the four broad categories I mentioned--administrative operation, services to the public and so forth. From that point of view, you can get some comparison interagency-wise, as to how we are doing. We feel that if we put the focus there, we run less likelihood of creating a deterrent to the use of these measures in the agencies than we otherwise would.

Now I did not say as much as I might have said about the relationship of good cost figures, which will come from accrual accounting, to these productivity measures. A good manager needs to know not only what his productivity is, but he also needs to know what his unit costs are. Are they going up or down or holding level? One of our great hopes is that we will be able to relate accrual accounting to these productivity figures in the various programs.

the spending authority coincide." He disagreed. His conclusion was that accountability, in the end, really depended:

> *** on how easily a given official can be held responsible for his spending decisions *** not where the money comes from, but whether the official who spends it can be made to answer to those who are affected by the choices he makes.

In brief, the President holds that the spending, rather than the taxing, is crucial in the accountability issue.

A dilemma is posed by the fact that the President recommended against allowing the application of the civil rights and equal employment laws to be determined by State and local governments. These laws would continue to be subject to Federal audit and Federal control.

"Special revenue sharing," as proposed by the administration, essentially is a program to consolidate categorical grants. The proposal, however, contemplates vastly increased local discretion in determining program priorities within broad categories to replace judgments of Federal agencies and provides for only minimum accountability to the Federal Government as to how these funds are expended.

I doubt if there is any issue in our generation that has raised the issue of accountability more sharply.

Congress must raise the taxes. Will Congress be willing to settle for the delegation and discretion to State and local governments that the President's proposal contemplates? Can we find alternative ways of achieving accountability short of the detailed and burdensome requirements which we have today in so many of our grants-in-aid program?