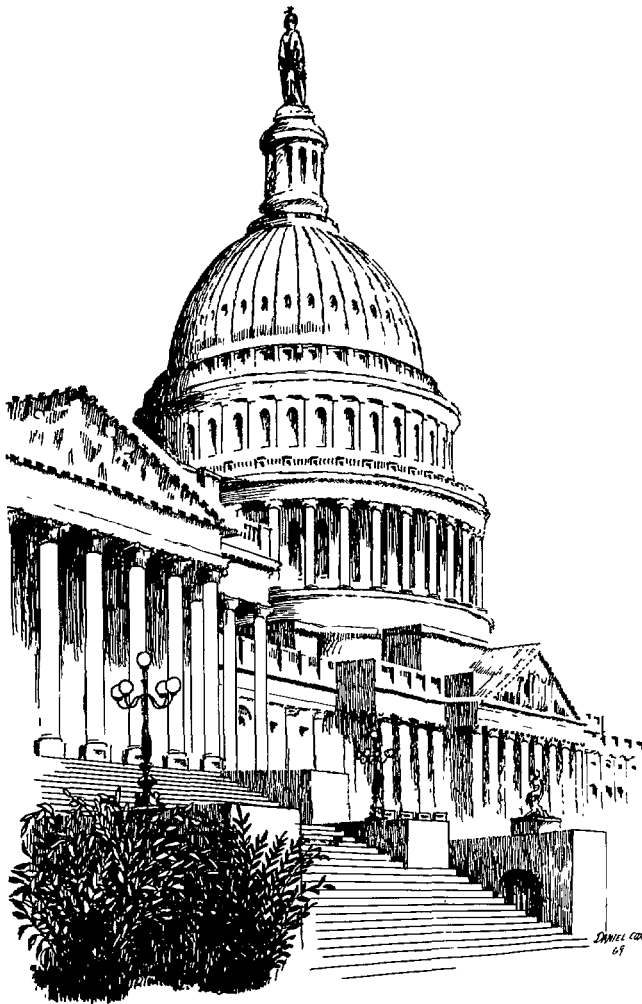


**PROCEEDINGS OF
EIGHTH
FINANCIAL MANAGEMENT CONFERENCE**



March 19, 1979

**JOINT FINANCIAL MANAGEMENT
IMPROVEMENT PROGRAM**

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WHAT IS JFMIP ?

The Joint Financial Management Improvement Program (JFMIP) is a joint and cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management, working in cooperation with each other and with operating agencies to improve financial management practices. The Program was initiated in 1948 by the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General, and was given statutory authorization in the Budget and Accounting Procedures Act of 1950.

The overall objective of JFMIP is to improve and coordinate financial management policies and practices throughout the Government so that they will contribute significantly to the effective and efficient planning and operation of governmental programs. Activities aimed at achieving this objective include:

- Reviewing and coordinating central agencies' activities and policy promulgations to avoid possible conflict, inconsistency, duplication and confusion.
- Acting as a clearinghouse for sharing and disseminating financial management information about good financial management techniques and technologies.
- Reviewing the financial management efforts of the operating agencies and serving as a catalyst for further improvements.
- Undertaking special projects of a Government-wide nature to resolve specific problems.
- Providing advisory services in dealing with specific financial management problems.

The JFMIP plays a key role in mobilizing resources and coordinating cooperative efforts in the improvement of financial management practices, and relies on the active participation of Federal agencies to be successful.

PROCEEDINGS OF
EIGHTH
FINANCIAL MANAGEMENT CONFERENCE

REBUILDING PUBLIC CONFIDENCE IN GOVERNMENT
THE FINANCIAL MANAGER'S ROLE

MARCH 19, 1979

JOINT FINANCIAL MANAGEMENT
IMPROVEMENT PROGRAM

FOREWORD

In order to enhance the spirit of cooperation and to share new ideas and developments, JFMIP sponsors a Financial Management Conference each year. The Eighth Annual Financial Management Conference with the theme, "Rebuilding Public Confidence--The Financial Manager's Role," was held in Washington, D.C., on March 19, 1979. The theme reflected deep concern over the deterioration of public confidence in the Government.

The conference proceedings are being published in hope they will be helpful to the conference participants and others who are interested in improving financial management.

The conference was attended by over 400 people. The morning plenary session featured three prominent speakers: Dr. John P. White, Deputy Director of the Office of Management and Budget; Dr. Alan K. Campbell, Director of the Office of Personnel Management; and Mr. Thomas D. Morris, Inspector General of the Department of Health, Education and Welfare. Their remarks, challenging financial managers to play a strong role in restoring public trust in Government, are detailed in Part I of the proceedings.

The luncheon session, reported in Part II, was highlighted by a welcoming speech by the Honorable Elmer B. Staats, Comptroller General of the United States. The session was capped by Mrs. Bette Anderson, Under Secretary of the Treasury, presenting the JFMIP Financial Management Improvement Awards to two outstanding individuals.

The afternoon session consisted of four concurrent workshops on accounting systems, budgeting process, inter-governmental cooperation, and inspectors general. The workshop speeches, summarized by our staff members, are presented in Part III.

We wish to express our appreciation to the speakers and participants for making this a successful conference.

Susumu Uyeda
Executive Director
May 1979

ACKNOWLEDGEMENT

The support and hard work from the following individuals are acknowledged and appreciated.

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PART I - PLENARY SESSION



ADDRESS BY
JOHN WHITE
DEPUTY DIRECTOR
OFFICE OF MANAGE-
MENT AND BUDGET

I think your theme--Rebuilding Public Trust--is obviously one that is particularly timely.

It is a theme, as you know, to which this Administration is deeply committed. President Carter wants, and continually stresses this, an efficient government, as well as one that is good, just and decent.

This is an objective he stressed in his campaign and one he has continued to stress during his Administration.

There are really two major aspects, in my thinking, on this effort. First, there is a continuing effort to eliminate fraud, as signified by the Inspector General Program and related efforts. This is a critical effort and one to which we are all committed.

The other is the one that I want to talk about today, and that has to do with the program to improve management efficiency and effectiveness. All of us Federal managers are committed to this effort, and I know you all have been committed to it throughout your careers. There is nothing really new here.

What is new basically is just an increased emphasis and I think an increased opportunity to make progress. The opportunity comes because of:

- The President's commitment,
- The growing concern of the American people and their continuing demand to have a competent government, and
- The full recognition by the Congress for the need for an efficient and competent government.

We must place high priority on the need to fight inflation and the ability to build on past successes, and we have had many successes. Let me mention just a few.

First of all, the Civil Service Reform. We have had aggressive action under way--and I know you are going to hear from Scotty Campbell--to implement the provisions of the Civil Service Reform Act. We are setting up the new organizations for personnel management and beginning to implement the Senior Executive Service and the new merit pay and performance appraisal systems, all of which I think are critical to our continuing emphasis on management effectiveness. We have already seen major reorganizations of the Executive Office of the President, the International Information Agencies, and the Department of Energy.

We are now moving forward with proposals for creating a Department of Education and for reorganizing the agencies' concern with natural resources and community development, as well as a major new initiative with respect to international development assistance.

We have implemented zero-base budgeting. In preparing for the 1980 budget, a zero-base review was performed on the entire budget for the Government and this being the second year, I think we can see major improvements in those efforts. As we have gotten better, we have improved the sophistication of the figures. We are now doing cross-agency ranking and analysis of programs of various agencies in the Government. I think the ZBB system has taken hold and will make a big difference. We have also instituted a three-year projection of budget programs.

We continue to work on the antiwaste program. The Administration gave strong support last year to the Inspector General Act. The bill established offices of inspector general in twelve departments and agencies, bringing the total statutory IG's to 14.

The President has directed extension of significant features of the Inspector General program to other departments and agencies. The program is getting under way, and I think most of your response so far is very positive. We are working with the Justice Department and having regular meetings with the agencies involved, in order to coordinate this effort.

As you know, the Administration has also launched a major effort to apply businesslike methods to Government cash management. We have already made improvements that will save \$400 million a year, and we see opportunities for another \$600 million a year. We continue to stress that effort.

Also, the President has established a goal of eliminating all but essential paperwork requirements placed on the public. Since our objective is to have only those reports that are absolutely required, we are working with the General Accounting Office and the Congress to identify and eliminate unnecessary Federal reports to Congress. We are considering proposing an Omnibus Bill to eliminate such unnecessary reporting burdens.

There is a continuing effort in the Administration for regulatory reform. It is a major issue with us, both because of the importance as to itself and because of the anti-inflation aspects. We are committed, as an Administration, to simplify and lessen unnecessary burdens of Federal regulation while meeting the requirements of the law.

The cornerstone of this effort is Executive Order 12044, "Improving Government Regulations," which stresses improving the process by which agencies manage the development and issuance of regulations, and improving the ability of the public to understand and participate in this process. The Order, for instance, stresses writing regulations in plain English rather than "legalese." There are a number of other efforts under way currently with respect to regulatory reform as well. We are familiar with the marked success in the airlines, and we anticipate some other proposals this year in terms of deregulation.

The President has established a regulatory committee made of the regulators themselves and chaired by the Administrator of the Environmental Protection Agency. So you will continue to see major accomplishments on the part of the Administration as we try to streamline the regulatory process while also meeting our various obligations under the laws.

We are trying to cut red tape and reform administration of Federal programs for State and local grant recipients. We have come a long way in standardizing and simplifying these procedures and we are encouraging the States also to standardize their programs.

We are stressing audit reform. The President has directed departments and agencies to do a better job of coordinating audits of Federally assisted programs; and he has called on agencies to place greater reliance on State and local audits and to use a single audit guide instead of the 100 or so that are now in use. I am optimistic we can make that program a success as well.

This particular audience provides me with a real opportunity to discuss major new initiatives, which we have been working on at OMB and with the GAO in the last several months.

One of our major disappointments has been the slowness in improving the efficiency with respect to agency financial systems. We continue to receive reports of major breakdowns in fund control, with millions of dollars being over-obligated. We continue to learn about billions of dollars in unresolved audit findings, about millions in unspent grant funds, about uncontrolled overtime costs, about slow and careless debt-collection practices, and so on and so on.

We are deeply concerned about these matters and determined to make major improvements. The Director has already taken a number of initiatives in this regard and we are now proposing to launch a comprehensive program for improving the Government's financial systems.

To initiate this program, we have selected nine priority areas. These are areas in which we will now be turning to all of the various departments and agencies in order to put particular stress on improvement and we will be monitoring that progress very closely.

First of all, accounting systems: We intend to identify the problems that remain and have impeded GAO approval of systems for almost 30 years and to work with GAO and agencies to resolve them. We are committed to getting GAO approval of all agency systems.

Second, again working with GAO, we intend to upgrade internal control systems to head off fraud, abuse, waste, and inefficiency.

Third, we need to keep up the momentum with respect to cash management, and we want the government to do as good a job of handling funds as is done in the best of the private sector.

Fourth, we are going to continue to stress audit followup. The entire audit process is pointless unless agencies resolve findings properly and promptly. This is a matter of great concern to the Congress, and we expect to revise our Audit Circular shortly to stress the importance of audit followup.

Fifth, we have uncovered in the budget process major problems with respect to outlay estimating. We are going to work particularly hard this year with the agencies to improve the accuracy and timeliness of outlay estimates in the budget. This is a critical area for us and for the Congress if we are to manage an effective program.

The sixth, GAO has detailed major debt-collection inefficiencies. Here, we need to improve accounting procedures and get agencies to institute prompt, aggressive collection action. There are many, many millions at stake in debt collection. We are looking for agencies to institute a new program and make major improvements in the area.

Seventh, you have read in the press about overtime abuses. They are serious and, again, they reflect our lack of overall management control. We will be taking steps to institute tighter budget controls, to require more accurate and specific accounting, and to implement stricter approval procedures for preventing these abuses from occurring in the future.

Eighth, we will undertake a major review of grant financing, with an increased use of letters-of-credit and electronics funds transfers to promptly recover unspent funds.

Ninth, we will be emphasizing grant accountability with the full implementation of OMB Circulars dealing with cost principles and administrative requirements.

That is just the beginning but I think it is a big beginning and very important. We will add other aspects to this program as we may proceed on these.

Each agency will be asked to take immediate action to establish a work schedule to bring about the improvements needed in each of the priorities areas.

This program will be conducted with the full cooperation of the Comptroller General and his staff. They have already helped us identify our priorities and we hope and anticipate that they will be able to work with us in identifying agency weaknesses and strengths. The OMB staff will monitor the progress of improvement actions in these agencies, and we hope to get the help of the GAO.

Arrangements will be made for providing special help to agencies when needed. We anticipate establishing special task forces as they are needed in the agencies.

In our upcoming spring budget review, we plan to have a cross-cutting session dealing specifically with the financial priorities program and we intend to integrate this program into every step of the budget process. This is not something that we are doing at the present time. It is something we intend to do over the next several months, and so it will probably take years, and we intend to integrate this into the regular budget process so we can measure our improvements, as we do with everything else in the budget. We think that this is critical to our success in the program. This integration of financial management and budget is essential to improve the effectiveness of our overall management effort.

Obviously, to have this program succeed, we need your support. For perhaps the first time in history, we have a President who is genuinely interested in the efficiency of government, and we have a Congress that is becoming increasingly concerned about this same subject. Director McIntyre has pledged our full support to this effort.

We have OMB leadership and GAO leadership in agreement on what these problems are and how to attack them. I think we have the blueprint for success. What we need to make the success happen is your cooperation.

We must display efficiency and effectiveness to the public, and we must show areas where we have, in fact, made major improvements. I think this program, with its nine priorities, provides an opportunity for us to do that.

I think it is time now to move ahead on all these grounds, and you will be hearing more from us in this regard.

We know we can count on your help, your suggestions, and your continued hard work.

QUESTIONS AND ANSWERS

MR. LORDAN: We will have an opportunity now for questions. (Because of Dr. White's departure at this time due to prior commitments, Mr. John Lordan, the JFMIP Steering Committee member from the Office of Management and Budget, answered questions relating to the address.)

QUESTION: In the past, the OMB has been criticized, sometimes unjustifiably, that you issue circulars, policy guidance, and really do not make an attempt to follow up on them. In this nine-point program that Dr. White just mentioned, what do you intend to do to monitor the progress?

MR. LORDAN: I think the Director and Deputy Director are committed to a program of financial priorities and they explained that to their key budget staff, and will continue to stress that in dealings with their key budget staff. By having budget examiners and program assistant directors concerned about financial priorities, we can keep the attention of the agencies on those issues and follow through on some of the innovative work that we know is going on throughout the government.

QUESTION: Dr. White mentioned the effort to consolidate the multiple audit guides into a single one. Anything more on the possible timetable?

MR. LORDAN: There was a draft of a proposed OMB circular that was distributed by the Director back in December which attached an audit guide developed primarily by the General Accounting Office. We have received comment on it. The next step would be to make some changes based on the comments and publish it in The Federal Register for broader comment. We expect to do that within the next couple of months.

QUESTION: What is the nature of the special help that the agencies might be able to get from OMB in this area?

MR. LORDAN: We anticipate possibly setting up task forces in certain of the priority areas. These people could go to an agency and provide some limited assistance.

Often, groups like this can bring a fresh perspective or bring information from another agency as to how something has been done. We hope to have task forces established and operating by summer. The key to it is the work that you all do back at the agencies, that is where the real strength of this Government is.

QUESTION: Could we have a little more information about what was meant by "cross agency ranking and analysis"?

MR. LORDAN: There was a process used last year and this year, which is at the final stages of budget formulation. Our associate directors sit down with their list of priority programs, their piece of the budget, if you will. They take all those pieces and say, is there anything on your list that would not make my list? That is, taking the largest, comparing those final decision, or almost final decision, across agency or department lines, to see if there is a consistent value judgment.

There was a cross-cut last spring and there will be more of them this spring. This year there will be one on the financial priorities program, as well as some others that are in program areas. The effort is to look at the issue along cross-agency lines rather than at individual budgets. If we can look at them earlier and try to establish some cross-cut policy and put out guidelines to the agencies before they begin the process, it seems to be more productive.

QUESTION: A lot of people feel a ZBB has generated more paperwork. Can you explain how ZBB helps OMB make decisions?

MR. LORDAN: Zero-base budgeting produced additional paperwork at the very beginning of the ZBB program. Director McIntyre stressed his concern that it not become an unwieldy paperwork process. Every effort was made at the beginning to hold the paperwork down to a minimum. It was not tully successful; and in many instances, there was more paperwork generated than we needed.

Each year, we have to find ways of doing it more simply and more cleanly. It has aided the decisionmaking process. The opportunity to look at issues across agency lines was not there before. The opportunity to look at genuine ranking of programs, rather than of categories of expense, was not there before.

ZBB enhances the process considerably from our view and our hope is it has done the same thing in departments and agencies. My feeling is any time you take a new cut of the budget process and do things differently than has been done before, you learn from it and get a better understanding. We have to worry about paperwork problems at every stage.

QUESTION: We are developing a centralized audit followup system. Will OMB be coming out with guidelines? I am concerned we might have a retrofit program.

MR. LORDAN: I do not think anything we do is likely to affect the tracking process. There are different ways of tracking as there are different ways of gathering information and keeping it under control.

But the second aspect is the one we are more concerned with, and that is the audit resolution system. It is not enough to keep track of what the auditors have done. What we have to determine is what action has been taken. It is action followup that we are concerned with. The Director has a deep concern we may not have enough guidance dealing with audit resolution. Our guidance, I think, is going to concentrate more on that than on tracking systems.

QUESTION: What are Dr. White's priorities for the approval of various agencies' accounting systems by GAO? Some of the agencies have been working with GAO, working with them for maybe ten years, and they still have not received approval. What, if any, firm plans are there to implement or accomplish that priority?

MR. LORDAN: I think, for one thing, there is more top-level management interest in this subject than we have seen before. The agencies have suffered from a lack of resources to get changes made. I think we have a number of officials more sensitive to that than we have seen in the past. It appears likely to me that resources are going to be available to get the job done.

In coming to an agreement with the GAO on systems, we think we can play a little more aggressive role than we have done before. We can get the staff working more with the agencies and the GAO. Differences often need somebody to mediate. We can offer to help in negotiating the final few differences. It may mean the difference between approval and lack of approval. We will play the broker role, if you will.

QUESTION: Dr. White talked about savings of \$400 million because of improvements in cash management. He also talked about additional savings. Can you be specific as to the latter?

MR. LORDAN: In the President's budget for 1980, there are a number of proposed changes which will affect the budget and which are already taking place. Those will total to about \$400 million a year, in interest savings. The others have not been announced publicly, but have been identified and thus will give us an opportunity for more than doubling what we have done to date. Many of those will require legislation and I think it is better to wait until they have been announced in detail.

Four hundred million is in the present budget, and \$600 million more have been identified to be implemented in next year's budget. We are talking about a billion dollars. I think there is more beyond this.

Thank you all.



SCENES FROM
PLENARY SESSION





ADDRESS BY
ALAN K. CAMPBELL
DIRECTOR
OFFICE OF PERSON-
NEL MANAGEMENT

I am going to talk today about some matters related to what I believe can be significant spinoffs from Civil Service Reform in terms of improving the effectiveness and efficiency of Government, and relate that primarily to issues of public-sector productivity.

The issue of the productivity of the American economy has become a top public concern. I perhaps need cite only this year's Annual Report of the Council of Economic Advisors, where a great deal of attention is paid to that problem, and some efforts made to explain the rather dismal record of the American economy over the past six to ten years relative to productivity.

Obviously, there is a close relationship between the productivity figures and the inflation figures which face this country, and they have a cumulative impact, if one analyzes the means by which pay is set in the American economy. If you are only getting one and a half percent of productivity increase in any given year, and the average pay increase for those years runs seven, eight, or nine percent, the result is a very substantial gap that can be filled only with price increases. Unless the corrections that are made in the economy play back on productivity, there cannot be a long-term improvement in the inflation situation.

Now, normally, this matter is discussed almost exclusively in relation to the private sector. In part, that is because it is only in the private sector that we have a technique for actually measuring productivity change over time. It has only been in the last generation-- when Government has come to perform a sufficient portion of the total economy's activities--that one needed to worry about productivity in the public sector. Now, however, a third of the Gross National Product is represented by Federal, State and local expenditures in our economy. For this reason, if there is not improvement in productivity in the public sector, it will become a tremendous drag on the total economy.

The thing about that which is perhaps most disturbing is that we, in fact, do not effectively measure how well the public sector is doing, and there are, indeed, serious measurement problems when you do not have a price system with which to measure the final output. However, I am convinced we are clever enough and innovative enough to do something about that.

To some degree, the Federal program which exists is a step in that direction, despite the fact it needs substantial improvement; improvement I hope we will be able to accomplish in consultation with the Bureau of Labor Statistics and OMB, in the near future.

All of this, I think, closely relates to the theme of this conference, which is, "Rebuilding Public Confidence in Government." We are all aware that everyone, in almost any speech given these days, cites Proposition 13 as a measure of the lack of confidence in government. We also have a substantial amount of polling information, which indicates that a great deal of the public attitudes are not based on a belief that what Government does is not important. Quite the contrary. Both Gallup and Harris have demonstrated that if the public were convinced that cutting back on taxes and expenditures would, indeed, reduce services, they would not vote for such cuts. The fact they are voting for them is a measure of their conviction that there is substantial waste in the system and that one can, in fact, maintain current levels of service with lower expenditures.

For all of us, it would seem to be a matter of considerable concern that we are not in a position to demonstrate that these views are wrong, but we do not have the data. We cannot say what cutback would reduce services to what

degree. I suggest that for substantial confidence to be restored, we must get on with the kinds of efforts necessary to deal with that measurement problem.

One need not recite what I consider perhaps the most serious danger facing Government in the country today: the demand for a Constitutional amendment to require a balanced budget. As financial experts, I would trust you realize better than most the folly of that effort, the kind of inflexibility that it would bring to the system. Yet, the public demand for it appears to be almost overwhelming, and unless we are able to demonstrate that the Government is, in fact, effective and efficient, it is that kind of broad-based effort that will lead to a reduction in the ability of Government to be responsive in the future to the very kinds of things that the public will predictably be demanding.

What do we need to do? First, to understand productivity in the public sector; second, to improve it; and, third, to use it as a way of demonstrating the degree to which we can improve our performance?

The President has established a National Council on Productivity concerned with a whole range of issues across our economy. The Office of Personnel Management has been given specific responsibility for this matter as it relates to the Federal sector. In that effort, we are beginning with the question of measurement, and obviously we are not going to be successful in that unless we can relate it to the financial accounting side of the Federal Government. We must move that from strictly being a dollar matter in order to use it as a way of getting output measures.

The aggregate measurement phase of what we are undertaking will consist of broad functional coverage like the present collection effort, but will include extensive analysis of measures as well as the data. The overriding objective of this measurement program will be to improve top management control over the areas for which it has responsibility.

In addition to that broad effort, there are two other measurement approaches which I believe help us understand what is happening in the Federal sector. The first of these stems from the need to develop measures for common administrative functions. Support activities in organizations consume a large part of the budget. Yet, we know

little of the contributions of these efforts to the performance of an organization, or even if they are being carried out efficiently.

The construction of common service measures which span different agencies will help us answer these questions. Accordingly, we will identify common administrative functions and develop appropriate measures for them. Coverage will include such things as financial management, automatic data processing, procurement and supply, and public affairs, or public information.

We have already taken steps in this direction. An interagency task force has developed a productivity measurement system for Federal personnel offices. It provides management with data previously unavailable, such as productivity trends, labor distribution, and unit labor costs.

Another measurement area is concerned with specific program management systems. These systems will be tailored to agency programs, and will be essential tools for program manager accountability. With the advent of Management By Objectives and, more recently, Zero-Base Budgeting, program measuring systems are essential to determining program effectiveness and efficiency, and individual contributions. These types of measurements are also basic to the Civil Service Reform Act, which highlights the performance of employees and their supervisors. As we move to implement the reform legislation, there are three specific areas impacted by the problem of improving productivity. These are: personnel management, organization improvement and capital investment.

Let me say a word about the emphasis on productivity in the Federal sector and why I believe the examination of personnel management and other common administrative functions is particularly important. One of the things that has happened to the American economy over the course of the last three to four decades has been a substantial shift in the economy from domination by goods-production, be it agricultural goods or industrial goods, to one increasingly concerned with services. In addition to that shift, even in industrial corporations, a larger and larger portion of the work force is devoted to non-direct production activities; that is, the administrative personnel, the personnel people, the sales people, and others, are becoming an increasing portion of the labor force within the goods-producing sector of the economy.

For the entire period in which we have had productivity figures from the private sector, service productivity increase has run about 50 percent of the increase for goods production. That is still the case.

Compared with the overall dismal record of productivity improvement over the last several years, the record of manufacturing has been pretty good. It is in the public service sector that we have had such low increases in output. I think that implies a much greater importance for productivity of people management than has been traditionally the case in the past, where productivity increases have come through technical changes. It is in the organizational issues, the personnel issues, where we now need productivity improvements.

During the consideration by the Senate of the Civil Service Reform Act, one Senator was anxious to lessen what he believed was excessive employment in the Federal Government in the personnel field, and he wanted to put in legislative restrictions on the number of personnel people who could be employed. In arguing against that, I made the point about the need for personnel people to turn their attention from traditional staffing and other activities to issues of effectiveness and efficiency and, thereby, improve Federal Government productivity. His answer was that personnel people are not those who should be concerned with productivity improvement, because that was really a job for industrial engineers.

I attempted to make the point that in a change in the character of our economy, the productivity issue was going to have to dominate those in the personnel field, because it was not going to be capital structure and capital investment which will improve productivity, but improvement in organization techniques and personnel practices. I am not certain that I convinced him. I am certain, however, that this is the road we must take if personnel administration is going to be effective in doing what needs to be done in relation to the total issue of public sector productivity.

Certainly, it becomes even more vital if one examines the character of the Senior Executive Service and the decisions that are going to have to be made to deal with the bonus system and other kinds of material rewards based on performance. If the personnel manager is doing well, that really means his organization is doing well, and that requires a system for measuring organizational performance, as well as individual performance. This is also necessary

in relation to the merit pay system, Grades 13 through 15, where we are beginning to have to make judgments in terms of performance. In order to do that, we must have pertinent measures.

Simultaneously, we are trying to help departments and agencies do their job by decentralizing many personnel authorities to them. I think this will make it less possible to blame the central personnel agency for inadequacies in personnel management left at the unit level. As we continue to delegate personnel authorities, the effectiveness of personnel offices is a matter that is handed to those offices in relation to the authority they have.

Having said these things about the importance in the productivity field of personnel management improvement, I do not want to leave the impression that there is nothing that can be done by improving capital investment in the public sector. We do not, through our financial system, really make judgments that capital investment would be an effective way of aiding a more efficient performance of particular functions. In part, that is simply the result of a budgeting system in which we have not built into that system the means for doing this. Those capital investment judgments made in the public agencies, are done largely in the spirit of techniques of government accounting.

I believe there is an opportunity for substantial improvement in Federal productivity through wise capital investment, and we need to find ways of determining where those opportunities are and to take advantage of them through appropriate allocation of investment funds in the budgets.

I would like to describe one particular program in the Department of Defense, which I became aware of some months ago, and which, I think, may offer an example to those of us in other agencies. DOD has introduced what it calls a "Productivity Enhancing Capital Investment Program." This program has evolved from that agency's efforts over several decades to improve its operational efficiency through the acquisition of labor and cost saving equipment and facilities. It is recognized that a concerted effort is needed if this program is to survive the highly competitive process of apportioning defense procurement dollars between weaponry and equipments needs.

The program is a two-faceted effort, considering both long-range and near-term needs. Managers are directed to consider the productivity-enhancing capital investment

program as part of long-range investment planning, and to set aside a certain level of funding in annual procurement budgets to provide for the immediate financing of small-dollar, fast-payback productivity-enhancing investment opportunities.

The fast-payback feature makes this approach unique in public productivity enhancement efforts. It recognizes a need to give managers seed money which they can use to acquire labor and cost-saving equipment which will return the investment within the usual budget appropriations cycle. The use of such funds generates savings which might have been lost if managers had to wade through the normal procedure to identify needs and then seek budgeted funds.

The Congress provided initial support for the program in the fiscal year 1977 budget at \$15.5 million. During that year, defense activities identified and funded \$15.4 million in fast-payback projects. The expected annual return from these investments was \$16.2 million, and long-term returns are expected to exceed \$135 million.

Project criteria were strict. Only investments expected to return costs within two years in manpower or dollar savings were considered. Investments had to be in items readily available "off the shelf." More than 90 percent of the individual projects cost less than \$100,000, with the average project costing \$19,000.

Even though this program produced real results, the Congress, concerned about program controls and the perceived potential to use the program to circumvent normal budgetary scrutiny, refused to appropriate any funds for it in fiscal year 1978. Because the program had produced results, however, the 1977 effort was reviewed by the General Accounting Office, the Rand Corporation, and an internal group of investigators. The Congress, satisfied with the reviews, appropriated \$13.5 million for fiscal year 1979, placing certain restrictions on the use of the funds.

Projects eligible for financing were limited to those costing less than \$50,000, and the Department was asked to submit a plan ensuring adequate screening and control prior to use of the funds. To encourage wider participation, provisions were included to reuse some of the savings at the lowest organizational levels.

I have discussed this case in some detail, because it is only one approach to the capital-investment issue. The

fast-payback demands obviously restrict its potential. Nonetheless, it seems to me that we must begin by carefully examining the potential for investment opportunity and by measuring the potential outcome. By so doing, we would get a more orderly approach in the Federal Government to dealing with capital-investment issues.

Needless to say, the kinds of calculations required for this kind of a program will need the help of all persons in the financial management area and in the productivity area. First, you need to bring to it a financial perspective which will, indeed, help us measure the cost implications. Second, we need your help to develop the analytical and quantitative skills of Federal managers so that they will be able to spot and aid in the development of productivity improvement techniques. Third, you can assist managers in deriving performance criteria and in capturing data they will need in order to implement both merit pay and the incentives in the Senior Executive Service.

More generally, you can play a vital role in helping Federal managers respond to the public's demand for accountability. Among other things, this might involve analyzing comparable data between the public and private sectors. As an example, the Naval Sea Systems Command has compared naval overhaul and repair work performed in public and private shipyards. Interestingly, some public shipyards have outperformed their private counterparts on the overhaul of nuclear attack submarines.

Studies show that public shipyard costs have ranged from 8 percent to 63 percent below those in private yards. While this example is intriguing, the general comparability issue has been largely unexplored to date. Basically, we do not have this kind of comparative data to the extent that we should have. Only when we can get comparable data we will be able to do anything more than the media critic does about whether the government is doing well or poorly. The character of the evidence we now rely upon means that we lose to our media critics because negatives attract more attention and make more news than positive accomplishments. Further, those positive accomplishments must be stated in general terms; that is, looking across a wide range of activities, be they common administrative functions or other kinds of outputs.

Until we can develop that kind of data, we will not have the tools we need for internal management, nor will we be able to enter into areas where the Federal Government is efficient and effective.

I am convinced there are many areas where the Federal sector does better than other sectors of the economy. However, we cannot rely on impressionistic evidence if we are going to be convincing. This is essential, not only to the question of public confidence in the Government, but also to the whole issue of the public sector in dealing with overall inflation issues. It also relates to the self-confidence we have as to how well are we doing as the ones responsible for operating the public sector.

It seems to me that the challenges here are of a kind that are concrete enough that we can, indeed, do something about them. If sufficiently translated into understandable terms, they can help us in restoring public confidence in the Federal Government and in government in general.

It is certainly inherent in our culture that there will be skepticism, constructive skepticism, about government, which, I believe, is illustrated by the call for a Constitutional Convention, and by other kinds of results we are getting from public opinion polls. For those of us in the public sector, I would argue that we have an obligation to not simply shrug off those kinds of problems, but to see whether or not we can, in fact, be responsive to them.

QUESTIONS AND ANSWERS

QUESTION: The traditional budget method has been viewed as a kind of impediment to productivity. If you save money, your money is cut. In an effort to improve productivity, what effort is being taken to coordinate your efforts with OMB's budget process?

DR. CAMPBELL: If we examine carefully the activities in the public sector, they tend to work against improvement in productivity because that might result in budget cuts. It might also result in supervisory positions being no longer able to carry the grades because of a reduction in manpower needed. We are very conscious of those kinds of disincentives as we work closely with OMB to develop a system for dealing with the kind of productivity issues I raised.

I do believe the incentive pay and bonus system for GS 13 to 15 managers, by offering personal rewards, will

improve organizational performance. In addition, I think, there must be organizational rewards, and we are discussing the possibility of allowing a certain portion of savings that a unit is able to accomplish to remain with that unit. In addition, the Senior Executive Service will reduce the need for the number of people supervised to count in supporting a grade.

There are a number of other things we are trying to put together which will, in fact, create an incentive system which works in favor of improved efficiency and improved productivity, rather than the current incentive system which works against it. To me, the most interesting and most encouraging thing about the Federal work force, and particularly top managers, is that, despite the disincentives, there is an effort being made to improve the efficiency of the government organization.

I would like to put in a system of positive incentives for that kind of improvement.

QUESTION: I agree with improving productivity in the Federal sector. Then I put my taxpayer hat on and ask what the highest level is doing to interface with the business community, or manufacturing, for interchange of ideas that could facilitate and improve both sides of our economy and and filter down to governmental agencies with applicability to our agency?

DR. CAMPBELL: The National Productivity Council, which has on it the Director of the Office Of Management and Budget, the Secretary of the Treasury, the Chairman of the Council of Economic Advisors, the Chief Trade Negotiator, and the Secretary of Commerce, is concerning itself with the full range of productivity issues. In addition, the Commerce Department has a number of private sector task forces working on issues of productivity. It is our hope that we can bring all of this together so there can be significant and useful interchanges between the private and public sectors in the productivity field.

I am always frustrated by how slowly things seem to move in all these areas on the management side of Government. They are not the glamorous issues of public policy, but I believe there is more attention now, obviously related to the orientation of the President, than there has been in the past. I also believe there will be continuing pressure to focus on them.

It is a long answer, but let me say one more thing about it. It is possible, with the kind of sense of unity, the sense of purpose, which I believe the Senior Executive Service will create, that we will be able to get more leadership from the top career people in the Federal Government in these areas in the future than we have had in the past. I would urge you to take initiatives, to not sit back and wait for the so-called political leadership to take the lead.

I believe these are issues which particularly relate to responsibilities of top career managers in the system. Once we get the Senior Executive Service off the ground, I hope that there will be people in it who will devote themselves to dealing with these kinds of policy issues in ways that will provide a new layer of leadership in the Federal Government.

QUESTION: You spoke of productivity in the quick payback of capital investment. Could you characterize what types of items you have in mind, what the potential is, and what the limits of that program are?

DR. CAMPBELL: They are frequently very mundane matters, such as more automatic equipment for housekeeping purposes. I do not have examples of the Defense Department's efforts here, but I think it would be useful for those to be distributed as concrete examples of the kind of relatively small capital investments that can produce very quick short-term returns.

I am not certain what the government-wide potential is for this. It has built into it political problems and technical and administrative problems. The political problem is to convince the Congress to appropriate what is essentially money that is not designed for any specific purpose, but rather for a program. I think the exercise that the Defense Department has gone through demonstrated the effectiveness of its programs, which can help other departments and agencies that want to engage in a similar activity.

As to its government-wide potential, I would only be guessing; but I am convinced there are a great many activities in which relatively small amounts of capital investment can substantially cut costs and perhaps reduce the number of employees needed. I urge each of you in your own department and agency to take a look at that Defense

Department program and try to determine whether it does have potential application for your type of activities. I am suggesting this is worth a very hard look.

Thank you very much.



SUS UYEDA GREETING
DR. CAMPBELL AT
PLENARY SESSION
MR. THOMAS MORRIS
IS SEATED IN THE
FOREGROUND

QUESTIONS
and
ANSWER
SESSION





ADDRESS BY
THOMAS D. MORRIS
INSPECTOR GENERAL
DEPARTMENT OF
HEALTH, EDUCATION
AND WELFARE

I was privileged last week to attend a special hearing of the Senate Budget Committee, chaired by Senator Muskie of Maine, to discuss the subject of fraud, abuse, and waste in the Federal programs.

Both Chairman Muskie and the minority leader of the Committee, Senator Bellmon, expressed interest in whether enough was being done to attempt to rebuild confidence in Federal management.

Witnesses at the table were Comptroller General Elmer Staats, Ben Civiletti of Justice, and myself. Elmer led off and I was fortunate to get a transcript over the weekend, and he said:

"My own feeling, Mr. Chairman, is that the Executive Branch has not made visible enough the positive efforts that it has made to deal with fraud and abuse problems...maybe it is because the press finds it more attractive to talk about the problems, not the successes...I mention that only to bring to the attention of the American people that it is not all on the bad side. There are a lot of good things. That may sound strange coming from me, but I really believe it..."

I thought that was one of the best statements I have heard Elmer make. Chairman Muskie was most responsive to the statements. In my opinion, it is high time that those of us in leadership roles begin to speak up.

In 1969, when I left the Government for a couple of years to try some of those private enterprise positions, Roger Jones asked me to prepare an article for the Public Administration Review on the attractions of public service. I wrote such an article, which I reread last week.

First, I said, the greatest attraction is the quality of the people and their daily attitude towards their work. This is the most enduring attraction of public service in contrast to private employment. Second, I stressed the characteristics of orderly procedures and respect for organizational structure and tradition. Thirdly, I stressed the fact of size and scope as constituting a key challenge.

In concluding that little think piece, I urged the Comptroller General to "seek all appropriate ways of emphasizing the importance of public service." And I held out the hope that Elmer Staats, who himself is among the great public servants of our time, would come to recognize the importance of this suggestion. Last week, I think he did.

At the same time, there have been trends in the past decade in our management of the public sector which have made our jobs far more difficult and which create an image of poor performance. Some days, it seems to me, we have lost our respect for the orderliness and organization that I referred to in 1969. In some ways, we have helped create this image of poor performance. I think this conference is very timely, and that its theme is very appropriate.

In my view, the way financial managers can help rebuild public confidence is embodied in the phrase "Back to Basics." I believe we need to re-focus our efforts around the fundamentals that all of us have learned over the years.

While my list of basics is not exhaustive or novel, there are at least five basics that I would offer for revitalization. Let me touch on each of them briefly and then mention at the conclusion something about the new Inspector General function and how it might contribute to this revitalization.

Basic No. 1 -- Enlightened and Timely Audits.

In some ways, we may have made the most notable progress in this area, especially since Elmer Staats became Comptroller General in 1966. Today, he estimates that half of GAO's efforts are concerned with "program results reviews." He is leading the way for the rest of us.

In the next decade, I hope and predict that this type of auditing will become a key part of the work of the audit agencies throughout the Executive Branch, in addition to their bread-and-butter workload in financial/integrity and economy/efficiency audits.

The area of audit in which most have been less successful is "timeliness." I believe it is still taking 18 to 24 months between the start to final publication of a GAO report on major, complex subjects. All of us are probably struggling with new techniques to shorten the audit time. Currently, GAO is experimenting with tight deadlines for agency comments. In our case, this may mean that we cannot, in some cases, provide comments, or that we can do so only by crash group conferences, or by risking verbal communications.

I have no solutions but I suspect the trend may force us in the direction of less perfection in our audits, less devotion to what Professor Joe Pois, University of Pittsburgh, describes as the "auditor's quest for infallibility."

On the other hand, I am impressed at HEW with how well we are learning to meet Secretarial deadlines in auditing compliance with very sensitive regulations through quick assessments of State practices to reveal trouble spots before they become too deeply entrenched. We are doing some very excellent work of this type on the abortion and sterilization regulations under the direction of Phil Kropatkin.

I am also impressed with the skills I believe we are developing in the preparation of tested audit guides which can be applied by State auditors and CPAs. For example, we are now requiring all of the some 8,000 colleges and universities to have an independent audit every two years of their student financial aid programs. This is three to four times more auditing than has been done in the past, but it should pay dividends in giving us more current program management information.

In summary, on Basic No. 1, I urge that we continue to seek out innovations into how to make the audit function more productive as measured by timeliness and broader scope findings.

Let me turn to Basic No. 2 -- Relevant Accounting Reports and Analysis.

In many ways, I feel this may be our greatest failure as financial managers. I have no more information on my expenditures today, with \$44 million as a budget, than I had 40 years ago at the Tennessee Valley Authority, where I helped run a small Office Services Department.

I do not receive timely reports of my expenditures or useful analyses of my cost trends. Such information can be obtained only by special, laborious effort. Also I wonder whether the GAO review and approval of accounting systems are contributing to improving the utility of accounting data for management--as they do in successful private companies. I question whether we do not have to bring much more ingenuity and creativity to this less glamorous part of the work of financial management.

At the risk of advocating a pie-in-the-sky idea, I wonder if the time may not be ripe for launching a major national effort, similar to that of the Commission on Federal Procurement to bring to bear the best management minds from the private sector, academia, and the public sector, to hammer out new concepts and action plans, and to conceive of new accounting tools, reports, and analyses that will really make a difference in how effectively we manage public sector programs.

This becomes increasingly important in HEW where we are like the home office of a large conglomerate, overseeing 50,000 recipients who are accountable to us for the proper and efficient and effective application of Federal funds.

I would like to see the AGA, the AICPA, the National Academy of Public Administration, and perhaps the American Management Association, form a consortium to attack these objectives and breathe new life into our lifeless, or more often nonexistent, management-oriented accounting systems.

I was struck yesterday in reading The New York Times of an interview with Arjay Miller of Stanford. He is now retiring from his teaching post. He described how one of

his ambitions has been to train people for both the private sector and the public sector. This is an idea which was not acceptable 11 years ago when John Galbraith was writing about "The Affluent Society."

Today, with the passage of Proposition 13 it has gotten more attention. It seems to me that this is a very progressive, forward-looking point of view, and the time has come to share private and public sector skills in attacking these problems. I think I am saying, in another way, much of what Scotty Campbell said in his talk.

Basic No. 3 -- Skillful Articulation of the Budget.

In many ways, I think we are more sophisticated here than we are almost in any other area of Federal financial management. There has been a great deal of innovation and imagination here.

The Congressional budget process and the insightful studies of the Congressional Budget Office--backed up by the serious work of the House and Senate Budget Committees, the Congressional Research Service, and the GAO--have all added in the past decade far greater substance and stature to the budget process. Agency staffs and controllers tend to be experts in this phase of our work. New concepts of program budgeting and cost effectiveness analysis have made their contribution.

My complaint is that we spend most of our ingenuity and initiative on this front-end of the process, with very poor follow-through in the execution phase. I fear that that very fact may contribute to a lack of realistic presentation of some budget material. Hence, the consortium, which I proposed a moment ago for accounting reforms, should certainly examine the interface and interaction between budget preparation and budget execution.

Let me come to my fourth point, Basic No. 4 -- Setting Tough Performance Targets and Productivity Improvement Objectives.

Here the picture is spotty. Thanks to the persistence of GAO and the Civil Service Commission, now the Office of Personnel Management, there is an ongoing effort to gauge productivity trends in about two-thirds of the Federal sector.

While these are gross measures, I believe they are as good and as useful as many of those in the private sector. Their basic value is not for day-to-day management but to disclose long-term trends which warrant study in order to spread the benefits of those which produce favorable results, and to avoid negative trends.

In many ways, HEW has been among the real pioneers in productivity measurement during the past decade. A major contribution to the state-of-the-art is the "Quality Control Measurement Systems" which measure error rates in payments in the Social Security, Welfare, and Medicaid programs.

These systems are based on statistically valid samples under which the payments selected are thoroughly investigated to assess the eligibility of the recipient and whether the payment was in the right amount, too much, or too little. This type of data, which has been developed in the welfare program on a six-month cycle for many years, has disclosed significant trends by State and had made the management process far sharper. It has been because of the type of continuing measurement that the percentage of errors in that program has been cut by more than half.

While this is a giant step, it is only one of many steps needed to define performance targets for our contractors and State administrators--as well as for thousands of other recipients of HEW funds. I mention this not to criticize our performance, but to illustrate the opportunities which I believe lie ahead.

Performance measurement is, of course, closely aligned to better accounting tools--since one of the best measures in many situations will be what the businessman describes as "unit cost." Hence, the consortium I described earlier should likewise give attention to this vast field of management improvement.

The history of our efforts in the measurement area have been characterized by fits and starts and code names. Our current code name at HEW is known as "MITS," which stands for "Major Items Tracking System." It is a technique, personally conceived by Secretaries Califano and Champion, which requires managers to establish measurable performance targets for the next 18 months in selected areas and to hold managers accountable for their progress toward these targets.

It suffers, as most such systems do, from the fact that it is not comprehensive and does not deal with some important program operations which do not lend themselves to this form of quantification.

Let me come to the last of my basics, that is Basic No. 5 -- Innovative Approaches to Systems Improvement and the Emerging Role of the Inspector General.

In this respect, as an admittedly biased witness, I think we should give high marks to the Congress for mandating the creation of the Offices of Inspector General (OIG).

As you know, there are today 14 agencies which by statute must establish such an office, reporting to the Secretary and to the Senate. Those offices contain about 4,700 staff with a budget of about \$128 million. However, they do not include as yet several major agencies, including the Department of Defense and the Department of the Treasury.

The Inspector General phenomenon was seized upon by the Congress--especially the Government Operations Committee--as a way to substantially upgrade the performance of staffs responsible for auditing on the one hand, and for investigation of mismanagement and wrongdoing on the other hand.

Fortunately, the authors of the IG statute included the concept of fostering economy and efficiency--and the development of preventive techniques--in the charters for these offices. As a result of this, the IG concept has a potential for innovation, perhaps well beyond that envisioned by its creators. In our case, the creation of the OIG has enabled HEW to exploit audit-agency-developed-computer analysis techniques more rapidly and more extensively than might otherwise have been the case.

For example, the Audit Agency had tested in several States computer screens to expose unusual billing practices by doctors and pharmacists well before the establishment of our Office. As a result, when the OIG was formed just two years ago, we were able within three months to launch a computer analysis of billings by 275,000 doctors and pharmacists in every State for calendar year 1976. Over 250 million claims were processed during that 90-day period. We rapidly narrowed this list down to 2,500 providers who appeared most worthy of intensive review, based on a goal of 50 per State.

The idea was to do the same analysis concurrently in each State in order to obtain concurrent national impact, as well as to obtain comparative knowledge of how the States differed in the extent of fraud and abuse problems in these particular areas.

This project, which was known as Project Integrity, has produced a rich learning experience which I feel will easily pay for itself many times over and for years to come. A handbook of "lessons learned" in 51 jurisdictions will shortly be published, along with our second annual report.

The auditors have continued to lead the way in opening up innovative new ideas of ferreting out problems in other health care areas such as dentists, laboratories, and other practitioners. As long as we contain the efforts at a reasonable level, say 15 to 20 percent of audit staff time. I believe this is an investment which over the long haul will optimize the audit contribution.

On the investigative side, the formation of the OIG has caused us to begin to form teams with other Federal agencies, especially the Department of Justice and Postal Inspection Service, with State attorneys general, and with other State and local organizations.

We are literally learning how to harness all of the public resources concerned with white collar crime in a coordinated attack upon the abuses occurring in the programs. This could not happen with a small independent investigations staff reacting to daily crises. It would lack the opportunity to engage in the kinds of nationwide planning that is now emerging.

Just last Friday, the 14 agencies that are establishing statutory Inspectors General met under the co-chairmanship of Jules Sugarman of the Office of Personnel Management, and Ben Civiletti, Deputy Attorney General. We spent five hours discussing the problems and experiences in the Inspector General function in four agencies--HUD, Agriculture, VA, and HEW. This is the first in a series of such workshops that will be taking place over the next two months. I hope we can make this type of orientation available to other agencies which may have an interest.

While the specific problems discussed varied among these agencies, I was impressed with the fact that all of us recognized that the mission of the Inspector General is

not confined to audit and criminal investigations, and that basic systems improvement is a key goal based on continuing evaluation of the findings of audit and investigations.

The payoff is preventive measures for the future. Hence, we are fashioning new tools of management improvement by blending the experience of several management disciplines. The financial discipline is the most dominant in terms of size. In my opinion, it should be in terms of impact.

I know that during the afternoon, you will be pursuing the subject of the Inspector General in one of your workshops, and other subjects on which I have touched far too superficially.

Let me just summarize by saying there are five basics to which we need to return.

Number one is conducting enlightened and more timely audits.

Number two is fashioning accounting tools that will assist managers to assess their operating performance in real time.

Number three is continuing skillful articulation of the budget, but with greater discipline to make budget formulation and budget execution a closed loop.

Number four is developing tough performance targets with realistic measures of productivity, quality control, and cost effectiveness.

And Number five is innovative systems improvement techniques building on the multi-discipline approach, one current opportunity for which is opened up by the formation of the Inspection General function.

I would like to urge that a consortium of Association of Government Accountants, American Institute of Certified Public Accountants, National Association of Professional Administrators, and American Management Association be brought together to form a major study commission to address these matters. The JFMIP would be the logical national sponsor of such an undertaking.

Thank you.

QUESTIONS AND ANSWERS

QUESTION: Some time ago, I believe, out of GAO there came an estimate that in our total operations in the Federal Government, thefts or loss range from one to ten percent. Do you have any feel for this, whether or not you could support this claim or validate it in any way?

MR. MORRIS: The honest answer is, no. That question was addressed to Mr. Staats and to each of us at the hearing I mentioned, and each of us agreed there was no scientific or precise data on which to base such an estimate. Someone told me that the one to ten percent number came originally out of the Justice Department from a rather casual setting, two or three years ago, and has existed ever since. Having said that, I do not want to denigrate the intention.

We in HEW took an inventory of all the studies we could find from all sources of waste at HEW. We came up with six to seven billion dollars. That was on the order of five percent of all outlays attributable to fraud, abuse, and waste. We estimate that fraud and abuse in a very narrow sense was, at best, one percent, or perhaps less. That is the best number we have been able to come by. We know of no scientific measures anywhere.

QUESTION: In part are you arguing, and possibly Dr. Campbell, for going back or adopting many of the commercial accounting practices?

MR. MORRIS: I would say I am arguing for the application of what many successful businesses have done in the accounting field over many, many years. It is not going back so much; it is bringing to bear those analytical techniques. Some practical measures are unit costs, output performance, which work well in most businesses, but not widely used in the Federal sector.

I have worked in Defense and HEW and we do not give time, attention, and creativity to those kinds of techniques, which we would in a business enterprise. I think we should.

QUESTION: Has HEW come up with a definition of "waste" versus "abuse"?

MR. MORRIS: We have come up with a definition of "fraud" and "abuse"; everything else is "waste." Fraud, in our vernacular, means that which is a willful attempt on

the part of the perpetrator to achieve personal gain at the expense of the Government, to defraud the Government, which is prosecutable. Abuse is very similar, except it is not prosecutable. There is no law under which you could criminally prosecute the individual.

Let me illustrate. In the medical field, among doctors, we found a number of doctors who put in false bills for services not rendered. There is a statute under which we can prosecute. Here in the District of Columbia, we found a doctor who automatically gave every patient an EKG. That is an abuse. It is not medically necessary. You can not prosecute the errors you see in welfare and other programs caused by human error, and many other problems that are waste.

QUESTION: This is a rather pragmatic question. In our situation in our agency for lack of budget, our grantees negotiate with local CPAs who submit audit reports and then, in effect, review the work of local accountants. That poses some problems.

Although we cannot document instances of collusion, we suspect, particularly in small communities where there is a need and an interest on the part of two local CPAs to have the grantees engage them, they will not call the shots too harshly. We are in that kind of a situation where we are dependent on the findings of a local accountant and we have reason to believe it is not as strict as we would like and we are in a kind of a bind where we cannot send out personnel to review or the regional office to do on-site inspection for 200 or so of our grantees.

Has HEW had a comparable experience in the Inspector General program to deal with that?

MR. MORRIS: Mr. Stepnick, who is with us may wish to discuss this. HEW is highly dependent on outside auditors, both from the grantees and our contractors, as in the case of Medicare and the insurance companies who are responsible for getting audits done. The best quality control that we know to apply is to develop and test an audit guide which will be followed by outside auditors. We are doing that and holding seminars with the interested CPAs around the country.

Secondly, there has to be some kind of a sampling, a review of product against the guide to be sure the audits were objective and adequate. There is no way we could get

our total job done otherwise. We are dependent on the outside world. We have state auditors using our guides and getting the job done. Frank Greathouse is one of those.

I think it is a matter of good oversight, in the first instance plus tested audit standards and guides as to what should be done.

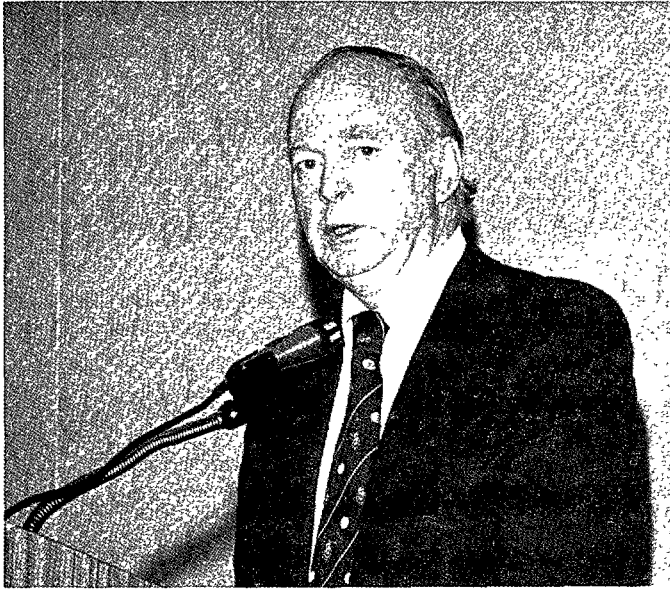
QUESTION: In trying to increase productivity and apply private sector techniques within the public sector, are you aware of any agency efforts to correlate say the salaries of financial managers to cost savings accrued by their offices?

MR. MORRIS: I think Dr. Campbell would say that under the new Civil Service Reform and the bonuses that are planned, we are beginning to approach the time when that can be done. I welcome that.

From 20 years in private business and over 20 years in the Federal Government, I am familiar with the use of bonuses and incentives. While they are always important in the private sector, people still have to perform. They have to be dedicated, with a sense of mission. The simplistic payment of bonuses and financial rewards does not do that job in a superior way.

If you perform well in business, you expect to prosper. You do not set out to earn that reward. You set out to do a good job for your company. There is a great similarity with the public sector.

PART II - LUNCHEON SESSION



REMARKS BY
ELMER STAATS
COMPTROLLER
GENERAL OF THE
UNITED STATES

This is the eighth conference of this type and I am happy to have been able to attend all of them. The title of your session this morning, "Rebuilding Public Confidence in Government--the Financial Manager's Role," is one I have had a particular interest in. It seems to me at no time in the roughly 40 years that I have been in Federal service have we, indeed, needed this kind of emphasis more.

I think probably we would have to look back to the days of the great Depression in the '30's to see a period when Americans have complained so loudly or been so skeptical about the quality and character of the performance of governmental institutions at all levels; Federal, State and local.

The misuse of Government funds is generated by a relatively few employees who have seriously damaged the reputation of the three million other Federal employees who work conscientiously day in and day out, observing the highest standards of ethics in all that they do. It is the old case of a few bad apples coloring and despoiling the larger part of the universe in which they are located. You and I know that Government employees are just as concerned about waste and fraud as the general public that we hear from so much these days.

About one-fourth of the calls received on our new Fraud Hot Line telephone system--which we installed on the 18th of January--have come from Federal employees who want to report allegations of theft, private use of Government property, employee working-hour abuses, bribes or kick-backs, nonperformance of contracts, and other improper activities. This is not surprising, since Federal employees are taxpayers too, who want to see their taxes spent properly.

We have had some several thousand calls and they are still coming in very rapidly and they do, to a degree, provide an indicator of public concern about what they see and what they hear. For the most part, somewhat to our surprise, individuals are willing to provide their names and provide evidence in writing to support the allegations which they have made.

So I think you can say this is not just a sort of crackpot response we are getting. We are getting matters of real substance and I believe we will be able to turn over this kind of information to the inspectors in a way that will make their job easier.

Basically, what we are trying to do is not only provide the average citizen with a confidential point he or she can call and supply this information that is of some value, but more importantly, from our point of view, is the pattern that we are finding now with respect to where these allegations are coming from, that is what agencies and what kind of programs. This will enable us to go into those agencies and make a more detailed review of what the source of the problem is, because our objective, as with the Inspectors General, is to be able to prevent fraud from happening. The problem is not solved if we merely try to chase down the matters after the fraud takes place.

With public confidence in Government at such a low ebb, the question for this conference is: What are we going to do about improving it? In my view, the best way to restore that confidence is to try to do more to improve the Government's operations and to do more to tell the public of our efforts and the results of these efforts.

As I testified before Senator Muskie in the Budget Committee last week, I frankly do not think that the public has been told enough about what is going on today to try to improve the operations of the Government. What the public

is seeing and hearing are cases like the GSA problems, Medicaid and Medicare problems, but they are not really hearing about what is being done.

I think all of us have an obligation to help put the problem in the proper perspective. The public needs to see that its taxes are being spent by a strong and effective Government, a Government that takes its stewardship responsibilities seriously; a Government whose financial managers operate in environments that provide for accountability of public funds.

We have gone part way toward achieving this goal in recent months by taking several significant steps. The new Civil Service Reform Act, for example, gives Federal managers new incentives to eliminate waste and inefficiency and to build new foundations for more effective Government. The establishment of the Office of Inspectors General in 14 major departments and agencies, with new broader powers and greater independence to detect and prevent fraud and abuse in Federal programs, also offers evidence to the public that its Government is taking action to make itself more responsive and responsible.

We can continue to provide that kind of evidence through stepping up our efforts to collect the billions of dollars in debts owed the Government and overpayments of benefits, royalties, goods, and services. More needs to be done in following up on the \$4.3 billion in collections and savings contained in the unresolved audit findings reported by our auditors and by auditors throughout the Government. We estimate that 80 percent of this amount would be resolved in favor of the Government.

These kinds of improvements will give immediate and dramatic evidence to the public that we are serious in our efforts to counteract the fraud, waste, and abuse the public has been reading about.

The financial manager has a key role in the long-term improvement in the confidence of the public in Government. It is the financial manager who can improve productivity through better utilization of the Federal work force. It is the financial manager who can eliminate the inconsistencies and duplication in audits of grant programs that sees some grant recipients of less importance or low risk being audited repeatedly while other are not audited for many years, if at all.

It falls to our financial managers to be the bulwark against fraud, waste, and error by strengthening their management and accounting systems and their internal controls to minimize the possibilities of waste of taxpayers' moneys. We look to them to reverse the slide of public confidence in Government, and we look to conferences such as today's, to bring about the sharing of ideas and the learning of lessons that will enable us to demonstrate to the entire nation that we recognize the responsibilities of the public trust we hold, and that we can and will act to improve the operation of our Government.

I would like to make reference to what John White told you here this morning, with respect to the Administration's new initiatives for financial management in obtaining approval of accounting systems, improving internal controls, and strengthening a number of other areas. As he indicated, these areas were chosen in consultation with the GAO, which represent cases where our auditors have identified as matters that need to be looked into.

I am here today to pledge our whole support to this effort and to say we plan to do what we can to see that this initiative is successful, even if it means that we have to issue an audit report from time to time.

Thank you very much.



JFMIP OFFICIALS AND HONORED GUESTS AT THE LUNCHEON

PRESENTATION OF FINANCIAL MANAGEMENT IMPROVEMENT AWARDS



REMARKS BY
BETTE ANDERSON
UNDER SECRETARY
OF THE TREASURY

It is a real delight for me to be with you again this year. It was my pleasure to be here last year. The Secretary did plan to be here today but he is at Camp David and I bring you greeting from him.

Over 30 years ago, the need for a closer working relationship to improve financial management in Government prompted the establishment of the Joint Financial Management Improvement Program. Many significant improvements in financial management have occurred in the intervening years as a result of cooperative efforts by dedicated government employees.

Our role today is to build on the momentum of the past. This Program will continue to foster joint efforts for future improvements. As financial managers, we are faced with a number of challenges.

The President submitted a lean budget and this policy of restraint is not a casual one. We are committed to resisting pressures for increased spending. Combating inflation must be our top economic and budgetary priority.

We must seek better and less costly means to achieve our national objectives. This is the only way to exercise Federal leadership in the fight against inflation. In today's climate, we cannot tolerate waste, inefficiency and mismanagement. Therefore, we must work together to eliminate programs that are unworkable, improve programs to make them more effective, and streamline Federal operations to make them more efficient.

To restore public confidence in Government, we must vigorously demonstrate that our actions are responsive to public needs. I believe that the principal role of this Program is to act as a catalyst for change and to motivate financial managers, such as yourselves, to propose improvements within your agencies.

Only through your support and creative initiatives will we be able to ensure that the Government is working efficiently and effectively for the benefit of all people.

My primary role today is to recognize two individuals who join a number of distinguished previous award winners. One has demonstrated outstanding leadership and accomplishments in intergovernmental cooperation and coordination of audit efforts for federally assisted programs. The other has shown his professional excellence in improving cash management in the Federal Government.

I am honored to introduce them to you and to present them with their awards.

Mr. Frank Greathouse is the Assistant to the Comptroller of the Treasury of the State of Tennessee and the Director of the Division of State and Municipal Audit. He has worked long and hard with both the National Intergovernmental Audit Forum and the Southeastern Intergovernmental Audit Forum to enhance coordination of audit efforts among Federal, State, and local governments and improve the auditing of federally assisted programs.

He also has successfully directed a project to develop a uniform financial and compliance audit guide for auditing organizations that receive multiple grants from many agencies at various levels of government. This guide will provide a means to implement the "single audit" concept for these organizations, thereby eliminating the need for each grant making agency to perform a separate audit of its own programs.

In addition, through his efforts, uniform statewide accounting manuals were prepared for municipalities in Tennessee, and audit standards were developed for auditing municipal governments.

The Joint Financial Management Improvement Program is privileged to honor Mr. Greathouse for his continued leadership in coordinating intergovernmental audit efforts and improving financial management in Tennessee. I am very pleased, on behalf of all the Principals, to present him this award.



PRESENTATION OF FINANCIAL MANAGEMENT IMPROVEMENT AWARD TO
FRANK GREATHOUSE

William M. Henderson served as the Treasury representative on the President's Reorganization Project to review cash management policies and practices throughout the Federal Government. He conducted and coordinated sophisticated financial analyses to reduce Federal borrowing and related interest costs. He also demonstrated outstanding leadership, technical expertise, and creative skills in representing the project to senior Government officials and preparing reports for the President.

Mr. Henderson developed creative and practical ways to strengthen Federal cash management by accelerating the collection of duties and the deposit of accompanying

receipts, and by utilizing an electronic transfer system for transmitting large excise tax receipts.

His most significant achievement was the development of a plan to accelerate the flow of tax revenues by selectively reducing tax deferral periods, increasing payment frequencies and raising the amount due when periodic estimated payments are due.

His plan also included a number of proposals to ease the deposition and paperwork requirements for small business, in keeping with another important Presidential goal of reducing unnecessary and inflationary governmental requirements.

His professional advice and recommendations will save the government millions of dollars annually. These proposals represent a major attempt by the Government to manage its finances better and to improve the equity and effectiveness of our tax system.

Mr. Henderson clearly deserves recognition for his professional achievements in improving cash management within the Federal Government.

I am pleased on behalf of all the Principals, and particularly on behalf of his family at Treasury, because we are very proud of Bill Henderson at Treasury, to present him with this 1978 Financial Management Improvement Award.



PRESENTATION OF FINANCIAL MANAGEMENT IMPROVEMENT AWARD TO
WILLIAM HENDERSON

PART III - AFTERNOON WORKSHOPS

1. IMPROVING FINANCIAL MANAGEMENT SYSTEMS
FOR BETTER ACCOUNTABILITY



WORKSHOP LEADER:
RICHARD MAYCOCK
DEPUTY DIRECTOR
FINANCIAL AND
GENERAL MANAGEMENT
STUDIES DIVISION
GENERAL ACCOUNTING
OFFICE



BOB MEYER DISCUSSES GAO'S
ACTIVITIES IN FRAUD AND
ABUSE PROTECTION, WHILE KEN
WINNE LISTENS



PICTURED FROM LEFT TO RIGHT
ARE PANELISTS: DAVID DUKES,
HEW; JOHN CREHAN, DOD; AND
DAVID GRIBBLE, OMB

PANELISTS : Robert Meyer
Assistant Director
Financial and General Management Studies
Division
General Accounting Office

Kenneth Winne
Project Director
Joint Financial Management Improvement
Program

David Gribble
Special Advisor on Accounting Systems
Financial Management Branch
Office of Management and Budget

John Crehan
Director for Accounting Policy
Department of Defense

David Dukes
Deputy Assistant Secretary, Finance
Department of Health, Education and Welfare

The workshop panel discussed the need to improve financial management systems for better accountability. The five speakers addressed the issues of progress and problems in the approval of accounting systems, development of cash management systems, and the changing role of certifying officers.

DAVID GRIBBLE discussed OMB's recent initiatives in the financial management area. In response to a number of General Accounting Office reports that have highlighted several operational problems in the financial management areas, OMB has recently taken a strong interest and developed a number of initiatives to resolve government-wide financial management problems. The problems that have surfaced are: the Department of Defense's loss of accounting control over receipts from foreign military sales; excess Federal funds in hands of grantees; agencies not promptly and systematically following up on audit findings; deficiencies in agency practices regarding collection of debts; need for greater improvement in cash management; violations of the Antideficiency Act; poor internal control leading to fraud and abuse in agencies; and the lack of GAO approval for 40 percent of all accounting systems in the Government.

OMB action directed toward resolving these problems include:

- A memorandum to the heads of agencies expressing concern about debt collection practices. Each agency is to conduct a review of its systems and procedures, take remedial action as may be necessary and report back to OMB.
- Meetings with agencies in an effort to reduce the number of unresolved audit findings. A revision of OMB Circular A-73 is being prepared to require more effective agency audit followups and to improve the effectiveness of audits.
- OMB's survey of agencies concerning the excess funds in the hand of grantees and encouragement to speed up grant closeouts and to reduce the amount of outstanding cash in the hands of grantees.
- The OMB Director's request that all major agencies update their funds control regulations and submit them for approval. This is being done in the hope of eliminating antideficiency violations.
- The desire of OMB and GAO to have all agency accounting systems approved by GAO. OMB will be playing a vital reconciliation role in identifying and helping to overcome the types of common problems that have caused GAO to withhold approval.

Accounting systems that have met GAO's approval criteria and have a good network of controls built into them are particularly relevant to improving accountability. In the future, people will be held responsible for their performance regarding budget plans and assigned responsibilities. Accounting systems with good networks of controls provide a key to resolving a long list of problems.

OMB budget examiners are paying particular attention to the following items when deciding whether agency accounting systems adequately serve the operational needs of OMB in budgeting and accounting:

- Is the agency accounting system responsive to the needs of OMB, agency management, program management, and the Congressional budget staff?
- Is agency accounting data available monthly or more often for each program and activity to allow close monitoring of budget execution in both dollar measures and performance measures?

- Is adequate, integrated program data available to allow good unit cost analysis, cost benefit analysis, and pricing?
- Do monthly accounting reports precisely track budget categories on a one-to-one basis, and provide information on other bases useful for analysis and control? Are they accurate, timely and do they contain analysis that are useful?

ROBERT MEYER discussed GAO's activities in the area of fraud and abuse prevention. The GAO established a task force to combat fraud and abuse in the winter of 1978. The task force is emphasizing three major functions:

- The hot-line operation;
- The vulnerability assessment; and
- The overview assessment.

The hot-line operation involves a toll free number that anyone can call and report alleged cases of fraud and abuse to GAO. The allegation is immediately reviewed by a GAO auditor as to whether or not it should be investigated.

The GAO hot-line operation was originally a regional operation, but since January 1979 it has been nationwide. The nationwide number received over 600 calls on the first day; with over 5,000 calls logged in so far. Substantial items to be investigated have numbered about 3,000. Investigations are conducted by either GAO investigators or agency investigators. Also, points of contact have been established with the individual agency Inspectors General Office, and items to be reviewed are turned over to them. The items are also turned over to the GAO audit teams to followup on the agency investigation.

The vulnerability assessment of program entails reviews of different agencies, by teams of GAO investigators, to determine how vulnerable the agency's programs are to fraud and abuse.

The overview assessment is aimed at making an accurate estimation of the extent of fraud and abuse in Government programs. At this point, fraud is estimated to cost the Government from \$10 to \$25 billion dollars. Many agencies are laboring under the delusion that fraud and abuse are not a big problem.

GAO has found that management information systems do not lend themselves to the gathering of statistics about

fraud and abuse, and that most accounting systems do not have sufficient networks of controls to sufficiently check operations. Most agencies were passive about fraud and were not attempting to note and correct weak points in their operations.

In addition, GAO has found that the capabilities of agency investigators were questionable. For example, 70 percent have no experience in fraud investigation, and 80 percent have no formal training in white collar crime and fraud. Also, many agencies appear to be reluctant to take an active leadership role in preventing and detecting fraud and abuse.

KENNETH WINNE discussed the JFMIP Study Project regarding the certification process in Government. Certifying officers in civilian agencies and disbursing officers in the Department of Defense must certify to the legality, propriety, and correctness of vouchers before the Treasury Department will make disbursements. These officers are subject to pecuniary liability for any illegal, improper, or incorrect items that are disbursed.

Disbursing officers were established by legislation in 1789. These individuals maintained a "quill pen and money chest" operation and were able to attest to the legality, propriety, and correctness of payments for goods and services received by first hand knowledge--frequently by being there when the goods were delivered. This environment worked well because a responsible individual knew and was in a position to ensure that payments were valid. Payments were made in much this same manner until the 1930's.

In 1933, by Executive Order, certifying officers were established in civilian agencies and were made pecuniary liable for any deficiencies and/or irregularities in payments. At this time, the Government was still relatively small. While the certifying officer may not have had first hand knowledge regarding many of the payments, he still had the ability to verify that vouchers had been drawn and authorized correctly, and that receiving reports were approved by authorized individuals. This showed that the goods were properly ordered and that they were received in good order.

More recent systems have been automated, and the volume of transactions related to payments has increased substantially. Today's environment generally consists of

huge automated systems most of which are central data base system with terminal input from numerous remote locations. As a result, the volume of transactions and the remoteness of the input makes it physically impossible for certifying officers to either check every payment or review the source documents.

Millions of payments totaling over \$700 billion dollars per year are certified today, and over 2,800 certifying officers--of which only 500 are active--certify to the legality, propriety, and correctness of these payments based on listings generated by these automated systems.

In November 1977, the General Accounting Office issued a report, "New Methods Needed for Checking Payments Made by Computers" that recognized that large, decentralized systems were processing most of the Government payment transactions and that it was no longer possible for a certifying officer to test or check an individual payment, but rather the certifying officer had to rely upon the systems and their controls.

Because of the overall concern about accountability and in response to the recommendations made in this report, the JFMIP is undertaking a study on the "Roles and Responsibilities of Certifying and Disbursing Officers." Through this study, JFMIP hopes to seek ways to modernize the administrative procedures of the certification process, to develop reasonable and equitable standards of accountability, to develop some uniform guidelines that can be used by all Federal agencies, and to develop better ways for the certifying officers to fulfill their legally mandated role.

The JFMIP study is looking at how to strengthen the role of the certifying officer to meet the intent of the law in the face of these problems which are often related to new technology and are beyond the direct control of the certifying officer. The question of who is accountable for the legality, propriety, and correctness of systems has been raised, and a look will be taken at the total system--the manual as well as the automated portions.

DAVID DUKES spoke on what the Department of Health, Education and Welfare is doing to improve its financial accounting process.

The Department of Health, Education and Welfare has five central financial systems:

- A central payroll system, integrated and computerized, with 60 servicing personnel offices scattered throughout the country.
- A centralized computer accounting system that processed the administrative accounting activity for programs located in the regions--utilizing telecommunications, overnight batch processing, and monthly summarizations.
- A centralized grants payment system to which, after being recorded in the administrative accounting systems, the awards data are telecommunicated. This system serves as a fiscal intermediary between the program and the grant recipients. After required reports are inputted, cash advances are made through the system on a cash pooling basis. Expenditure data are then transmitted back to the administrative accounting systems.
- A central grantee/contractor registration system that is the repository for standardized data that identify the entities with whom HEW does business.
- A central system for collecting obligation data identified by geographic and congressional district.

These five different accounting systems were developed under a central HEW "umbrella" of principles and standards to meet the agency needs. However, some major problem areas with the financial systems were identified as follows:

- They are primarily designed for "after the fact," appropriation accounting and fail to meet basic cash management, day-to-day resource management, and forecasting requirements.
- The financial accounting systems are outmoded and use incompatible computer technologies, thus preventing them from being integrated.
- Substantial numbers of grant awards are issued with errors, which leads to discrepancies between HEW and grantee records (frequently, the grantee records are correct but the grantees have the burden to reconcile to HEW records that are frequently incorrect).
- Duplicative systems for recording information on grants are maintained, causing continual problems and wasted resources keeping systems operating and keeping records reconciled and synchronized.

--The financial processes fail to help top management to monitor the departments activities on a timely basis.

HEW is currently undergoing a systems design for a new administrative accounting and grants awards system. The system is being designed to provide:

- A computer based system for management of grants, accounting and payments, with integrated budget and accounting functions;
- A standardized basic set of accounting requirements and data bases for all the operating agencies under one set of computer software programs;
- The use of software that is compatible with multiple hardware configurations;
- Elimination of errors in grants recording before releasing the data to the grantees;
- Elimination of duplicate computer record-keeping for grants paid through the central grants payments system;
- Operating agencies accounting control over their own data bases;
- Flexibility for individual agencies to add their own software modules to those of the standard system to meet any unique requirements;
- Immediate access to the financial data to grants, program budget and finance offices;
- Departmental staff access to operating agency accounting data bases for analysis and reporting; and
- A dynamic system capable of being changed quickly to meet new requirements of management, the Congress and central agencies.

Implementation of the systems design would require the use of remote on-line CRT terminals. The main intent of this system is to insure that grants are recorded accurately before they are issued. The new administrative accounting and grants awards system will consist of four principal subsystems:

- A standard automated accounting system;
- A grants award financial system;
- A central grants payment control and cash management system; and
- A central grants/contractor identification system.

The idea of the standard accounting system is to functionally assist the accounting technician with his

management of paperwork, so that each technician will have a CRT terminal as his "file drawer". The technician will input data and record documents, and if an obligation is not recorded by the system, the technician will be informed and can cancel the input or put it into suspense.

HEW is implementing the systems design with a pilot project. It has the standard accounting and grants award financial recording system under development in one operating component, with a scheduled implementation of October 1979.

JOHN CREHAN discussed some problems and successes in financial management within the Department of Defense. He also discussed the accounting systems approval process by GAO.

The Joint Uniform Military Pay System (JUMPS) effort at DOD provides a basic set of payroll rules and standards for use by the different Military Services. DOD has also attempted to implement one single civilian pay system, but after a year this effort was abandoned and the Services were told to standardize within themselves. The Army and Air Force each developed its own standard system. The Navy developed separate systems, reducing the number of civilian payroll systems from 118 to 9.

DOD has had an upsurge in cost accounting activities, primarily concerning three areas:

- Housing activities - that shows the overall cost of maintaining the various categories of housing.
- Medical activities - a chart of accounts that provides the overall cost of the medical functions by various operations.

DOD has had some problems with its foreign military sales area, since it originally started as a give-away program, and then switched to a sales program. DOD has been developing accounting systems for foreign military sales to overcome the existing problems.

Of the 135 accounting systems subject to approval, GAO has approved 68 systems and is reviewing 27 additional systems. Nineteen systems are currently being developed. DOD is making a concerted effort to obtain approval of all of its accounting systems by the end of fiscal year 1980. However, to achieve this goal, DOD must overcome some problems.

One problem is the accounting for property acquired under procurement appropriations and now used under maintenance appropriations. Items that are under control of stock funds do not present much of a problem, with transfers being handled as 'sales' to maintenance appropriations. However, items that are bought under procurement appropriations present the biggest problem. Many of the major weapons systems have been excluded from property control systems and financial accountability is not maintained (for example, there is no record of the dollar value of ships).

Other problems include the lack of depreciation accounting. GAO would like to see depreciation accounting for all activities, but the Military Services claim that the information gathered is meaningless. DOD plans to record depreciation on a selected basis unless it proves to be more costly than across-the-board recording of depreciation.

Another problem mentioned was that accrual accounting is not usually provided in accounting for costs reported from DOD contractors. Since disbursing officers are frequently not the accounting officers, it is difficult to apply the costs to the periods in which they were incurred.

2. INCREASING PUBLIC TRUST THROUGH INNOVATIONS
IN THE BUDGETING PROCESS

WORKSHOP LEADER:
CAREY P. MODLIN
DEPUTY ASSISTANT
DIRECTOR FOR BUDGET
REVIEW
OFFICE OF MANAGE-
MENT AND BUDGET



PANELISTS



JAMES L. BLUM
ASSISTANT DIRECTOR
FOR BUDGET ANALYSIS
CONGRESSIONAL BUDGET OFFICE



WALTER R. BOEHNER
DIRECTOR
OFFICE OF BUDGET
DEPARTMENT OF
TRANSPORTATION

The panel discussed increasing public confidence through innovations in the Federal budget process from the vantage points of three different organizations--the Congress, the Executive Office of the President, and an Executive Branch department.

JAMES L. BLUM discussed budget innovations brought about through the establishment of the Congressional Budget Office. The Congressional Budget and Impoundment Control Act of 1974 was the most significant innovation in Federal budgeting since the Budget and Accounting Act of 1921.

- It enables the Congress to view and act upon the budget as a whole, rather than only in a piecemeal fashion. This puts the Congress on an equal footing with the President with respect to overall budget priorities and allocations.
- It enables the Congress to debate and act upon fiscal policy--how Federal spending will affect the economy.
- It provides the Congress with needed fiscal disciplines with respect to the timing of budgetary decisions, the consistency of an overall budgetary plan with individual spending and revenue measures, and the coordination of all Congressional committees that make inputs into the budgetary decision process.
- It provides the Congress with its own independent staff with the capability for making budgetary estimates and providing alternative choices for budgetary decision.

The Budget Act established a new process for the Congress to adopt its own budgetary plan which can be quite different from the plan proposed by the President. The new process centers around the adoption by the Congress of two budget resolutions. The first resolution to be passed in May sets targets for budget aggregates. The second resolution to be passed in September sets binding limits on the Congress. The Act also established a vigorous time schedule for adopting these two resolutions as well as other budget actions and for taking actions on appropriation bills.

The Budget Act also created three new Congressional institutions to serve the new process including two new standing committees to prepare and report recommended budget resolutions to their respective Houses and to safeguard the targets and binding limits set by these

resolutions. The Congressional Budget Office was also established as a professional nonpartisan information and analytical arm of the Congress with a number of specific statutory responsibilities.

The Congress is now working on the fifth annual budget under the new process. Unlike previous attempts to reform the Congressional budgetary process, the 1974 Act is working and surviving. However, there have been some problems with the new process, and still other are emerging this year. For example, the time schedule is very tight, especially for actions on authorization and appropriation bills and there have been some estimating problems, particularly for outlays. In addition, there is substantial pressure this year for the Congress to adopt some mandatory requirements to balance the budget and/or to limit the growth in Federal spending.

Such requirements, if enacted, would have a serious effect on the Congressional budget process of substituting arbitrary limits for a political decision making process. In addition, such a requirement would limit sharply the power and flexibility the Congress presently has over the Federal budget, and also limit the Congress' ability to manage the economy. These requirements might also cause effective control over the budget to be reduced by leading to such actions as putting more activities "off-budget" in order to achieve balance, or by increasing the use of "tax expenditures" to achieve program goals previously sought through budget spending.

There are however, indications that the 96th Congress will adopt some further innovations in the budgeting process such as consideration of various sunset or sunrise proposals to increase oversight activities. The Budget Committees are moving to a multiyear framework for making budgetary plans. There also is some interest in the Banking and Budget Committees for strengthening Congressional controls over Federal credit activities.

CAREY MODLIN discussed the budget process from the view of the Executive Office of the President.

Another major landmark in the budget process occurred when President Johnson decided that the concepts used in the Federal budget for 1969 would be those recommended by the President's Commission on Budget Concepts in October 1967. The Commission was established to bring order into what was nearly a chaotic situation insofar as budget concepts were concerned. Prior to the Commission's study,

in a three successive year period, the budget had been presented each year on a different conceptual basis, namely in administrative budget terms, cash terms, and national income account terms. To combat charges of "budget gimmickery" and confusion, the Commission developed a clear, carefully reasoned set of budget concepts and recommended that they be adopted in presentation of the budget. Many of the concepts were adopted before the 1969 budget. In general these concepts have been followed and have assumed the status now of bordering on common law.

The Congressional Budget and Impoundment Control Act was second and a very major force in building public confidence in the Federal budget process. The Act accomplished this by:

- Establishing the systematic review of the budget by the Congress;
- Increasing greatly the quantity of information on the budget made available to the Congress, and the press and, through the press, to the public; and
- Increasing the understanding of the budget process and the budget itself by the press and, through the press, to the public.

Together, the Budget Commission and the Congressional Budget Act have created a momentum that has made it easier for other desirable improvements. Such improvements include: considerable increase in the information on economic assumptions on which the budget is based; the move to multiyear planning; recent efforts to develop and adopt control over Federal credit activities; and continued research for more effective budgetary techniques such as Management by Objectives in the past and presently Zero-Base Budgeting. This momentum has also led to a veritable explosion of information about the budget.

The information concerning economic assumptions has been expanded and has become more sophisticated over the years. In the 1970 budget, OMB published only three assumptions in estimating receipts: gross national product, personal income, and corporation profits before taxes. The 1980 budget contains 20 lines of assumptions and derivatives (e.g., percentage changes) from those assumptions.

As for multiyear planning, long-range projections of the budget were first published, in a very abbreviated form, in the 1971 budget. The information published was minimal--little more than the budget aggregates for the five years in the future. OMB has now progressed well

beyond that beginning in two respects. First, considerably more information is published in the budget e.g., long-range estimates for agencies, functions, and major programs within functions. Second, and far more important, a serious effort is being made to institute a multiyear planning system covering a three-year period.

The mechanism to operate a multiyear planning system is already in place. The 1980 budget has three-year planning estimates, and the budget process within the Executive Office of the President operates within the context of a three-year planning period. It is, therefore, possible now for every Presidential decision affecting the budget to be made with knowledge of the estimated effect of that decision on the budget outlook during the three-year planning period. Also the Congress is moving in this direction, too, so it can be expected that budgeting in the Federal Government will move inexorably, if gradually, toward a multiyear basis.

The Administration committed itself in the 1980 budget to institute a control system for credit activities. The system that is being developed would provide for annual limitations on gross direct loans and guaranteed loans for individual programs, and in total. The individual program limitations would be proposed as appropriations language to be considered by the Congress in the appropriations process.

There have been several efforts over the past decade or so to improve Federal budgeting through the use of more sophisticated budgeting techniques. This is probably particularly true of zero-base budgeting (ZBB). Other innovations were attempted in earlier years: for example, programming, planning, and budgeting systems (PPBS), and management by objectives (MBO) being the best known of the past decade. Both PPBS and MBO never became permanent parts of the budget process, though both PPBS and MBO left useful residuals.

Whatever its shortcomings, ZBB is the budget process insofar as agency budget requests to OMB are concerned. While ZBB is probably not used as much as was intended in the day-to-day management of agencies, its use for ranking in OMB increased during the past year. The program ranking that is required in the ZBB process is particularly important to OMB in three ways:

- In giving budget examiners the benefit of knowledge of the priorities assigned by agency heads to the programs of their agencies;
- In providing a basis for making cross-cutting analyses in selected program areas (e.g., toxic substances); and
- In providing a basis for cross-agency rankings of programs that are ranked in a band around the budget totals for these agencies.

The latter use probably had the most noticeable impact on the agencies, because it led to the reduction of the budget total by about \$500 million. This resulted when programs that had been ranked within an agency's total were deleted when their merit was compared with programs of other agencies.

The progress over the past 10 years in making the budget and the budget process instruments for increasing public trust in government has been very great. Substantially more information is published in the budget; there is increased attention to adherence to budget concepts; the Congressional budget process is healthy and strong, and budget restraint--which is what the general public is most interested in--is a widely accepted policy. The Federal Budget process is probably at the stage now where the greatest need is to solidify the gains that have been made, rather than complicate the budget process beyond the Government's ability to keep it functioning effectively.

WALTER R. BOEHNER discussed the impact of budget innovations on the Executive Branch departments and agencies. A summary of his remarks follows.

The Congressional Budget and Impoundment Control Act, multiyear planning process and zero-base budgeting (ZBB) were discussed from four different perspectives:

- The impact of these innovations in the way of growth of information flow going to OMB and the Congress;
- The effect on intergovernmental relations and information flow to the States and localities;
- The problem with regard to the balancing restraints that are implicit in what the Executive agencies are doing as compared to demands; and
- The effect on the Executive agencies in dealing with Congressional committees.

A GAO Report stated that, in the first year after the implementation of the Budget Act, there was \$41 billion

worth of impoundment reported. By 1977 this was reduced to \$11 billion and the last report from the President in January 1979 to the Congress quoted a \$1.7 billion amount. From this, one can observe that there is now a greater calmness between the Congress and the Executive Branch with respect to the recognition of what the Executive agencies are trying to do.

Recent budgeting innovations such as zero-base budgeting and multiyear planning are producing greater information flow to both OMB and the Congress. And at the same time this produces a continuous dialogue among people, and this dialogue filters whatever it is that the appropriation committees finally allow.

The Congressional Budget Act has increased the information flow to State and local governments and the need for alertness on their part in the progress of the budget through the Congress. For example, eligible grant recipients have to become familiar quickly with the President's budget so they can make their views known to the Congress in hopes of (a) favorably influencing the budget resolutions, (b) convincing the Congress to overturn rescissions and deferrals affecting these grants and (c) tracking authorizing legislation (contents and amounts) since authorizing committees have an input into the budget resolutions.

Multiyear planning requires more frequent information exchange between agencies and State and local grant recipients. In addition, Federal matching requirements introduces particular problems for State and local governments to provide future-year estimates of their financing capability.

3. IMPROVING FINANCIAL CREDIBILITY THROUGH
INTERGOVERNMENTAL COOPERATION



WORKSHOP LEADER:
LEONARD GREESS
FEDERAL/STATE
RELATIONS
COORDINATOR
STATE AUDITOR
COORDINATING
COUNCIL

PANELISTS



JOHN LORDAN
CHIEF
FINANCIAL MANAGE-
MENT BRANCH
OFFICE OF MANAGE-
MENT AND BUDGET

RAYMOND S. LONG
EXECUTIVE DIRECTOR
NATIONAL ASSOCIA-
TION OF BUDGET
OFFICERS

(Not pictured)

The panel discussed recent efforts that have been directed toward intergovernmental cooperation in seeking of mutual, beneficial, and acceptable means and methods for Federal, State and local governments to meet social and economic goals.

JOHN LORDAN discussed the Federal Government's recent intergovernmental initiatives.

During the last few weeks the President has met with governors, mayors, and county officials to discuss their role in the number one economic issue facing the country--inflation. The President talked to them about what his goals were and the way he thought they could assist. This type of action symbolizes a partnership relationship where the National Government from time to time seeks advice and support in solving common problems.

The President's Council on Wage and Price Guidelines is a good example of this. The wage and pricing actions of State and local governments are essential elements in holding down the costs and taxes being borne by the people of the country. A second effort is in the State procurement programs--to try to have State and local governments follow the Federal practice of dealing only with firms that are observing wage and price guidelines.

The President has pledged that the Administration would continue its efforts to reduce red tape and related costs that the Federal Government imposes on the State and local governments. Sometime back the Administration launched several initiatives to simplify the grants-in-aid process. In late 1977 OMB wrote to agencies pointing out that the Federal Government often collects duplicative information from States and requires the submission of an inordinate number of copies of grant applications and financial reports. OMB directed that standard administrative procedures in various OMB circulars and Treasury regulations be uniformly observed by the Federal agencies. Federal agencies have come a long way towards complying with those standard and uniform procedures, but there are many other areas that should be made more uniform. The Federal Government needs to take a look at such things as requirements for environmental impact studies and paperwork burden of affirmative action and equal employment programs. There are also numerous other areas that are common among many Federal agencies for which requirements should be standardized.

Another area that the President pointed out required attention at the State level is the imposition of additional requirements by States on city and county governments in pass-through programs. These State requirements have diminished the Federal efforts to standardize and simplify grant administration. The next generation of improvements to be made in this area will probably come when governors and State legislatures urge their departments and agencies to try to standardize their practices when dealing with local governments.

A similar type of attention is needed in the application of cost principles. Federal cost principles, which are very widely observed in the Federal programs, are frequently ignored in State pass-through programs. In other instances, arbitrary restrictions or different sets of principles are imposed by States when grants are passed through to the local governments.

One initiative to lighten the burden of Federal audit requirements for State and local governments has been the establishment of cognizant audit agency arrangements. This has been particularly so in dealing with universities, by establishing a single Federal agency to deal with each university as a whole. That is, they audit the university's cost, negotiate a uniform indirect cost rate with the university, and settle disputes.

OMB has also moved in that direction with State and local governments, as far as the audit and negotiation of indirect costs are concerned. OMB Circular 74-4 says that, in dealing with State and local governments, one agency is responsible for establishing and auditing indirect cost rates and that other agencies are to accept those rates.

The Federal Government now needs to focus on the use of cognizant audit agency concept on audit of federally assisted programs to State and local governments. This will require the use of "single audit approach"--a term that has been frequently used lately. There are many circumstances where the single audit approach does not mean one audit. It might be more than one. However, the idea of a single audit is that it would be a comprehensive one, a "total audit" of an organization as a whole, rather than the grant-by-grant approach as frequently seen.

The grant-by-grant approach leads to some programs being audited frequently while others are not being audited at all. So whether the auditing is done by the Federal,

State, or local auditors, the concept would be to look at the organization as a whole, testing to an appropriate degree, individual grant transactions along with that of other transactions.

Efforts to accomplish this at this point have been centered in a proposed attachment to OMB Circular A-102. That Circular deals with the standard administrative requirements of grants to State and local governments. The Director of OMB, in December 1978, proposed a new Attachment P to the Circular which would call for a "total audit" of a grant recipient and would incorporate by reference an audit guide developed by the General Accounting Office in cooperation with the National Intergovernmental Audit Forum. OMB has received comments on that guide. The next step is to publish the revised version in The Federal Register to draw a wider range of comments.

The single audit concept is of concern to some Federal agencies, since they need an audit to close out each grant. To some extent the Federal Government wants to move away from this close-out process in favor of having agencies accept the audit of an organization as a whole of which their grant is a part. The conclusions of the Audit Improvement Project under the auspices of JFMIP in close consultation with several intergovernmental groups were somewhat the same. That is, there is a need to sharpen the focus of the audit relationships and a need to have single Federal agencies responsible for audit of grants to a given grantee.

RAYMOND LONG discussed how the States are getting involved in the Federal budget process.

Three years ago the Association of State Budget Officers drew up a list of 100 items which became the Association's package of what they wanted to see changed in the Federal/State relationship and the administration of Federal programs. Included in that package were items that proposed some shifting or reorganization in the Federal budget in three areas: policy, programs, and process.

The Association proposed at the policy level that States be given greater flexibility and freedom in administering Federal funds. They wanted the ability to appoint supervisors to account for those people at the State level who have annual responsibilities for Federal programs where the State has a major stake in the success or failure of a program.

In the area of programs, the Association was able to introduce a major new concept that reversed the one way flow of State monies to the Federal coffer and got revenue sharing. It was not sure whether this would continue or not.

The Association was also very concerned that the Federal budget process did not allow sufficient time for advanced program planning and approval. To combat this, the Association has proposed more advance funding and grant consolidation. There has been some success in receiving advanced funding and in the area of grant consolidation.

The Association, however, remains quite concerned about the formulas used by the Federal Government to determine the level and targeting of funding. The Association has made several suggestions to make Federal funding levels and targets more compatible with State and local government requirements. At the same time it has been directly involved in efforts to improve State and local government administration. Currently 48 of the 50 States require Federal fund estimates in their budgets. And there are now 41 States appropriating Federal funds. Budget allotment controls are being applied to State funds as well as Federal funds in almost half of the States.

There is an interesting situation at the State level when unexpected Federal funds are received. Currently 36 States require some kind of legislative or administrative approval before there can be any continuation or extension in spending of those funds.

There is also pressure in every State to reduce State expenditures. This movement is the result of a push to set some kind of budgetary limit on the size of government. But the spending limitations have an interesting impact on local money. In at least three States, Federal funds have been cut back because of lack of matching funds. Also, in some cases, small categorical grants have been cut first by States to keep the big programs fully funded.

Mr. Long explained that he has observed that there have been four ways for program managers to deal with reduced State funding:

- A very common approach has been to look to the Federal Government;
- A not highly recommended approach has been to spread existing funds more thinly;

- A more viable alternative has been to automate, streamline, and change organizations to improve efficiency and effectiveness; and
- The least popular alternative or approach has been to stop some programs.

Another problem for intergovernmental relations is the tendency in Washington to look at Federal money as sacred money and, at the State level, a tendency to look on State money as sacred money. However, the Federal and State governments are all looking at the same resources that are coming from the same sources--the taxpayer. Accordingly, all tax revenues should be spent with the utmost care with efficiency and effectiveness in mind.

LEN GREESS was the last panelist to speak. He discussed the intergovernmental audit forums and their backgrounds. He felt they were a good medium and methodology to perhaps extend to other functional areas such as budgeting. The concept of intergovernmental forums has proven very successful. It started about six or seven years ago by a group of State auditors in the southeast who were concerned about conditions and got together to talk to the Comptroller General of the United States. Out of this has grown a network of 10 regional forums and the National Forum.

One major improvement as a result of these forums has been in communications. People know who they are dealing with. Perhaps the forums have not been highly successful in solving technical problems. But they are not any better or worse than the AICPA or other professional groups in this regard. It has been effective, however, in overcoming some of the defensiveness, lack of recognition, and concerns about professional competency among intergovernmental auditors. Also as a by-product, it has brought together the State auditors and is having a slower but similar impact on local auditors.

The National Intergovernmental Audit Forum, joined by the State auditors, initiated the quality review process. While the process has been called quality review, that is not its generic term. The process is more of a terminology used by CPAs, hospitals, and universities in accreditation or peer review. The process is enabling Federal and State auditors to overcome a lack of confidence in each other.

The quality review process is now well along the way and has picked up support despite the fact that there are considerable risk and anxiety in some quarters. The

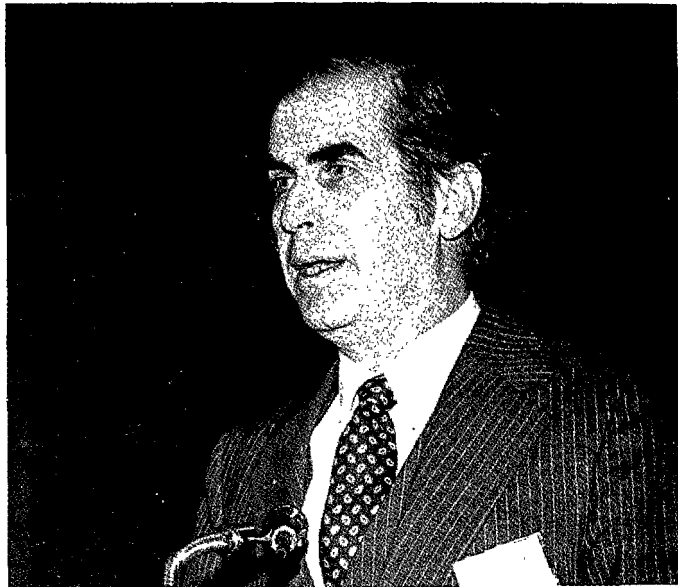
current process will probably result in the establishment of a peer review organization. That organization, working within the framework of mutually acceptable standards, be they AICPA, IIA, or the Comptroller General, will undertake the review of government audit organizations to determine if they are capable of performing audits and reporting in accordance with the standards. Once such a review takes place and a report written, or if accreditation is granted, a continuing dialogue on who is competent would not be necessary.

This particular peer review accreditation process would facilitate a total intergovernmental network of audit organizations that could serve one another and hopefully add some efficiency to the end product as well as to assure people that there is quality.

The JMFIP Audit Improvement Report was also noted as the last of a long series of reports on what can be done to improve intergovernmental cooperation in the audit field. The JFMIP effort deserves the support of other audit and program people at all levels. A dedicated effort is needed to assure that the audit community does not get bogged down in the red tape and problems of bringing some of the report's recommendations into being. The selection of the task force to assist OMB is critical to the implementation of the JFMIP recommendations. The task force will need a strong leader to keep the project on track and to keep it from being unduly strung out.

4. IMPLEMENTATION OF THE INSPECTOR GENERAL ACT

WORKSHOP LEADER:
ALLAN L. REYNOLDS
INSPECTOR GENERAL
VETERANS ADMINISTRATION



PANELISTS



M. RICHARD



S. GREENSTONE



R. NYGAARD



S. SADLER



E. STEPNIK

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Deputy Assistant Director for Evaluation
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and Management
Department of Justice

Steve Sadler
Fraud Task Force
General Accounting Office

Edward Stepnick
Assistant Inspector General for Auditing
Department of Health, Education and Welfare

The panel discussed the Inspector General Act and the perspective and role of the Office of Management and Budget and the Department of Justice in implementing it. The panel also discussed the auditors role in fraud prevention and detection.

ALLAN L. REYNOLDS briefly summarized the Inspector General Act and who is affected by it.

Fourteen agencies will have Inspectors General. The Department of Health, Education and Welfare and the Department of Energy already have Inspectors General. The Inspector General Act of 1978 established IG's in 12 agencies: the Department of Agriculture, Department of Commerce, Department of Housing and Urban Development, Department of the Interior, Department of Labor, Department of Transportation, Community Services Administration, Environmental Protection Agency, General Services Administration, National Aeronautics and Space Administration, Small Business Administration, and the Veterans Administration.

Since the passage of the Act, the President has directed that significant features of the Inspector General Act be extended to all other agencies of the Federal Government. In addition, the Department of Defense is subject to the reporting requirements for a period of two to three years on a trial basis as well as certain organizational and other requirements of the Act.

The Act creates independent, objective units to conduct and supervise audits and investigations. The Inspector General is responsible for providing leadership, coordination, and policy recommendation, as well as promoting economy and efficiency, and preventing and detecting fraud and abuse. Also the Inspector General is to keep the agency head and the Congress currently informed.

The Inspector General Act adds a number of independent features. The degree of impact on an individual agency depends on the situation as it existed prior to the Act. Certainly, one key feature is, the Inspector General is appointed by the President and is subject to Congressional approval in the 14 agencies. The removal of an Inspector General is subject to review by the Congress. The Inspector General reports to the agency head or his deputy. Semiannual reports are to be made to the agency head and to the Congress. The agency head may append his comments, but he may not change the report. The semiannual reports will become public documents no later than 60 days after they are delivered to the Congress.

The Inspector General may issue flash reports, that describe particularly serious and flagrant problems to the agency head and, which in turn are transmitted to the Congress. The flash reports cannot be changed by the agency head, but comments may be appended. There is also a provision to refer the results of investigations directly to the Department of Justice.

The act contains a strong statement of record access and subpoena powers. The Inspector General has been provided authority to decide what audit sites and investigations to undertake. The Inspector General has also been given appointment authority, contracting authority, right to adequate space, and various other features designed to provide enhancement of his or her independence.

Other features of the Act make the Inspector General responsible for reviewing legislation and regulations for the purpose of advising on any problems in the area of fraud, waste, and potential for mismanagement. The Act also contains very strong whistle blower conditions that go beyond such provisions of the Civil Service Reform in that the Inspector General is enjoined from disclosing the name of his or her source except where it is absolutely necessary to carry out the investigation.

The Office of Management and Budget and the Department of Justice have been given responsibility by the President to provide guidance and oversight in the implementation of the act by the affected agencies.

SEYMOUR GREENSTONE discussed OMB's perspective and role in implementing the Inspector General Act.

The Director of the OMB is responsible for seeing that the process of setting up the Inspector General is effectively carried out. In a detailed memorandum to the agencies OMB requested that the 12 agencies show what kind of charter is to be issued for the Inspector General, how each agency is going to proceed with their audit and investigative programs, and what kind of resources are going to be devoted to these functions. In addition, OMB asked that each agency perform a vulnerability assessment; that is report areas that are potentially vulnerable or weak in the agency and how the agency will resolve this problem.

The result of those exercises have been valuable. OMB believes that the discipline of having an agency assess itself and then address potential problems in a systematic way to strengthen those areas, can make a major contribution to getting a good start in a program like this. OMB is now analyzing agency submissions and determining where there may be a meaningful and common concern from all of the efforts. Questions on what kind of guidance should be given to these agencies are being considered.

Beyond that, OMB is studying what kind of administrative mechanism is needed to create a continuing relationship between the Inspectors General, the Office of Management and Budget, the Department of Justice, and the General Accounting Office.

OMB expects that other agencies, without statutory Inspectors General, to organize their audit and investigative capabilities efficiently and effectively. OMB also expects other agencies to do the same type of vulnerability assessments, so that agency heads will have time to act rather than react.

OMB is interested in the prevention of waste, fraud, and error through better management, and the IG legislation and the extension of it to the rest of the Executive Branch

provides a golden opportunity to do some specific things in this area. There are, however, some problems being negotiated between OMB and Congressional committee staffs regarding who should be responsible for management improvement activities.

If individual IGs become very ambitious, and wanted to get into things like program effectiveness, they would perhaps start to depart from what OMB views as the original intent of the legislation, and the spirit of the Act that the President signed. The economy and efficiency areas are in the middle. That is where program evaluators move toward that center and the Inspectors General move toward that center and meet. At that time OMB hopes to play a coordination role with Justice, the Office of Personnel Management and other central staff agencies in developing some operating policies to keep such groups from colliding with each other and fighting over turfs.

For fiscal year 1980, the 14 Inspector General agencies have firm plans to devote 5,000 positions and \$200 million to what OMB identified as Inspector General activities.

MARK RICHARD discussed the Department of Justice's perspective and proposed guidance for implementation of the Inspector General Act. Over the past several years, the Justice Department has concluded that exclusive reliance on criminal prosecution in the area of fraud and abuse in Federal programs is essentially counter-productive and unrealistic, and for that reason the Department was one of the early supporters of the IG concept.

Based on the IG Act, more criminal cases in the area of program fraud and abuse would be referred to the Justice Department. However, because of the Department's current workload, some alternative programs must be developed if the Government is going to effectively deal with this area.

The Department of Justice recommends that primary emphasis be placed on prevention where the biggest, although probably the least dramatic, impact could be achieved. Such an approach, with minimal additional resources, would require that the problems of fraud and abuse be considered in the drafting of legislation. Frequently there are problems in the regulations as they often have loopholes that essentially preclude successful criminal prosecution. In addition, there are problems of

agencies condoning, for whatever reason, courses of conduct outside of established legislation and regulations which preclude successful prosecution.

Under the IG Act, a structure to address these types of problems in a comprehensive and meaningful fashion has been established. In cooperation with OMB, the Justice Department is establishing a coordinating body of IGs to address the issues of legislation, regulations and compliance which cut across agency lines. It is envisioned that this working group, will consist of representatives from the Department of Justice, OMB, FBI, and all the statutory IGs, as well as Department of Defense. There is the potential for expanding this body to cover nonstatutory agencies as well as conceivably bringing in State and local representatives in the future.

The Department of Justice does not see the Inspector General Office taking over responsibilities of the FBI. Instead the IG would essentially focus on prevention and early detection. At which point, the FBI and the Justice Department would be brought into the process to fashion the investigative and prosecuting team on a case by case basis.

Some of the problem areas that the working group will study are:

- The need for some comprehensive, meaningful, and reliable data for tracking cases through the entire civil and criminal justice system.
- The lack of communication between the investigative and audit personnel.
- The need for some meaningful feedback at regular intervals of time.

The Justice Department is attempting to assign criminal division attorneys as liaison resources to specific agencies. And there will also be some Justice representatives to deal directly with other agencies and be familiar with the agency organization and personnel.

RICHARD NYGAARD discussed the auditors' role in prevention of fraud.

An important point is that stronger internal audit, inspection, and criminal investigation alone are not sufficient to solve today's problems. A systematic approach to fraud prevention requires evaluation of the

adequacy of management's internal control systems. The auditor can not act alone in his fraud prevention efforts. The auditor should recognize that he or she must:

- Have the highest level of cooperation of management,
- Provide for close coordination between investigators and those responsible for program design and execution.

In the past, auditors have not been overly concerned with fraud detection, although traditional audit emphasis on internal controls--rooted in accounting systems--has been generally thought by the profession to be a sufficient deterrent. Auditors felt also that internal controls are primarily the responsibility of management.

Accordingly, auditors have tended to disclaim responsibility for fraud detection, choosing instead to emphasize their role in examining the adequacy of internal controls. Detection of fraud was left to others.

Several significant events have taken place recently to demonstrate that a new emphasis is needed in fraud detection. They are:

- The GSA scandal with all its ramifications,
- Pronouncements by Justice of the magnitude of potential fraud in Federal programs, up to perhaps \$25 billion annually,
- GAO's report that agency management has not taken action on auditors recommendations (mostly centering on internal control deficiencies) to the tune of \$4.3 billion--most of which is collectible,
- The IG bill which directly and indirectly (depending on your perspective) gives recognition to the failure of management auditors, investigators and others to make the control systems work.

There is now a need to re-examine traditional audit perspectives. To do this, there is a need for information and knowledge to study why things have gone wrong--if indeed they have--in the traditional views and concepts of management and internal controls as effective deterrents to fraud. For example, the lack of concern for the mechanics of fraud detection have resulted in a failure to develop a body of knowledge of the kinds of fraud most likely to occur or occurring in Federal programs. Thus, there is a lack of basic knowledge necessary to effectively plan for the ever decreasing resources.

The General Accounting Office has established a task force for the prevention of fraud. The major emphasis of the task force is two-fold: (1) to evaluate the adequacy of management control systems in Federal agencies that are necessary for the prevention of fraud and (2) to assess the adequacy of followup and corrective actions taken on auditors and investigators recommendations. The task force has three major elements:

- Hot-line operation;
- Overview assessments; and
- Vulnerability assessments.

Since there is a need to know what kinds of fraud are occurring, the overview assessment effort has focused on 21 major departments and agencies. Drawing on known management and systems problems, GAO intends to identify certain cases of fraud and trace them back into the agency's management and financial systems. The primary objective is to determine what and why management and internal control systems allowed fraud to occur. GAO expects to be able to get a better feel for the (1) kinds of fraud that are occurring and its cost, (2) resources needed to combat it, (3) whether trends indicate that weaknesses allowing fraud to occur show up in the delivery systems, enabling legislation, or the management systems controls, and (4) how agencies handle cases and the actions needed to prevent fraud from occurring including what they are doing to detect it. One important aspect of GAO's overview effort would be to look at the traditional concepts of internal controls to determine whether, in light of the apparent large amount of fraud occurring, these concepts need revision or strengthening, and whether new controls need to be established.

Auditors must recognize that fraud prevention begins with recognition of their special competence as management's primary internal control mechanism. There is a need to open or reopen the channels of communication with top and line management and to demonstrate that the audit function is essential to their well being. Some of the basic steps auditors need to take include:

- Improve the training of staffs and where necessary bringing them into line with current professional capabilities and requirements;
- Coordinate audit efforts with investigators, analysts, managers, and each other;

- Become more involved earlier in the development of new programs and systems, advising those responsible for the design of the necessity of and location of adequate controls; and
- Develop ways to overcome traditional fears and apprehensions over audits.

The traditional views of accountability is changing as the legal community has begun to research this area. Emerging views of accountability now include the very real possibility of sanctions against managers and auditors in the public sector. Strict liability (for their acts or lack of action) may well become an appropriate standards for determining governmental responsibility for fraud or abuse resulting from certain actions or lack of actions on the part of Government officials.

STEVE SADLER discussed GAO's efforts that will study vulnerability of agencies and their programs to fraud and abuse. Vulnerability assessment is aimed at preparing a risk profile of agency operations. It determines whether agencies selected for audit by the task force have adequate internal accounting as well as operational or management controls to prevent or discourage future fraud, abuse, and error.

Internal accounting control is defined as the plan of organization, procedures and records that are concerned with the safeguarding of assets and the reliability of financial records. It should provide reasonable assurance that:

- Transactions are executed in accordance with management's general or specific authorization;
- Transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets;
- Access to assets is permitted only in accordance with management's authorization; and
- The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

There is a clear cut distinction between internal accounting and operational or managements controls. Operational control is distinguished from internal accounting control primarily by its purpose to control organizational

operations, and generally, these controls are used by operating rather than financial or accounting departments. In some cases, however, operational control and internal accounting control are not mutually exclusive.

GAO plans to use a three-pronged approach to determine the vulnerability of agencies audited. This will consist of an assessment of the effectiveness of agency internal auditors, computer systems controls, and manual controls.

GAO expects the vulnerability assessment project to accomplish the following:

- Recovery of Federal losses resulting from intentional misuse of Federal assets;
- Development of a risk profile on agencies audited which will identify internal accounting or operations control weaknesses; and
- Development of a standard audit package for evaluating internal accounting and operational controls.

EDWARD STEPNIK discussed the auditor's role in fraud detection. Although the expectations are clear under the Inspector General concept that auditors should play an important role in the fraud and abuse area, there is little in professional pronouncements or past audit history to indicate that auditors clearly know what their role and responsibilities are for the detection of fraud.

In GAO's Government Audit Standards--The Yellow Book, the word "fraud" is used only once in the 54-page document. Also, the Institute of Internal Auditors came out last year with its "Standards for the Professional Practice of Internal Auditing," and the word "wrongdoing" is in there twice--in the context that the auditor should be "alert" to the possibility of intentional wrongdoing. With respect to any responsibility for really looking for fraud, both sets of standards are silent.

Independent auditors in the commercial sector--practicing CPAs--have always acknowledged some responsibility to consider the existence of fraud in conducting an audit. However, the nature and extent of that responsibility have been unclear, and court decisions, actions by regulatory bodies, and user surveys indicate dissatisfaction with the responsibility for fraud detection acknowledged by auditors. It seems that today's independent auditor is extremely concerned with the possible existence of fraud--but not because it is fraud as such, only because there

could be a resulting material misstatement in the financial statements on which the auditor is rendering an opinion.

Considering that most Government auditors were educated or trained based on commercial auditing practices, it is not surprising that fraud detection during audits has been subordinated--particularly when the auditors have been encouraged to go into challenging new areas of audit inquiry--the economy, efficiency, and effectiveness of program operations--and usually without sufficient audit staff to deal adequately with even straightline financial accountability.

On the positive side, it can be said that conventional audits relate specifically to fraud and abuse in four aspects:

- A system of regularly performed audits deters fraud and program abuse by subjecting would-be offenders to possible discovery;
- Even though it is not their major purpose, audits sometimes do detect improprieties and other practices which are deemed to be fraudulent;
- Audits result in better internal controls and administrative procedures which may either prevent fraud or make it more difficult to go undetected; and
- Audits assist investigators and law enforcement officials in their criminal fraud investigations.

Auditors can do more on fraud detection. Auditors must begin to worry more about how individuals, acting alone or in collusion, would behave if their purpose was to abuse or defraud a program, organization, or system. The auditor must play the role of the people who may be abusing the system or committing a fraud--with the tough attitude of not only checking the books, but also of considering what the records should show and what can go wrong if controls, systems, or management are vulnerable.

Vulnerability assessments and fraud detection go hand in hand. The American Institute of CPAs has a subcommittee on methods, perpetration, and detection of fraud which recently compiled a preliminary list of 16 "warning signals" of the possible existence of fraud. While many seem unrelated to the public sector, other warning signals are frequently encountered by Government auditors:

- Difficulty in obtaining audit evidence with respect to unusual or unexplained entries, incomplete or missing documentation, and alterations in documentation or accounts;
- Evasive or unreasonable responses of management to audit inquiries;
- Unusually large payments in relation to services provided by lawyers, consultants, agents, and employees; and
- Uncorrected, known material weaknesses in internal control such as access to computer equipment or electronic data entry devices.

While not every audit can be "fraud-oriented" to the same degree, every internal audit organization in Government must devise techniques for (1) assessing the relative risks of its agency's programs to fraud and abuse and (2) searching for fraud and abuse in the most vulnerable areas. Auditors must work with others in extending the "state-of-the-art" of fraud detection. They must recognize that, as a result of taking on this new "product line," the value of the total audit effort will be significantly enhanced.

During fiscal year 1978, the HEW Audit Agency utilized over 200 staff years--about one-fourth of its total direct audit effort--on developing and applying specialized techniques for fraud and abuse in the health care and public assistance programs, and in assisting investigators and prosecutors develop criminal cases. The largest of these efforts--Project Integrity in the medicaid program and Project Match in public assistance--were conducted as special projects separate from normal audits. The computer-screening techniques that were used to search for fraud had, however, been developed and tested during earlier regular audit assignments.

When one considers the billions of Federal dollars and the millions of people and organizations who receive them, it is an inescapable conclusion that computer assisted techniques must be a major part of any positive search for wide-scale fraud and abuse. Any audit organization playing an active role in the search must possess or have access to computer skills. Also auditors must acquire sufficient computer skills so that they at least know how to automatically tap into existing computer audit programs that were devised for general testing purposes.

An Inspector General environment will significantly influence the auditor's attitude, priorities, and methodology. His contribution to antifraud activities will no

longer be secondary--or simply a by-product of normal audits--but rather become a major active product to respectfully line up along side other work. And while every individual auditor cannot at this time take on the responsibility to detect fraud in every audit assignment, the audit organization as a whole must accept the responsibility to devise and apply the techniques that eventually will help him do so.

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