



Joint Financial Management
Improvement Program B-84260

Annual Report For 1973

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-84260

The Honorable Chet Holifield, Chairman
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

I am pleased to transmit this annual report on the Joint Financial Management Improvement Program (JFMIP) activities for 1973. Significant progress has been made in improving financial management in the Federal Government during the 25 years since initiation of the Joint Program. These accomplishments attest to the foresight of those who organized this Program.

In 1948 the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General initiated JFMIP as a cooperative venture to improve accounting in the Federal Government. The Budget and Accounting Procedures Act of 1950 gave the Program official status, recognizing all three agencies' statutory responsibilities in this area. The Chairman of the Civil Service Commission was added to the Program by agreement in 1966.

This past year has been one of transition and revitalization for JFMIP. Two recent developments enabled us to increase its effectiveness. Several months ago an Executive Order assigned the General Services Administration substantial responsibilities in the field of financial management, and accordingly the Administrator of General Services has joined the other four agency heads as a sponsor of JFMIP. In addition, we have established a new position of executive director to be responsible for developing and directing financial management improvement programs and projects.

In recognition of the 25th Anniversary, we are including in the appendix of this report a copy of the January 1949 press release announcing this continuing Government-wide Program.

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We are sending copies of this report today to the Secretary of the Treasury; the Director, Office of Management and Budget; the Administrator of General Services; and the Chairman, Civil Service Commission.

Sincerely yours,

A handwritten signature in cursive script, reading "James B. Axtell". The signature is written in dark ink and is positioned above the typed name and title.

Comptroller General
of the United States

JFMIP ANNUAL REPORT--1973

ORGANIZATIONAL AND OPERATIONAL CHANGES

Several developments have significantly affected the future of the Joint Financial Management Improvement Program (JFMIP). In 1973 the President issued an Executive Order transferring from the Office of Management and Budget (OMB) to the General Services Administration (GSA) the responsibility for developing Government-wide policy in the areas of financial management, management systems development, procurement, contracting, property management, and ADP management.

JFMIP leadership was strengthened shortly afterward when Arthur Sampson, Administrator of General Services, joined the Comptroller General, the Secretary of the Treasury, the Director of OMB, and the Chairman of the Civil Service Commission as a sponsor of JFMIP. GSA is now a fully functioning partner in JFMIP, participating in the Steering Committee and various other activities.

JFMIP leadership was further strengthened at the end of 1973 when Donald C. Kull was selected as the first executive director. He is responsible for developing and directing financial management improvement programs and projects under the general guidance of the Steering Committee and policy direction of the sponsors.

With stronger executive leadership, JFMIP can broaden the scope of its activities and provide greater assistance to operating agencies in dealing with specific financial management problems, including those which involve State and local agencies.

JFMIP's role in its consulting efforts is to assist agencies in solving their own problems. In many cases, JFMIP assistance will take the form of identifying expertise in other agencies which can be applied to the current problems. Some problems may be dealt with by assignment to one of the sponsoring agencies and some by informal consultation. JFMIP may organize interagency study teams which include members from one or more of the JFMIP agencies and from other agencies. JFMIP plays a key role in defining, planning and monitoring joint team efforts and in follow-up action to insure that results on a specific study are applied to similar situations elsewhere. Priority is given to studies in areas of interest to several agencies. JFMIP serves as a mobilizer of resources and a catalyst to stimulate action by whatever approach is most suitable.

During 1973 the JFMIP was assigned important responsibilities in a continuing joint program for measuring and enhancing productivity in the Federal Government.

PRODUCTIVITY PROGRAM

In response to a request from Senator Proxmire, Chairman of the Joint Economic Committee, in the fall of 1970, GAO, OMB, and CSC undertook a joint review of the feasibility of measuring productivity of the Federal sector. Phase I of the joint project consisted of a survey and feasibility study which led to a decision to undertake the collection of data, development of a measurement system and related analysis.

During Phase II the 3 cooperating agencies, with important assistance from the Bureau of Labor Statistics, undertook projects to (1) develop overall productivity indexes based on detailed submissions from 17 agencies, (2) study ways to improve the use of existing measurement systems, (3) study ways to improve the use of unit cost measures and capital project planning, and (4) document and encourage good practices in applying effectiveness measurement techniques. A measurement system was developed and productivity data for fiscal years 1967-1971 was presented for 1,560,000 employees (from 17 agencies), or about 55 percent of total Federal civilian employment.

During Phase III the measurement system was refined and coverage was expanded to include 187 separate organizational elements in 45 agencies, 776 different outputs and 1,727,000 employees or 60 percent of total employment. The Phase III summary report issued in June 1973 showed a gain in productivity from the FY 1967 base of 100 to 108.7 in FY 1972, or an average annual gain of about 1.7 percent, for the activities covered. Several supporting reports were issued in the next few months.

Throughout the project there has been close collaboration with the National Commission on Productivity (NCOP) which provided both financial support and technical assistance. The joint productivity team also provided technical consultation to NCOP concerning measurement and improvement of local government productivity.

On the basis of recommendations in the Phase III report, action was taken in 1973 to provide for a continuing Federal program for measuring and enhancing productivity. A July 9, 1973 memorandum from the Director, OMB, assigned responsibilities as follows:

Office of Management and Budget--provide general policy guidance.

General Services Administration--issue annual data call, provide guidance and technical assistance to agencies, and assist agencies in procedures improvement and mechanization projects.

Civil Service Commission--provide leadership, policy guidance and technical assistance on personnel management aspects of productivity.

Bureau of Labor Statistics--collect data and construct productivity indexes.

Joint Financial Management Improvement Program--analyze factors causing productivity changes, prepare annual report to President and Congress, and seek opportunities to expand coverage and improve representativeness of measures.

By the end of 1973 agencies had submitted productivity data for the fiscal years 1967-1973 and work was underway on analyzing the data and constructing productivity indexes. JFMIP was planning a series of workshops at which representatives of different organizations involved in similar functions could discuss preliminary productivity indexes, causes for productivity changes, examples of productivity improvement, obstacles to improvement, and future plans. These workshops aid in analysis of the data, provide opportunity for sharing of experiences, and help identify subjects for case studies to be incorporated in the annual report to the President and the Congress.

LIAISON WITH AGENCIES AND PROFESSIONAL ORGANIZATIONS

Financial Management Conference

In keeping with its continuing interest in stimulating development and widespread use of good financial management practices, JFMIP sponsors annual financial management conferences. One day conferences were held on January 31, 1973, and January 28, 1974, in Washington, D.C.

These conferences stressed communication of ideas among Federal managers. At the 1973 conference Mr. Robert C. Moot, former Assistant Secretary of Defense (Comptroller) talked on the role of the financial manager in the decisionmaking process and Admiral H. G. Rickover presented the luncheon address on "Personal Accountability in Financial Management." At the 1974 conference Mr. Arthur F. Sampson, Administrator of General Services, gave the keynote address.

About 400 top-level management officials from approximately 50 Federal agencies attended each conference. A special feature at each conference was the presentation of Financial Management Improvement Awards. The purpose of these annual awards is to give public recognition to Federal employees who, through the practice of effective financial management, have achieved significant economies, efficiencies, and improvements in the Federal Government. The award winners in 1973 were Robert C. Moot and Richard E. Miller, Associate Assistant Secretary for Administration, Department of Labor. The 1974 award winners were Edward W. Stepnick, Director, HEW Audit Agency, and Robert Ringwood, State Auditor of Wisconsin.

JFMIP Seminars

With GAO's cooperation, four seminars were held last year. The first seminar dealt with establishing a closer relationship between program managers and financial managers; the second concentrated on special problems of financial management. A third seminar, related to the productivity program, dealt with quality measurement techniques, while the fourth seminar concentrated on problems involved in operating and administering reimbursable funded activities.

News Bulletin

JFMIP continued to publish a quarterly JFMIP News Bulletin to keep agencies informed on current Government-wide financial management activities.

Federal Financial Management Directory

JFMIP published for the first time a directory to serve the financial management community. The directory is intended to facilitate the interchange of financial management information among agency officials in the Federal Government and thus aid the development of intergovernmental cooperation among officials engaged in financial management activities.

Questionnaire on Internal Audit Activities

Forty-three agencies responded to a questionnaire survey of all Federal internal audit staffs sent out by JFMIP late in 1972. The purpose of the survey was to obtain information on organization, functions, workload, staffing, reporting and policies of the internal audit function in the Government. Most of the agencies reported that audit functions are centralized. Reported workload data showed a progressive increase in the number of reviews completed.

and the man-days used from 1970 through 1972. Overall, more emphasis is being placed on economy-efficiency audits than on financial and program reviews. Most audit agencies prepare a formal audit plan and almost all agencies indicated that management had an opportunity for input to the plan. The most common problem indicated by the audit staffs was hiring restrictions. Most agencies reported a need for more auditors. Most agencies indicated that management supported the audit function, generally accepted the audit recommendations, and had a positive attitude toward audit reports.

Legislative Proposals

A JFMIP-sponsored bill has been reintroduced in the Congress to broaden the coverage of Public Law 88-521, approved in August 1964, with the intent of increasing economies available by using statistical sampling in the examination of disbursement vouchers. The existing \$100 ceiling has limited the number of vouchers which would be examined on a sampling basis and the inflation of the last five years has compounded the problem. The bill authorizes the Comptroller General to prescribe the dollar ceiling.

AGENCY FINANCIAL IMPROVEMENTS IN 1973

In addition to the accomplishments already mentioned in this report, there have been many improvements in financial management in the Federal agencies. The following are examples of the types of improvements which have been made.

Single Letter of Credit

Having successfully piloted the single letter of credit funding and reporting concept with systems in the States of Nebraska and Arizona, the Department of Health, Education and Welfare has now extended it to all of the New York State agencies involved in HEW activities. This year, the Territory of Guam fully implemented a single letter of credit system. Also, a unified letter of credit system was established for the Georgia Human Resources Agency, effective August 1972. With the inclusion of the State Department of Education in July 1974, Georgia will be the fifth state/territory fully operating under the system.

Having passed the pilot stage, HEW is trying to convert all recipients of HEW funds, where appropriate, to the single letter of credit method of funding, as strongly encouraged by Treasury Department Circular No. 1075 in its February 27, 1973, revision. As a result, Alaska, Arkansas, and Louisiana are refining segments

of their accounting systems in anticipation of conversion to single letter of credit systems in July 1974. Texas, New Mexico, Pennsylvania, California, Florida, Mississippi, Minnesota, West Virginia, the Trust Territories of the Pacific Islands and the territory of American Samoa are considering conversion. San Diego County is piloting the first single letter of credit system at the county level jointly with the Treasury Department. The California counties of Los Angeles, Alameda, and Yolo have also expressed an interest in the system.

Through the combined efforts of HEW, the Treasury Department, and GSA's Office of Financial Management, plans are progressing toward expansion of this funding mechanism. Meetings have been held with representatives of the Department of Labor, Interior, Agriculture, Housing and Urban Development, and Transportation, and the Law Enforcement Assistance Administration. HEW will serve as the lead executive Department. New York and Nebraska will participate in piloting the Federal system.

Several other agencies, including the Atomic Energy Commission, the National Science Foundation, and the Veterans Administration, have reported progress in using or extending the single letter of credit method of financing. This system has proved to be a means of better cash management and a base for simplifying and improving grant-in-aid administration at all levels of Government.

Optical Scanning of Time and Attendance Reports

During 1973 the National Center of the Office of Budget and Finance, Department of Agriculture, designed and implemented, in cooperation with the agencies of the Department, a system for scanning time and attendance reports.

These reports are received from over 8,000 contact points each biweekly pay period and are designed so timekeepers can enter data by hand. The reports, which previously required approximately 12 million cards to be keypunched annually, are processed through optical scanning equipment, resulting in more accurate and much faster processing of payroll and accounting data. It also affords more security to the payroll operation. The conversion eliminates the keypunching operation necessary to payroll an average of 100,000 employees each pay period. This system will save \$200,000 annually on the basis of present manpower costs.

Centralizing Accounting Systems

During the past year in the Department of Agriculture a development group was assembled to prepare accounting systems definitions and specifications, including input and output

requirements. Personnel from agencies whose accounting functions are to be centralized were detailed to work with the Office of Budget and Finance on systems development. The National Finance Center in New Orleans is developing the ADP design and programming the central system.

The process of centralization on a phased basis, which started with the payroll system, then added the central payment of vouchers, will be continued in developing and implementing the uniform accounting system. The first major segment, a central billing and collection system, is scheduled for implementation in 1974.

Telephone Inventory Accounting System

The Telephone Inventory Accounting System is an automated system designed to maintain a detailed inventory of all telephone equipment provided to GSA and its subscriber agencies. The system estimates the amounts and creates accounting entries for accruals of income and expense for local telephone service and commercial toll calls. It creates all bills to customer agencies and computes the amounts to be paid by GSA to the telephone companies. Benefits derived from the system are (1) a monthly updated inventory of leased equipment, (2) automatic costs and income accruals for entry into the accounting system, (3) more timely payments to the telephone companies for leased equipments, and (4) billing of subscriber agencies on a calendar month basis. The new system has been implemented in several regions, and implementation in the Washington, D.C., region should be completed in 1974.

Service Center Consolidation

During 1973 the Bureau of Land Management, Department of the Interior, completed management studies and obtained departmental approval to consolidate two service centers into a single center. The newly organized center will provide personnel, property management, formal contracting, and technical program services to the Bureau's field offices, in addition to accounting, ADP, and program financial management services which are already centralized. The approved plan will save \$1 million annually and will standardize the Bureau's operating procedures.

Property Improvement and Mobile Home Loan Program

Title I of the National Housing Act provides a program by which financial institutions, the building and allied industries, and the Federal Government help eligible borrowers improve their

property. All of the processes and procedures that support this program are currently being automated. The system supports the day-to-day operations of the Office of Finance and Accounting, Department of Housing and Urban Development, and major program offices in the central office and in the field.

The system is designed to fully use the Department's modern computer and has, in many areas, already exceeded predicted manpower savings and level of service. The automation eliminated manual processing of about 720,000 accounts receivable cards a year. It will save approximately 2,100 man-hours which cost about \$11,000 annually.

Contract and Grant Auditing

A major portion of the Department of Commerce's external audit effort was devoted to reviewing contracts and grants of the Office of Minority Business Enterprise (OMBE). In this connection the Office of Audits developed and published an "Accounting System Survey and Audit Guide" (approved by the American Institute of Certified Public Accountants) for independent public accountants and auditors of public agencies. The guide provides that those who audit OMBE contractors and grantees, in addition to their usual responsibilities, will be responsible for (1) evaluating compliance with applicable contract and grant provisions and OMBE instructions, (2) reviewing efficiency and economy in the use of resources, and (3) determining whether desired results of the OMBE contract or grant are being achieved. This is the first guide to implement GAO's standards for auditing governmental organizations, programs, activities, and functions.

SUMMARY OF ACCOUNTING SYSTEMS' STATUS

Progress has continued in the approval of accounting systems in the civil departments and agencies and the approval of principles and standards in the Department of Defense. The table on page 9 summarizes the status of accounting systems subject to approval at December 31, 1973.

The remaining 9 percent of principles and standards in the Department of Defense were approved early in 1974, raising the percent of completion for DOD principles and standards to 100.

STATUS OF ACCOUNTING SYSTEMS APPROVAL
AS OF DECEMBER 31, 1973

	<u>Systems Subject to Approval</u>	<u>Principles and Standards</u>		<u>Designs</u>	
		<u>Approved</u>	<u>Percent Completed</u>	<u>Approved</u>	<u>Percent Completed</u>
Civil	154	147	95	96	62
Defense	160	145	91	22	14
D.C. Govern- ment	<u>1</u>	<u>1</u>	<u>100</u>	<u>0</u>	<u>0</u>
	<u>315</u>	<u>293</u>	<u>93</u>	<u>118</u>	<u>37</u>

OFFICIALS INVOLVED IN THE 1973 JFMIP

PRINCIPALS

The Honorable Roy L. Ash
Director, Office of Management
and Budget

The Honorable George P. Shultz
Secretary of the Treasury

The Honorable Arthur F. Sampson
Administrator of General Services

The Honorable Elmer B. Staats
Comptroller General of the
United States

The Honorable Robert E. Hampton
Chairman, U.S. Civil Service
Commission

STEERING COMMITTEE

Charles Bingman
Deputy Associate Director
Organization and Special Studies
Division

Office of Management and Budget

Gerald Murphy, Assistant
Commissioner

General Accounting
Bureau of Government Financial
Operations
Department of the Treasury

Steve Comings, Assistant
Commissioner

Comptroller
Bureau of Government Financial
Operations
Department of the Treasury

John Lordan, Director
Office of Financial Management
General Services Administration

Donald L. Scantlebury, Director
Financial and General Management
Studies Division
U.S. General Accounting Office

Edward Murphy, Acting Director
Management Sciences Training
Center
U.S. Civil Service Commission

Donald C. Kull
Executive Director
Joint Financial Management
Improvement Program

Bertram H. Rosen
Executive Secretary
Joint Financial Management
Improvement Program

APPENDIX



THE SIGNING OF THE CHARTER OF THE JOINT PROGRAM FOR IMPROVING ACCOUNTING IN THE FEDERAL GOVERNMENT

Left to right are: Secretary of the Treasury, John W. Snyder; Comptroller General of the United States, Lindsay C. Warren; and Director, Bureau of the Budget, James E. Webb--January 6, 1949.

TREASURY DEPARTMENT
BUREAU OF THE BUDGET
GENERAL ACCOUNTING OFFICE
Washington, D. C.

IMMEDIATE RELEASE,
Thursday, January 13, 1949

The broad outlines of a continuing, Government-wide program to improve Federal accounting and financial reporting were announced jointly today by John W. Snyder, Secretary of the Treasury, Lindsay C. Warren, Comptroller General, and James E. Webb, Director of the Bureau of the Budget.

The General Accounting Office, the Treasury Department and the Bureau of the Budget, as the three central fiscal agencies of the Federal Government, are taking the lead in the joint program, with participation by representatives of all departments and agencies.

Work on the project has been underway for the past year, much of which necessarily concerned the accounting problems of the individual agencies. The general policies and objectives which will govern future work on the project were set forth in a joint statement today by Secretary Snyder, Mr. Warren and Mr. Webb. This statement points out:

"Better accounting and financial reporting is an integral part of a broad program to improve efficiency and attain economies in the management of the Government's operations."

"The growth in size and diversity of the activities of the Federal Government and the need for better management have intensified the need for development of more timely, meaningful and useful financial information. Accounting, as the most important method of providing financial information, has not kept pace with the many and varied demands thrown upon it. On the other hand, management has not always given the necessary recognition to the importance of the accounting function."

"Improvement in accounting and financial reporting is needed to guide management in all areas of administration, to give the Congress and the citizen a clear picture of what happens to the tax dollars invested in Government, and to reflect the effect of Government operations on the economy of the Nation."

It was also pointed out that the Government's accounting problem is complicated by the fact that not only individual administrative agencies but also the President and his staff agencies, the Treasury Department, General Accounting Office and the Congress each have interests and needs

to be served by accounting results. In addition, the general public is entitled to adequate and understandable presentation of the Government's financial condition and operations. An accounting policy for the Government must, therefore, take into consideration and reconcile as far as possible, all these viewpoints.

Work to improve accounting and reporting practices is either already underway or scheduled in a number of areas. Some of the objectives and projects are long-range in nature; others, however, include short-range improvements and modifications from which immediate economies and more effective procedures and utilization of personnel may be expected.

The joint program is aimed at five large areas of Federal accounting and financial reporting. These are:

1. Development of a sound foundation for accounting, in terms of principles and standards of accounting and financial reporting, uniform terminology, reporting specifications, improvements in relationships between budgetary processes and accounting, and better audit and control procedures.
2. Simplification in disbursement and collection procedures. Areas to be covered include voucher payment, examination and audit, warrant control of disbursements, check reconciliation and collection processes.
3. Improvements in central accounting and reporting, by which accounting of the Treasury Department and other agencies will be properly integrated. Under the plan the Treasury Department will be the operating center for the production of financial statements relating to the Government as a whole.
4. Improvements in agency accounting and reporting. Within this category the principal areas are improvements in regulations governing agency accounting and reporting, elimination of unnecessary accounting and reporting, budgetary and proprietary accounting, including application of the accrual principle, property accounting, study and development of uniform accounting procedures for similar government programs such as lending or constructions, and use of cost accounting for appraising common administrative functions such as procurement, fiscal, budget and personnel.
5. Special accounting problems, including the installation of complete or partial accounting systems in individual agencies and the systematic and periodic inspection of existing systems in all agencies.

The Secretary of the Treasury, Comptroller General, and Director of the Budget emphasized that the joint program embodies their complete agreement that:

1. The maintenance of accounting systems and the producing of financial reports are and must continue to be functions of the executive branch.
2. There must be an audit independent of the executive branch which will give appropriate recognition to necessary features of internal audit and control.
3. Full opportunity is to be afforded to the executive branch for participation in the development of accounting systems as an essential to meeting the needs and responsibilities of both the legislative and executive branches in the establishment of accounting and reporting requirements.

Summing up, they said:

"The successful prosecution of this joint program will give the President better management in the executive branch, the Congress better information and bases for acting upon appropriations and other legislation, and the public a clearer picture of the financial condition and operations of the Federal Government."