

Y4
.D63/2
F52/3/PT. 4

1026

9474
D63/2
F52/3
pk 4

FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

GOVERNMENT
Storage

DOCUMENTS

JUN 23 1976

THE LIBRARY OF THE
KANSAS STATE UNIVERSITY

HEARING

BEFORE THE

COMMITTEE ON

THE DISTRICT OF COLUMBIA

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

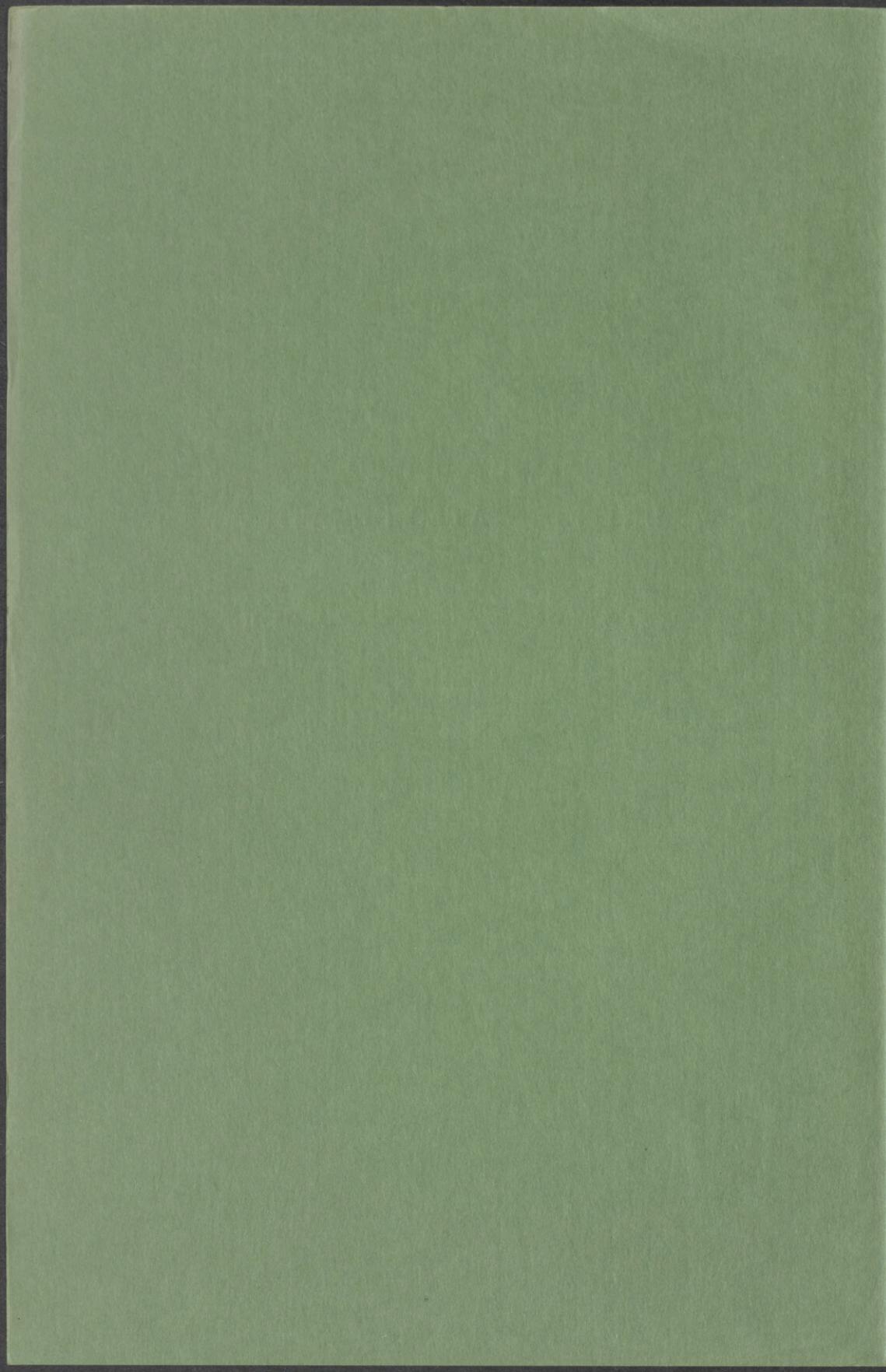
PART 4—ACCOUNTING AND FINANCIAL
MANAGEMENT
(ANDERSEN REPORT)

JUNE 19, 1976

Printed for the use of the
Committee on the District of Columbia



KSU LIBRARIES
A 11900 972302 ✓



FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

HEARING
BEFORE THE
COMMITTEE ON
THE DISTRICT OF COLUMBIA
UNITED STATES SENATE
NINETY-FOURTH CONGRESS
SECOND SESSION

PART 4—ACCOUNTING AND FINANCIAL
MANAGEMENT
(ANDERSEN REPORT)

JUNE 19, 1976

Printed for the use of the
Committee on the District of Columbia



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1976

73-916

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 85 cents
There is a minimum charge of \$1.00 for each mail order

FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

HEARING

COMMITTEE ON

THE DISTRICT OF COLUMBIA

UNITED STATES SENATE

SEVENTH CONGRESS

SECOND SESSION

COMMITTEE ON THE DISTRICT OF COLUMBIA

THOMAS F. EAGLETON, Missouri, *Chairman*

DANIEL K. INOUE, Hawaii

ADLAI E. STEVENSON, Illinois

JOHN GLENN, Ohio

CHARLES McC. MATHIAS, Jr., Maryland

DEWEY F. BARTLETT, Oklahoma

JAKE GARN, Utah

ROBERT HARRIS, *Staff Director and General Counsel*

ANDREW CARRON, *Professional Staff Member*

(II)



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON: 1954

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20540. Price \$1.00 per copy plus postage.

CONTENTS

WITNESSES FROM ARTHUR ANDERSEN & Co.

	Page
Archie, Willard N.....	5
Bass, Gerald H.....	5
Bowsher, Charles A.....	5
Clifford E. Cox.....	5
Edwards, Bert T.....	5
Herremans, Louis P.....	5
Kelley, Robert F.....	5
Storm, Charles N.....	5

MATERIAL SUBMITTED

Article from the Reader's Digest "They're Trimming the Fat From State Government"	36
---	----

SUMMARY OF TESTIMONY

Accounts receivable.....	26
Accurate look at the smallest of entities.....	34
Action should be taken.....	18
Affects the cost of running the District government.....	8
Analogies between the private sector and public sector.....	15
Annual audit should become part of the governmental structure.....	54
Annual report misleading.....	25
Audit.....	9
Audit committee.....	52
Billion-and-a-half dollar organization.....	14
Breakdown on the \$20 million.....	50
Budget balancing statute.....	21
Budget dominates financial management functions.....	15
Budget score card.....	33
Cannot rely on official records.....	17
Closing procedures.....	27
Common problem of many American cities.....	11
Complete cooperation from District officials.....	6
Complete systems.....	44
Consolidations.....	12
Cost of establishing new systems.....	10
Data processing.....	47
Detroit.....	7
Different from other cities.....	12
Director of financial management.....	49
District has an economic problem.....	18
District must develop control of its assets.....	4
Do not want to wait.....	38
Duplicate processing.....	44
Expenditures of city funds.....	20
Federal grant programs.....	46
Federal payment.....	22
Financial information not reliable.....	13
Generally accepted accounting principles.....	24
Hearing to determine direction.....	35
Higher education.....	20
How often to audit.....	51

IV

	Page
Inaccurate amounts included in report.....	26
Inflated payroll.....	54
Insufficient records for public money spent.....	11
Interest loss.....	43
Improved efficiency.....	24
Issuance of bonds.....	4
Letter of transmittal.....	5
Limitations of the system.....	40
Management and policy strike force.....	35, 39
Manpower cost.....	34
Marketing of bonds.....	3
Monitoring program activities.....	32
Must be effectuated as soon as possible.....	4
Nelsen Commission report.....	13
Newer cities have a better economic base.....	8
New York.....	22
New York crisis.....	39
New York pension obligations.....	43
Not in sufficient shape to permit an audit.....	10
Not proposing a substitution for the policymaker.....	41
Obligation of the Congress.....	53
Output from the systems.....	31
Payroll of 55,000 employees.....	39
Pension expense.....	41
Pension systems.....	55
Problems of conducting an audit.....	16
Problems of management policy and administration.....	27
Proposed reorganization.....	49
Project grant reporting.....	33
Property.....	26
Public assistance payments.....	46
Quality of bookkeeping affects ability to deliver services.....	7
Reform of fiscal practices.....	3
Recognize the inadequacies.....	17
Recommendations.....	20
Rent control.....	34
Recommended steps.....	30
Recommended choosing auditing firm early.....	55
Reorganization of District of Columbia government.....	14
Reporting requirements.....	16
Responsibility concept.....	31
Responsibility must be spread broadly.....	2
Review of schools payroll.....	9
Sale of bonds.....	8
Saw storm signals flying.....	2
Selling of securities.....	52
Stronger centralized management function.....	21
Suggestions on economies.....	19
Systems analysis.....	34
Systems approaches.....	47
Systems that are necessary.....	30
Summary.....	52
Things have to be done in the interim.....	54
Training of personnel.....	48
Underreporting of pension liabilities.....	43
Water department billing.....	29
What we would be getting for value received.....	23
Why audit would cost \$20 million.....	28

FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

Part 4—Accounting and Financial Management

(Andersen Report)

SATURDAY, JUNE 19, 1976

U.S. SENATE,
COMMITTEE ON THE DISTRICT OF COLUMBIA,
Washington, D.C.

The committee met, pursuant to notice, at 9 a.m., in room 1202, Dirksen Senate Office Building, Senator Thomas F. Eagleton (chairman of the committee) presiding.

Present: Senators Eagleton, Mathias, and Bartlett.

Also present: Robert Harris, staff director and general counsel; Andrew Carron, professional staff member; and Warren Lee Brown, minority professional staff member.

The CHAIRMAN. The Senate District of Columbia Committee will now be in session.

This hearing has been called to receive a report on the accounting and financial management practices of the District of Columbia government.

Pursuant to Senate Resolution 316, this committee entered into a contract with Arthur Andersen & Co., an independent public accounting firm. The purpose of the contract was to perform a survey of the District's financial situation. I hope and expect that their findings and recommendations will form the basis for improving the efficiency and effectiveness of the District government.

For too long, the major cities of our country have not operated on a sound financial basis. Whereas, strict accounting regulations and the requirement for annual audits have long prevailed in the private sector, officials in the public sector are only now coming to realize that many of the same rules apply. In the case of New York City, that realization came too late, and the unhappy choice is between crippling reductions in city programs and massive Federal aid.

I hope we have not waited too long in the District of Columbia. And when I use the word "we," I mean to include Congress which effectively controlled the District for 100 years prior to home rule.

By "we," I mean to include the four committees of Congress which have jurisdiction over District of Columbia matters, and by "we" I include me.

I believe we have the opportunity now to relieve a series of growing fiscal pressures on the District of Columbia, thus maintaining the viability and independence of the city.

A sound financial management system is vital to a city's well-being. Improvements may be expensive and time consuming, but they must be made. So let us not waste time discussing who is to blame or what went wrong in the past. Rather, let us examine how the city and the Congress can work together to install the needed improvements and insure the continued success of home rule in the District.

As the body with ultimate responsibility for the fiscal health of the District, Congress bears the burden of providing at least part of the resources which will be necessary. So as this hearing progresses, I shall be listening not only to hear what the District must do, but also what this committee and Congress must do.

I am pleased to yield to Senator Mathias for such opening statement as he may desire to give.

Senator MATHIAS. Thank you very much, Mr. Chairman.

As a member of the Nelsen Commission, I have been aware of the need for a comprehensive audit of the District of Columbia finances for several years, and I have actively recommended that an audit be commissioned, but I must say there has been very little popular support for such a dry and tedious subject.

We are all indebted to the chairman of this committee, Senator Eagleton, for perceiving the necessity of acting and for taking the lead in making the public understand how important it is to act now.

SAW STORM SIGNALS FLYING

He saw the storm signals flying over New York City, and he was wise enough to know that Washington might be in the path of the storm. The repairs and the renovation that we postponed for all these years is finally underway, and not a moment too soon. The citizens of the District, the country at large, and the Members of Congress who bear constitutional responsibility for the Nation's Capital, in my judgment, all owe Tom Eagleton a debt. Whatever problems we have today would have been bigger and tougher if they had been neglected longer, and Senator Eagleton saved us from that.

RESPONSIBILITY MUST BE SPREAD BROADLY

The survey being reported by the auditors today reflects the financial practices of the municipal government in the District over a period of many years. During most of those years the commission system or its hybrid successor which was developed under President Lyndon Johnson, provided the organic framework of government. The patterns and practices of those years were in effect at the time that Home Rule was enacted and, in general, are in effect today. Responsibility for them must be spread very broadly over a period of many years and, consequently, among a very large number of public officials who served successively during that time.

During all of those years the Congress bore the ultimate responsibility for the Capital City and must bear its share of responsibility for any shortcoming in the way business was conducted from day to day. I accept my personal share of the blame, although I would hope that the report of the Nelsen Commission may be offered to support a plea in mitigation.

This committee is not, however, an accusatory body and its function is not to fix blame. It is rather our duty to fix the machinery of government.

MARKETING OF BONDS

The committee was led to take the step of ordering an audit by the proposal to market bonds and to create a bonded indebtedness.

There is a discipline of the marketplace that has operated to force government to do the things that it ought to have done.

When and if bonds are offered to the public, potential investors have a right to the facts, and it would not only be depriving them of this right if information were not available, but it would be a serious malfeasance if information were provided which was not accurate and warranted to be so.

The investing public only tolerates one mistake in this regard. To attract bidders, it is necessary to be right. Accuracy, like honesty, is certainly the best policy.

REFORM OF FISCAL PRACTICES

That same discipline of the marketplace will require that we follow through with a program of reform of fiscal practices in the District. The emergence of this issue will constitute a massive obstacle to the orderly financial operations of the District unless it is resolved. Therefore, it is imperative that we press for the adoption and completion of the program that is deemed necessary. It is not going to be cheap, it is not going to be quick and it is going to require changing accustomed ways. But it has to be done if the city is to have all of the options that other municipalities enjoy. We must not weary in the process.

I should sound one word of warning. An audit is not a panacea. It is merely a device to secure accurate and reliable information. In order to formulate policies and to make decisions facts are always necessary. But even the best information can be ignored by policymakers. Whether an orderly system of financial management is translated into a more efficient and economical operation is a separate question. The cost and the bothers of an audit and the erection of a new system will seem hardly justified unless they lead to reduction in operating costs as a result of improved control and oversight. While this is a second phase, I think it should be kept in mind as we consider the first phase.

There is a moment of opportunity before us. Government in the Nation's Capital can be better and, more importantly, life can be better if we decide wisely and if we act positively.

In closing, I want to point out again that we owe this opportunity to the perception and initiative of the chairman, Senator Eagleton.

The CHAIRMAN. Thank you very much, Senator Mathias.

Senator Bartlett?

Senator BARTLETT. Mr. Chairman, thank you very much.

I want to thank you for your very fine leadership in this area and for your self-effacing statement because I would like to give you much credit and express my appreciation that you encouraged in this area. Most all of us would like to see the fruits of government distributed without perhaps the concern of fiscal stability that obviously must go with that distribution. So I thank you for the courage you have shown.

MUST BE EFFECTUATED AS SOON AS POSSIBLE

I would like to thank the chairman also for promptly calling this hearing on the Arthur Andersen report, and thereby giving the committee the opportunity to consider it without advanced publicity. This is a momentous effort which must be effectuated as soon as possible. The recommendations prepared by the Andersen staff echo a number of comments that have been repeatedly made over a number of years, and it is now time to take action both on the part of the Congress and on the part of the government of the District of Columbia.

There are a number of criticisms contained in the Andersen report which are very disturbing. It is even more important that we look to the recommendations contained in the report and the time frames which are recommended for the accomplishment of the reorganization of the District's accounting and management systems.

In this hearing we will delve into the problems of achieving the recommendations set forth in the various volumes of the report, and particularly for recommendations in the second volume on page 59.

DISTRICT MUST DEVELOP CONTROL OF ITS ASSETS

To survive as a viable example for other local units of government in this country, the District must develop control of its assets with acceptable accounting principles, and control of its expenditures and reimbursements. Without the accomplishment of these necessary goals, the District cannot expect to retain a stable population base or a viable business community. Also, without the accomplishment of these programs by the Nation's Capital City we as a Congress cannot expect any other local unit of government to treat urban problems in an expeditious and fiscally sound manner.

ISSUANCE OF BONDS

I hope that we in the Congress do not become expert in writing laws to enable governmental units to reorganize in bankruptcy. This report is justification for the recent action taken by this committee at the suggestion of the chairman and with my strong support—and I think I even seconded it, anyway I remember I supported it very strongly—an action which was set aside by the House, to disallow the District to issue bonds.

I assume, Mr. Chairman, that that action would not be necessary now that this additional financing would not be possible with the information that is going to the general public.

I would like to thank the staff of Arthur Andersen for their efforts for a timely report, and I thank our chairman, Senator Eagleton, for immediately bringing this matter to the attention of the committee.

Senator EAGLETON. Thank you, Senator Bartlett.
I would now like to introduce Mr. Bowsher of Arthur Andersen & Co. and, in turn, I want him to introduce and identify for the record the gentlemen from Arthur Andersen & Co. to us.

Mr. Charles Bowsher is a partner in Arthur Andersen. He is situated here in Washington, D.C., and has a very distinguished background in the field of accounting. Specifically, at one time he served

as comptroller of the U.S. Navy Department as part of the Department of Defense.

So, Mr. Bowsheer, would you please introduce your colleagues and then proceed?

STATEMENT OF CHARLES A. BOWSHER; ACCOMPANIED BY ROBERT F. KELLEY, WILLARD N. ARCHIE, CHARLES N. STORM, BERT T. EDWARDS, CLIFFORD E. COX, LOUIS P. HERREMANS, AND GERALD H. BASS; ALL OF ARTHUR ANDERSON & CO.

Mr. BOWSHER. Thank you very much, Mr. Chairman.

On my left is Mr. Robert Kelley from our New Orleans office, a partner who has done a great deal of work in our State practice; Mr. Will Archie from our New York office, who worked with us on our New York engagement with the Secretary of the Treasury; Mr. Chuck Storm from our Washington office, who heads our State and local practice; Mr. Bert Edwards from our Washington office, who was the top audit partner on our engagement here; and Mr. Cliff Cox from our Chicago office, who has done extensive work with the Board of Education out in Chicago.

The CHAIRMAN. Would you identify for the record what experience the Arthur Andersen & Co. has had in the field of accounting of public entities, be they cities, counties, or States?

Mr. BOWSHER. Yes, Mr. Chairman.

We have done a considerable amount of work for municipalities in the last few years. In fact, just recently we have become quite concerned about financial reporting in the public sector, and we produced a year ago a set of illustrative financial statements for the U.S. Government.

Our other major project in the last year has been for the Secretary of the Treasury on the New York loan—the review that we made of that city's 3-year financial plan.

We have done work for the State of Louisiana, the city of Detroit, the Board of Education of the city of Chicago, the city of Atlanta, the State of Michigan, Hennepin County, Minn., the audit of Houston, and a number of other cities.

In our proposal in responding to the request for proposal which the committee issued, we listed all of our experience and we would be happy to provide this for the record.

The CHAIRMAN. Thank you.

You may proceed.

[The list of experience appears in section 4, beginning on page 126, of the U.S. Senate Committee on the District of Columbia publication entitled: "A Contract To Perform a Survey of the Accounting and Financial Management Practices of the District of Columbia Government," which may be obtained free of charge from the committee.]

LETTER OF TRANSMITTAL

Mr. BOWSHER. Mr. Chairman, I would like to read the letter which is in the front of our executive summary:

We are pleased to submit our report to your Committee regarding our survey of the accounting and financial management practices of the District of Colum-

bia Government. As requested, we began this survey in March 1976 and have utilized some 75 professional staff in making the review.

Our conclusion is that the financial information published by the District is not reliable. The District's annual report contains inaccurate and misleading numbers. Internal reporting, which is essential if the District's operations are to be managed on a sound financial basis, is not reliable, timely or consistent among agencies.

However, as you Senators have pointed out—and it should be pointed out again and again—

This lack of reliable financial information results from weaknesses in financial controls which have evolved over a long period of time—

And certainly long before home rule and many years before that.

Now an audit of the District is not practical at this time. Because of the general absence of financial controls, an audit would be very expensive now. However, adequate financial controls and new and improved systems could be installed so that an audit would be feasible for fiscal year 1978. To meet this schedule, it is imperative that sufficient and continuous effort be applied in the coming months to improve the District's financial management practices.

We have summarized the problems of the present financial and accounting systems and have outlined a plan of action to improve or replace these systems. In addition, an illustrative financial reporting package is included in this report. The objective of these improved or new systems and financial statements is to provide accurate and timely operational and financial information to assist the Mayor and his management team in making operating decisions and exercising control over District funds. This same financial reporting system can be used to provide information to the City Council and the Congress on the District's budgetary and financial results.

We are pleased to report that we received complete cooperation from District officials in doing this review.

Mr. Chairman, we would be happy to answer any questions now.
The CHAIRMAN. Thank you, Mr. Bowsher.

I think we will adopt, say, a 15-minute rule in terms of questioning if that is all right with the committee.

COMPLETE COOPERATION FROM DISTRICT OFFICIALS

I want to underscore part of what you said in your opening statement, Mr. Bowsher, your opening statement being this transmittal letter of June 19, 1976.

You stated that you were pleased to report that "we"—meaning Arthur Andersen & Co.—"had received complete cooperation from the District officials."

Could you elaborate on that a little bit? I think it is very important because, as you have periodically reported to me throughout the progress of this survey, the cooperation received from the Mayor and also from his department heads has been unqualifiably good. Is that the case?

Mr. BOWSHER. That is exactly right, Mr. Chairman.

We started the review as we do many of these reviews by meeting with the chief executive officer, which in this case, of course, is the Mayor. He convened a large group of his department heads and allowed us to explain the review. We had teams in all the agencies of the District, and in every single agency the cooperation that we received was near perfect. It was perfect for all practical matters.

And we can only do a good job in a review like this if we have good cooperation. People are being open with you, telling you what their problems are, some of the problems that they face, and doing a good

job. And it was a major factor in the success that we were able to achieve.

The CHAIRMAN. Now before going on to a discussion of some of the specific findings that you made, I would like to ask your opinion of some general issues that are related to sound financial reporting in the public sector.

QUALITY OF BOOKKEEPING AFFECTS ABILITY TO DELIVER SERVICES

First of all, how can the quality of bookkeeping affect the ability of a city to deliver services to its citizens?

Mr. BOWSHER. Well I think in a couple of ways.

First, all Government organizations have pretty much a total dollar figure to work with in any fiscal year. And it is a case of how you allocate those dollars, and then how efficiently do you carry out the programs within the allocation that was made at the beginning of the year or during the year of the dollars to support the individual services, the individual programs.

And if you do not have good financial information or good bookkeeping then it is very, very difficult for the leadership of the Government organization—the political leadership and the civil servants—to make the decisions that have to be made.

Now I think another factor that has to be considered, too, is if you do not have good bookkeeping, you do not have good accounting controls, and you do not have financial statements that can alert you that financial problems—big ones—are developing then you can end up in financial crises. And, of course, New York is the shining example. But there are other cities and there are other States today that have serious financial problems to the point that they are curtailing services and having to do it on a very expedient basis. And it is the ones that do not have the proper financial information that get into trouble, and that have to make expedient decisions without the information, and right then the need for it becomes so apparent. But, unfortunately, then it is so often too late.

DETROIT

The CHAIRMAN. Your firm has been engaged in auditing procedures and the establishment of better recordkeeping in the city of Detroit. Is that not the case?

Mr. BOWSHER. That is correct, Mr. Chairman.

The CHAIRMAN. And, speaking of Detroit, would it not be another example of a city that, because it lacks bookkeeping endeavors, got itself into difficulties, and now it is being called upon to make some very stringent cuts in its operating budget?

Mr. BOWSHER. Well I believe that Detroit, which I have not worked on personally, is a situation where its general economic situation has forced it to make cuts. In recent times it has made an effort—very similar to the one that we are recommending—of improving its central accounting, its central payroll personnel, and the city started this 2 years ago and has moved forward with it.

The CHAIRMAN. Is there not a law in the State of Michigan that requires every city of a certain size in Michigan to have an annual audit with one exception, the city of Detroit?

Mr. BOWSHER. That is correct. The city of Detroit is the exception.

NEWER CITIES HAVE A BETTER ECONOMIC BASE

The CHAIRMAN. Have you found in your experience generally, nationwide, with governmental auditing that the cities that have the greatest difficulty are the old cities in the country; namely, in the Northeast and Midwest, and conversely, the newer cities, such as Houston, Kansas City, and others, have gone to solid, effective bookkeeping and are in less financial difficulty?

Mr. BOWSHER. That is generally true, Mr. Chairman.

The newer cities are the ones that seem to have a better economic base. In other words, their populations generally seem to be growing, they have more businesses coming in, and things like that. They also seem to have the more modern systems. The older cities in the Northeast seem to have greater problems in this area.

The CHAIRMAN. Is it not true, for the purposes for the record, that some of these newer cities—specifically, for illustrative purposes, Houston and Kansas City—had as part of their structure of government an annual audit by an outside independent accounting firm?

Mr. BOWSHER. Yes, that is right, Mr. Chairman.

About half of the large cities in this country have annual audits by outside firms. And in the group that does not, many of them are the larger and older cities in the Northeast.

SALE OF BONDS

The CHAIRMAN. All right.

What effect can good or, for that matter, bad reporting or bookkeeping have on the sale of bonds in the public market?

Mr. BOWSHER. Mr. Chairman, that I believe is changing rapidly here, too, because I think now, especially after the New York crisis, more and more of the investing public and the underwriters are looking for some kind of independent verification of the financial information which cities, States, and municipalities are issuing.

Sometimes it can be done, as I believe the State of North Carolina and some others do it, through a State organization. But more and more I think the trend is toward the independent CPA firm being asked to audit the public sector as well as the private sector.

AFFECTS THE COST OF RUNNING THE DISTRICT GOVERNMENT

The CHAIRMAN. Before getting into the specific suggestions and recommendations you make in your report I would like to ask yet another general question.

How can the changes or recommendations that you make in this report affect the cost of running the District Government?

Mr. BOWSHER. Well as I mentioned earlier, I believe that if the management or the department heads, the Mayor, the executive branch leaders of the District, have good financial information on programs, various departments by responsibility areas, and on special projects that they might initiate, and on Government grants, it gives them a significant management tool or device to make the management decisions which have to be made, to make the program decisions, and to make the allocation decisions. These are some of the toughest problems that Government leaders have to make, and without it it is very difficult to make those decisions.

AUDIT

The CHAIRMAN. I understand from reading your report that the books and records of the District of Columbia government are in a condition which would not permit those books to be audited today.

Would you explain to this committee—and we are laymen up here, we are not accountants—why it is that you could not begin auditing the District books today? Why can you not do that?

Mr. BOWSER. Well what we are saying is it would not be very practical to audit them today. It would cost a tremendous sum of money for any firm to come in and try to reconstruct some of the records and to audit them.

An audit is a test, in other words, all auditing and financial auditing is done on a test basis. You do not check every single transaction. And the better the shape the accounts are in, the better the internal controls, the systems in that, why then the more efficient the audit can be. And, conversely, if your test shows a lot of problems, then you have to go deeper, and deeper, and deeper, and more, and more, and pretty soon you are practically reconstructing all the entries.

REVIEW OF SCHOOLS PAYROLL

One of the tests we did in our review was on the payroll in the schools. Cliff Cox, one of my associates here, did that. I will ask him to explain what he found here in a minute—but I think it is illustrative of the problems that you run into if you do not have accurate records.

If Mr. Cox would just explain, then I would like to come back and further answer it.

The CHAIRMAN. Now, Mr. Cox, you worked on the public school records. Is that correct?

Mr. Cox. Yes; I did.

We looked at the entire District payroll, but we looked at the public schools as an example of the District payroll in a little more detail. We found that, of 15,000 employees, 3,500 of those employees had their payroll cost allocated to the wrong organization within the public schools. That is, a teacher may be working at school A but have his or her cost allocated to school B. The public schools are correcting that. We found, through our procedure, that we can improve that using a computer program. In a Government-funded program, you might find a teacher being allocated to a program when the teacher either is or is not active in another program. So as a matter of fact the public schools do not use government funds, but yet the teacher should be charged against that government program.

The CHAIRMAN. I take it you are making two basic points. You said 15,000 people are on the school payroll of the District of Columbia. Thirty-five hundred of them are not allocated to the right school or right program. Correct?

Mr. Cox. Yes; that is correct.

The CHAIRMAN. Although you are not a resident, I take it, of the District of Columbia, there was an opinion here in the District by Judge Skelly Wright that mandated that expenses be equalized throughout the school system. One cannot comply with that opinion if the recordkeeping is such that you do not know who is teaching in what school. Is that correct?

Mr. Cox. That is correct.

With the current problems in the system that is not possible. You cannot use its financial system to determine if you have equalization.

The CHAIRMAN. All right.

And then the second point you are making is that if personnel are not being charged to the right program—that is, there are various Federal grants for the whole Nation, and it applies to the District of Columbia—the right personnel are not charged to those grants, so perhaps the District of Columbia government is not receiving the proper reimbursement. Is that a possibility?

Mr. Cox. That is correct, in those cases where it is discovered.

The CHAIRMAN. All right.

Now back to Mr. Bowsher.

NOT IN SUFFICIENT SHAPE TO PERMIT AN AUDIT

I take it then, to put it another way, Mr. Bowsher, that the methods of keeping the records today are not in sufficient shape to permit an audit to be done at this point in time.

Mr. BOWSHER. That is correct, Mr. Chairman.

The CHAIRMAN. All right.

Mr. BOWSHER. What we believe, as we point out on page 37:

The manpower and financial resources necessary for such an audit could result in an audit fee of several million dollars, exclusive of the cost to the District for its personnel and outside assistance as may be necessary to reconstruct these records.

We believe it would result in postponing a more important functioning of correcting the present system of accounting and internal controls, and getting those in shape so that you could do a more efficient audit in another year or two.

The CHAIRMAN. What is your best estimate as to how long it would take to get the District's books and records in adequate shape so that an audit could be done?

Mr. BOWSHER. We have laid out a plan in this report that we believe that, if the necessary controls, procedures, and systems work are accomplished, you could have a full audit in fiscal 1978. That would be an unqualified opinion in all probability from the auditing firm with one possible exception, and that would be on property. Many municipalities have such an exception on property—it is not that serious—so the District would be right up there with the leading municipalities if such an audit could be accomplished.

Now, in addition, we recommend that in fiscal 1977, if the improvements can be achieved on a timely basis, consideration be given to doing a fiscal 1977 balance sheet audit. What this would do would be to give you the opening balance sheet for fiscal 1978, and allow you to audit all of the operations in 1978, and give you the closing balance sheet for fiscal year 1978. It would also, I think, have a very good ingredient of showing progress as the District is moving along rather than waiting until 1978 to do any auditing.

The CHAIRMAN. One final question before yielding to my colleagues.

COST OF ESTABLISHING NEW SYSTEMS

What is your estimate as to the cost of establishing the new systems, the new methods, so that the books ultimately would be in sufficient shape to be audited?

Mr. BOWSHER. It is a major investment, Mr. Chairman. We believe that it would be in the area of about \$20 million to do the systems work. That ball park figure would get refined, as we show in a bar chart on pages 33 and 34. Each major system effort would be in two major components, the PSD, or preliminary system design, and the installation and implementation of the system.

The preliminary system design is like an architect's drawing, and only after you have that design can you then have a really good estimate of what these individual systems' efforts would cost. But our best estimate at this time—it could be a little high and it could be a little low—would be \$20 million to do all the systems work.

The CHAIRMAN. I will yield to Senator Mathias.

INSUFFICIENT RECORDS FOR PUBLIC MONEY SPENT

Senator MATHIAS. Mr. Bowsher, I think there has been a considerable apprehension as we approach today that we are opening up a bucket of worms. As I have considered this whole topic, it looks to me as though what may be opened here is a much bigger bucket of worms than anybody ever imagined, not in terms of the District of Columbia but in terms of American cities in general.

We would like to think of the Nation's Capital as a prototype for all American cities. But I was extremely disturbed by an article which appeared in the Washington Post last month, which was entitled "Taxpayers' surprise." And in that article by William H. Jones it concluded that "an unpleasant surprise awaits taxpayers when they discover what the real facts of municipal finances are." And he referred to a study of financial reporting by 43 American cities.

In that article he also noted that almost 30 percent of the cities surveyed did not maintain sufficient records to account for public money spent on land, buildings, and equipment, and that only 60 percent of the cities have their financial statements audited by independent certified public accountants.

COMMON PROBLEM OF MANY AMERICAN CITIES

It would appear that this is a problem which is shared in common by many American cities and that it is a major problem.

Would you agree with that?

Mr. BOWSHER. Yes; I would, Senator.

This is, in fact, one of the reasons that our firm has made such an investment in this area in the last year—close to 2 years now—because we see this whole area of financial reporting and accounting on that in the public sector to be a very serious problem and one that is overhanging in our total economy with somewhat of a dark cloud.

Based on the survey you refer to—although I am not familiar with the details, but I read the same article that you did—and based on our experience, I am sure it is about right. There are many cities, many municipalities, many States, which need extensive work in their accounting areas—not all the liabilities are on the financial statements, that this pension area is a very serious thing. Pensions have not been reported many times. They have been reported in footnotes, which did not come anywhere close to fully explaining what the potential liability

was for the taxpayers and for the city. And I think that the District has many of these problems noted in that argument, but I would suspect there are many other cities and many States. Now, there are some cities and some States that have done a good job, who have moved ahead and have funded their pensions, have had independent audits, and have tried to record all the liabilities.

CONSOLIDATIONS

Another issue is consolidations. In other words, many of the cities and States are still issuing reports that are strictly on a fund-by-fund basis. Although the accountants, there are still going on in their debate with how much consolidation and in what fashion it should be done. I think that the investors and the taxpayers should know what the overall entity's financial position is, I think those are some of the things that will come before us in the next year or two.

Senator MATHIAS. But if this is true, if this is a prototype kind of situation—and really there ought to be intense interest, not only in the local District of Columbia metropolitan area, but throughout the Congress and throughout the country, in developing responsible, reliable systems in municipal accounting.

Mr. BOWSHER. Yes; that is correct. I could not agree more.

I might point out that even with the U.S. Government, the Secretary of the Treasury now has announced that he will issue consolidated financial statements for the Federal Government beginning with fiscal year 1977. And that really would be the first time that even the U.S. Government has ever issued such information.

DIFFERENT FROM OTHER CITIES

Senator MATHIAS. What do you find in the District situation is different from what be expected in other cities of comparable size?

Mr. BOWSHER. Well, I think the biggest difference is that it was a Federal city at one time, and many of the accounting systems go back to that period. Go back to when, as I often hear referred to as the old bureau system of the Federal Government, where each agency had their own records. Once a year they would send in a report to the Treasury. I do not think the investment has ever been made in the District to really bring it up to where it has municipality type accounting. I know the leaders—the Mayor and his top officials—are well aware of this.

They told me that from time to time that they have certainly wanted to do a review such as we did, so they know what kind of system they had inherited. They wanted to make this kind of investment, but because of other pressing problems and lack of funds—and of course, when we put a \$20 million price tag on these systems, that is a big amount of money—they have not been able to do that. But I think that is the biggest difference between the District. And the other is this is a historic Federal city which you would not run into in any other municipality or State.

Senator MATHIAS. So that is a unique quality?

Mr. BOWSHER. A very unique quality.

Senator MATHIAS. Now, this is a subject to which I have some personal and parochial interest. One of the weaknesses of Congress as an institution I think is that we struggle and strain over a given problem for a period of time. We complete the job, or at least think it is completed. We close the books on it and go on to the next problem, and we are never sure of whether the solution that we achieve is actually working out and practiced.

NELSEN COMMISSION REPORT

Is there any evidence that you observed that the situation changed in any respect to the District as a result of the Nelsen Commission work?

Mr. BOWSHER. Well, they instituted some systems' efforts after the Nelsen report. But I think they were greatly limited by not enough resources, not enough qualified personnel, and not enough budget dollars to do the job. I do not think that those efforts have come along to final solution as well as I am sure the Nelsen Commission was hoping for and I am sure the leadership of the District was hoping for. So I do not think the major systems recommendations have been accomplished.

Senator MATHIAS. In other words, the plain, simple fact is that the recommendations of the Commission were not adopted, by and large.

Mr. BOWSHER. Yes; not because they did not want to but because they had limitations.

Senator MATHIAS. The will to devote the resources to it just did not exist. And that might have been a stitch in time.

Mr. BOWSHER. Yes; I think that is right.

FINANCIAL INFORMATION NOT RELIABLE

Senator MATHIAS. Now, one of the concerning problems here—and of course, it is all a matter of concern—it is a matter of very genuine and real urgent concern over and above questions of accuracy in general—is your letter of transmittal that the financial information published by the District is not reliable. The District's annual report contains inaccurate and misleading information.

Now, I have to ask you whether you found any indication of intentional decisions to use misleading numbers at any point over the long period of time that your survey contemplates?

Mr. BOWSHER. No; we did not find any evidence of intention there.

What we found was that there was a requirement to produce an annual report 6 months after the yearend. A letter of closing instructions which was not sufficient to do the job was sent out to the various agencies, and the agencies responded to what they thought was the best of their ability, I am sure, and some agencies did not respond at all. And then in the central district accounting, they, you might say, closed up the books with the best information they had available and issued it. I think on pages 4 and 5 of the report you will see some of the problems outlined there in the receivable areas, in inventories, and in equipment, which indicate that last year's numbers were used rather than this year's numbers. One number dates back even to 1967.

And so, unfortunately, a set of financial statements went out that did not really reflect the financial condition of the District as of 1975.

Senator MATHIAS. But none of these inaccuracies that you talk about reflect an intent to coverup or to avoid personal responsibility or to deceive the public. Is that correct?

Mr. BOWSHER. Yes; we found no evidence of that. That is right.

Senator MATHIAS. Well, I think that is a very key fact to be established.

Mr. BOWSHER. I think it was more, unfortunately, a case of just producing the statements in what I call a clerical type fashion, using whatever was best available, and not thinking that this was going to be publicly relied upon. Therefore, the District should not accept that, the District has got to get the accurate information from all the agencies, and summarize it properly and report it properly.

Another problem with the annual report was that there was no narrative, no explanations of these omissions or these inaccuracies. If the reader had been on warning that not all the figures were accurate, that would have had some saving grace. But the fact that the 125-page document is just a series of reports and statements without those comments makes it unfortunate that it was issued in that fashion.

REORGANIZATIONS OF D.C. GOVERNMENT

Senator MATHIAS. As I look back over the last 10 years I can reflect on an unusual growth in the District's budget. Ten years ago the budget was about \$300 million and today it is more than triple that; it is over \$1 billion. And during that period of time there were several reorganizations of the District Government.

Would this period of rapid growth and the several reorganizations have affected the financial management system, in your judgment?

Mr. BOWSHER. Yes; I am sure it did, Senator.

Senator MATHIAS. I guess then what I have to imply from what you say is that those of us who had some responsibility during those years really did not give enough attention to this facet of the problem as it evolved both in size and in complexity. That this was a stepchild.

A \$1.5 BILLION ORGANIZATION

Mr. BOWSHER. Yes; I think this is so typical in the public sector that the financial management systems and the financial managements reports have not been given the emphasis. Really what you have here is not a \$1 billion operation but, \$1.5 billion, when you include all the Federal grants and all the covered organizations of the District. And a \$1.5 billion organization is a very large complex organization. Unless you have good financial management systems and procedures, and closing instructions at the end of each month and at the end of each year of how the financial information should flow from the agency up to central accounting and into these annual reports and things like that, it just is not going to come out, except in inadequate fashion. What was obvious to us as we did this review was that this area had been underinvested in over the years. Consequently, the District people are trying hard, but they just do not have enough training and experience in the financial management function to handle a \$1.5-billion operation.

ANALOGIES BETWEEN PRIVATE SECTOR AND PUBLIC SECTOR

Senator MATHIAS. I know that analogies between the private sector and the public sector tend to be dangerous and sometimes are misleading in themselves—but can you give us any idea of the amount of resource that would be devoted by, say, a corporation in the private sector that was doing \$1.5 billion annual operation—the amount of resources that they would invest in financial management as against what is invested in a typical American city with \$1.5 billion?

Mr. BOWSHER. I would say it is a factor two or three times more in total than what the average city or government organization invests. I can even remember some of the people I knew in the Federal Government, when they went into private practice and private economy in senior positions they always came back and told me that they were surprised and finally did understand some of the things that I was trying to preach about the importance of the financial management, the controllership function, being involved in these big decisions and having enough information.

I think another thing, too, you know, that you had the financial collapse in 1929, in the private sector, in the stock market. You had the Securities Acts of 1933 and 1934 passed by the Congress, and you had a great deal of improvement in the private sector financial reporting, financial management systems. They have to report within 45 days to the SEC at the close of their quarters. And so they have for 30 years been gearing up more and more and becoming more and more expert in things like that.

When those Securities Acts were passed quite a few organizations were exempt: The insurance companies, the banks, the railroads, and all municipalities. Over the years most of them have all been brought under that umbrella, except the public sector. Although there is legislation pending before the Congress today on some of these areas, those are some of the things that I think have forced the private sector to be much stronger in this area, and why governments tend to generally issue or put together their financial statements and just kind of file them away.

BUDGET DOMINATES FINANCIAL MANAGEMENT FUNCTION

One of the other problems I think, too, here in the District, and it is fairly common throughout Government, and that is that the budget so dominates the financial management function. There is great effort put into preparing the budget. There is a tremendous amount of time put in to meeting on the budget and justifying it. It is given to the press and widely distributed, but nobody ever looks at what happens at the end of the fiscal year. What is the financial condition of that organization at the end of the fiscal year? And, after all, these budget changes have been affected you might say.

I just think with the New York crisis that more and more the financial statements at the end of the year are going to be very important, and I think the District again does not have the capability at the present time, and needs more good people to be able to do that.

Senator MATHIAS. I want to yield to Senator Bartlett, but there is just one followup that we maybe ought to get in now.

REPORTING REQUIREMENTS

You refer to increased reporting requirements which have been laid on the private sector. Now we in Congress hear a great deal from the private sector that there is too heavy a reporting requirement, that it is called "redtape," it is called a "paperwork jungle." I have used some of those phrases myself.

Perhaps you are not the most objective witness to answer this question, but let me lay it on you anyway.

Do you think in your judgment that the private sector is more stable, and more reliable, and more profitable as a result of it?

Mr. BOWSHER. Let me answer it this way, Senator, and that is that I think what most of the business leaders are complaining about is all the special reports that all the different agencies today are starting to require, like the Federal Energy Administration, and all the various agencies that have been created in recent times. They are not complaining about the financial reporting at the end of the year that you have to give to stockholders and to the SEC as to where things stand. I think that has evolved to where it is in pretty good shape, and that the industry is not complaining about that.

Senator MATHIAS. Do you think that municipalities would gain greater stability and reliability if they had to do a similar basic level of accounting?

Mr. BOWSHER. Yes, I certainly do.

Senator MATHIAS. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bartlett.

Senator BARTLETT. Mr. Chairman, thank you.

Mr. Bowsher, you have given a very detailed analysis of the problem areas, but to go just a little bit further, I want to get on to another part of this with you.

PROBLEMS OF CONDUCTING AN AUDIT

Would you describe the problems of conducting the audits being their bookkeeping systems are inadequate, antiquated, and unworkable, or their staffs are understaffed, and perhaps not having expertise in certain areas, or both, and in what amounts?

Mr. BOWSHER. Yes.

Senator BARTLETT. And add to that one other question because I think it all ties somewhat together: Is a larger budget required for the accounting procedures of a city which, as you indicated, in private business does take place perhaps to a greater extent in the order of two or three businesses instead of maybe three or four?

Mr. BOWSHER. Well, let me take it point by point, and that is, on the bookkeeping, and the systems and procedures, there are many problems. This is one of the main ingredients as why they are having trouble. Go back to that illustration on the payroll, I think, is an illustration of the problems that they are having just from the fact that their systems and the procedures being a problem.

Another illustration, I think, is in the grant area. All cities and all States today have large grants from the Federal Government, and the accounting for those kinds of grants should be tied into the official accounting record just like appropriated fund activities. And yet here in the District—and this is true in other places—the grants ac-

counting is often done on a kind of memorandum basis and even by nonaccounting people, even sometimes by program people.

So the systems and procedures definitely are a major ingredient in the problem.

CANNOT RELY ON OFFICIAL RECORDS

Now the next question you asked is about the quality of the people, and the numbers of the people and the staffing, you might say, and this is another problem. Some of these agencies have some good people and quite a good number of them, but others are woefully weak. And then when you come to the budget question, I have to answer it in this way. That, unfortunately, when you do have these kinds of weaknesses, duplicate systems get developed, because you cannot rely upon the official records sometimes, or at least they perceive they cannot rely upon those official records. They start other types of accounting systems, and other types of memorandum records. Throughout the District you have a great number of people working on these kind of memorandum records trying to know where they stand.

We would think that, if you got a good central accounting system in, a good central payroll personnel system in, and that the proper information was being fed out from the central district accounting to the agencies and things like that, there would be savings in the number of people that are working on a lot of these duplicate records. But it is very hard to quantify at this time to whether it would increase or decrease in total. But I definitely want to recommend that the budget for the accounting function in the central area has to be increased if you are going to get the financial management area in shape.

Senator BARTLETT. Would that be a sizable increase, in your mind?

Mr. BOWSHER. It is probably going to need a number of positions, yes.

We have a recommended organization in this area. If you would like I could just show a chart and kind of talk to it by functional area, or we could do that later. Whatever you like.

Senator BARTLETT. I think it might be well to do that later.

Mr. BOWSHER. All right. Fine.

RECOGNIZE THE INADEQUACIES

Senator BARTLETT. Do the people in the accounting area, in other words, those responsible—even though I realize you are recommending it to be centralized—but are those who are in charge of whatever centralized efforts exist aware of the problems that you have outlined? And if so, have they made recommendations? Do they feel that the system is inadequate? Have they made recommendations to the City Council for changes and/or are they interested in following along roughly the lines that you have recommended?

Mr. BOWSHER. Yes; I believe they have from time to time. In our interviews with them they certainly did see many of the inadequacies that we have pointed out here. It was not that they debated them and said they were not having problems at all.

They do not agree with everything in our report but on balance there is a clear recognition of what those inadequacies are. They have made requests from time to time for these additional resources to correct some of these problems. For various reasons, sometimes at the City Council level or even here at the congressional level, some of these requests have been turned down. As I understand sometimes the feeling is that the plans have not been that well documented that the Council and Congress could support. I do not know what the answer is to that issue. But I think there is a recognition and there have been attempts to get the resources and do something about it.

DISTRICT HAS ECONOMIC PROBLEM

Senator BARTLETT. Mr. Bowsher, it is discouraging, of course, that these audits would not be possible until fiscal 1978. This is, of course, a little while in the future. But recognizing that you cannot give adequate answers and you cannot determine an audit at this time: Do you have any insights that you can pass on to this committee about the financial condition of the District?

Mr. BOWSHER. By "financial condition," you mean what?

Senator BARTLETT. Should there be economies made at the present time or should the financial condition of the city seem to you to be such that they cannot expand programs and conduct the programs they have now, or should recommendations be made for belt tightening?

Mr. BOWSHER. Yes.

Well I think, Senator, as they point out in their own 5-year forecast there that they have some real problems now and I think in the immediate future of supporting all of the services that they are performing with the level of revenue. They also have a situation with their property, assessed valuation has somewhat leveled off and declined slightly. And so the District, I think, does have an economic problem, much similar to some of the older cities, where they are surrounded by a ring of suburbs so that their growth, and population and everything is somewhat limited is a very limiting factor. So that I think it is all the more important to have this kind of information, to make the top allocation decisions that have to be made.

ACTION SHOULD BE TAKEN

Senator BARTLETT. The other report is the means to an end to determine just what the financial condition is, and that if it were not what it would desire to be to make the necessary changes. And certainly the audit report would include, I believe, a number of recommendations that should be done.

Should we wait until 1978 before this committee were to take action, or to make recommendations, or should we make recommendations now, or should the city take some economic steps toward economy?

Mr. BOWSHER. It definitely should not wait. I think actually there should be action now on this whole area. Taken both by the city—the District officials and the City Council—and the Congress.

Senator BARTLETT. Can you outline some of those areas?

Mr. BOWSHER. We have outlined here in our report, Senator, a plan of action literally for the next 3 years, and that is contained on some bar charts which, again, I could show.

Senator BARTLETT. Does that include economies?

Mr. BOWSHER. The economies you mean of operation and that?

Senator BARTLETT. Yes.

Mr. BOWSHER. No; we did not outline those. Ours was strictly a review of the financial management systems procedures like reporting and that.

Senator BARTLETT. Should this committee now, during this interim period, assuming that an audit would be made, try to make some recommendations or take some actions? In other words, I take it from your answer—maybe I am reading something in it that I should not—that there should be steps, economy steps, taken now. Is that correct?

Mr. BOWSHER. No. Maybe I answered that wrong, Senator.

We do not in our report recommend specific economy steps.

Senator BARTLETT. I understand that.

Mr. BOWSHER. Yes.

Senator BARTLETT. But do you think that economy steps should be taken now during this interim period and beyond?

Mr. BOWSHER. I think a review of economy actions should take place at all times.

Senator BARTLETT. All right.

SUGGESTIONS ON ECONOMIES

Now would you have any suggestions to make as to what economies might be made?

Mr. BOWSHER. Well, no. The difficulty I have is I believe that you need these good systems. And once you have them and once you have the information flowing on a monthly basis then I think the District officials would have a much better basis to be making them and I think their reporting to the Congress, to the City Council, could be such that it would be much more apparent to everybody as to where things stand.

Senator BARTLETT. And are you saying then that you do not think that this committee should or could make recommendations of economy moves or the city officials could or should reduce services in certain areas?

Mr. BOWSHER. No.

What we are saying is that we did not as far as our review look at program areas which we would then recommend any reductions in economies. And I know you do that as part of the budget process, and we would encourage you to continue, but we, as professional experts, did not do that type of review here.

Senator BARTLETT. But in your review did you learn anything about the operation? I think you told me earlier that you thought that there were financial problems facing the city and they think so also.

Mr. BOWSHER. Yes.

Senator BARTLETT. Therefore, I would think that this committee should proceed in that direction. Does the City Council have control over all the expenditures that are made for the services of the city?

Mr. BOWSHER. No, Senator.

Senator BARTLETT. Where do they not?

Mr. BOWSHER. Well, in the Federal grant area, which is a very large area. In some of the revolving funds I think they get looked at but they do not have quite the same degree of control over it.

I think that is another point that we have raised in here. That some of the areas which in the average municipality, like your water billing and your water department, should be on an enterprise fund type basis much as the private utility would be. And so once I think that you could get some of these reformatted why then I think that the Mayor, and the City Council and the Congress would have much better information on those types of operations and could then judge the economy much better.

HIGHER EDUCATION

Senator BARTLETT. Does the City Council have full control over the expenditures on higher education?

Mr. BOWSHER. My colleague, Mr. Edwards, will answer that?

Mr. EDWARDS. Senator, that is one of the troublesome areas in control of the city. As you know, there is a consolidation of the universities in process right now. A literal interpretation of the legislation, which I believe was passed by the City Council, would lead one to reasonably conclude that there is a great deal of autonomy in higher education. Certainly, from the standpoint of the city as an entity, that type of legislation should be put in the context of whether the city will move toward greater decentralization and individual areas of independence, if you will, or whether the city ought to as a matter of policy maintain a very central control. The universities is one where, as I say strictly as a layman reading the legislation, it would appear that the trustees of the University of the District of Columbia would have much higher autonomy of operation than, for example, the head of various District agencies and departments now have.

EXPENDITURES OF CITY FUNDS

Senator BARTLETT. Do you or Mr. Bowsher believe in the general operating policies of a prudent city management that it is important for the City Council to have full control of its expenditures of the city funds that go into their budget?

Mr. EDWARDS. I think it is a matter of principle if you are going to charge the Mayor and City Council with the responsibility for spending the money then it would seem to me it should follow that they would have some degree of authority as to how the money is to be spent. Again, that is a judgment really that is beyond the scope of the survey, and it is probably a more personal view than one of a professional accountant.

RECOMMENDATIONS

Senator BARTLETT. I understand. I appreciate very much your survey on recommendations and I certainly believe in outside audits. So I find myself in general support of what you are recommending. But there is also certain frustration that exists because of the time it will take and the appearances of problems that exist today. And I think that this committee in its deliberations would be derelict if it did not delve into these in a deliberate and proper way to see what recommendations should be made, what policies should be changed right away, rather than waiting perhaps until a later point where it could be done more reasonably. But certainly, I think there are obvious economies that

could be made if there is a need to make them, or obviously control can be formulated if there is a need to do that. I think we should go into that, as well as whether we need an audit.

Let me ask you, Mr. Bows her, just another general principle on management of government.

BUDGET BALANCING STATUTE

As you know, many States have a budget balancing statute—the State of Oklahoma has one—in which it is virtually impossible for the State to go bankrupt or for the State to find itself in at least serious financial arrears or in serious financial condition.

Do you believe that the large cities, such as the District of Columbia, should adopt a statute similar to that?

Mr. BOWSHER. I believe, Senator, I always did until I had my experience in New York City, and it did have that same kind of a statute on the books.

Senator BARTLETT. No; they did not have the same kind that Oklahoma had because I think they were even able to treat a balanced budget in a different way, which was to borrow money which could not be done.

Mr. BOWSHER. That is correct. I am not familiar with the Oklahoma one in detail. I was just going to make the point that you are making, sir, and that is that if properly designed and constructed I think it is a good feature. But you have got to be very careful. Like in the New York situation, they went to the budget techniques and to funding techniques that really circumvented, or came awful close to circumventing, the spirit of that principle. That was one reason I think they ended up in a great deal of trouble.

Senator BARTLETT. I realize my time is up, but if on that question you could answer the question that if the proper safeguards were provided, as they are in the States with which I am familiar, where there cannot be a circumventing of an intent of a balanced budget, then do you think this would be a good and prudent policy for cities such as the District of Columbia?

Mr. BOWSHER. Yes; I think it is one thing that should be given great consideration.

Senator BARTLETT. Thank you, Mr. Bows her.

Mr. BOWSHER. On your one question there, Senator, I do not think we were giving you a very good answer, and I apologize for it.

STRONGER CENTRALIZED ARRANGEMENT FUNCTION

I would like to point out that throughout our report I think one of the things we were aiming at is that we tend to much more centralize control recommendations. In other words: A stronger centralized financial management function; a stronger, very modern central payroll personnel system; and a central accounting system, so that the Mayor and the City Council have more control over this financial management function than historically has been the case in the District.

I do not believe I was answering your question as well as I should have.

Senator MATHIAS. Mr. Chairman, would you let me make an observation at this point?

FEDERAL PAYMENT

We are talking about a balanced budget for the District and the requirement of a balanced budget, which I think I view very sympathetically, but we would then have to do one other thing it seems to me, and that is we would have to predetermine what the Federal payment is going to be because that comes to the unique character.

Mr. BOWSHER. That is the unique character in the swing fashion.

Senator MATHIAS. And we would really have to do what we do with the payments for impacting schools, for example, or deal with it as many school districts do. We would have to predetermine or budget a year behind the actual receipt of the payment so that you would know with certainty what the size of the Federal payment is going to be. And I think that is an area in which Congress bears an enormous responsibility in the District's uncertain financial picture.

Unless they know what that is going to be—and, for instance, we have just acted on the 1976 District of Columbia budget, which is chaotic in terms of making any kind of certain budget arrangement.

Mr. BOWSHER. Right.

Senator BARTLETT. Mr. Chairman, if I could just comment briefly.

I think the Senator from Maryland made a very important point. And certainly in the case of the District this has much more impact in the Federal role than it does in other cities. But in city and State governments—having been in State government I know the problems that arise in the Federal matching funds or revenue sharing will not continue as in these budgets—but there is a difference in most city operations that they then have to change their budgets and the Federal Government does not come through, as anticipated, or as hoped for, whichever the case may be. But I think the Senator singled out an extremely important point that should be uppermost in the minds of the Congress in dealing with this problem—particularly for the District.

Mr. BOWSHER. Yes.

I might point out that this is an area that we did not do any work on so we cannot advise you with that.

I would like to point out one other thing in Senator Bartlett's question, and that is that when we talk about fiscal 1978 we are not saving wait until 1978. Our first step is to improve the controls and the procedures of the present system. In other words, we think a task force should be put in and get that done just as quick as possible. So we are urging immediate action to cure a lot of things that can be cured without the big systems.

NEW YORK

The CHAIRMAN. Mr. Bowsher, in the latter part of Senator Bartlett's questioning he made reference to New York, and in your introduction it was pointed out that Arthur Anderson & Co. is the accounting consultant to the Secretary of the Treasury, Mr. Simon, with respect to the New York matter.

If New York had been keeping their books according to generally accepted accounting principles, and if they had been making accurate

annual reports, in your opinion, could the New York crisis have gotten to the extent it did this year?

Mr. BOWSHER. I think if New York had been keeping its books as you described, Senator, and been reporting a financial statement that people could read rather than these two-inch thick annual reports which are issued, I think that everybody would have been on much better notice that these financial problems and this financial crisis was coming. Now whether the leadership would have taken the necessary action, that I do not know. But there is no question in my mind. And even after they were in the crisis, they could not tell how big the financial problem was for many, many months.

The CHAIRMAN. At least one part of the public would have been on notice. Would not the investing public in New York City—securities, bonds, paper, et cetera—been on notice? Would not Salomon Bros. have been on notice, and Lehman Bros.?

Mr. BOWSHER. Much more than they were. There is no question.

The CHAIRMAN. One other question and then I am going to start going through the report with you, and just in essence asking you for further elaboration of portions of the report.

WHAT WE WOULD BE GETTING FOR VALUE RECEIVED

You are one of the largest accounting firms in the world, I presume. You have made recommendations that in the next 2 or 3 years would call for the expenditure of \$20 million. How do we know that this is not just the CPA Relief Act that you are talking about? That this is not a boondoggle that is going to enhance or enrich the CPA firms? What are we going to get for value received? Is the city going to be any better off? Are we going to be any better off in terms of being able to judge city projects or is this just a nice thing to keep a lot of CPA's busy for 3 or 4 years?

Mr. BOWSHER. No. We are pretty busy as it is, Senator.

There is no question that there probably will be extensive fees paid to CPA firms on a project like this, but I think it is a case that the city or any large organization needs adequate financial information, not only for the investors and not only for the public at the end of the fiscal year, but all through the year, on a month-by-month basis. One of the things we have got in our report is an illustrative set of financial and operating reports for people's consideration.

Now, what would you have at the end of the investment period here of \$20 million in these systems? You would have a set of systems that would put the District in the forefront of the municipalities or any organization in this country. In other words, their financial management systems would rank with the best in the country. And what then you would have is, hopefully, the information coming out, as I said, by department, by program, by special project area, which would allow the decisionmakers to make the kind of decisions that they are forced to make every day with adequate financial information. But you cannot guarantee that the right decisions would be made, but you would at least know that they have the information from a financial point of view, and from a cost point of view, that is necessary.

The CHAIRMAN. I think that is a very satisfactory answer, but I am going to ask it in yet another context.

IMPROVED EFFICIENCY

The cost of all this work is going to be somewhere in the neighborhood of \$20 million. After all the work is done and all the new systems are in place, can we assume that we will get at least \$20 million worth of improved efficiency?

Mr. BOWSHER. Yes. When you look at some of the problems we have listed—with these receivables, and the lack of control over some of the billings, and the reimbursements, and some of the grants—I would think that you would get prospectively \$20 million over a period of time, and it is hard to judge what the payback period would be.

I think another thing, too, that historically has been true of organizations that have made an investment in these areas—and this is very true of large organizations like insurance companies, banks, and other Government agencies—is you start to get more of a lid on your expenses out into the future. In other words, if you took away the modern computer systems today from the insurance companies, the banks, and the large organizations that have actually installed them successfully, and tried to do things manually again, or with old systems that they had 10 or 15 years ago—which is what the District is trying to do in many areas—you would see a great number of employees more on their payroll than are there today. And yet they probably have as many employees as they had 10 or 15 years ago when they put those systems in. So it kind of starts to level out that growth of the continued adding to staff and things like that that you have to have without this kind of an investment.

The CHAIRMAN. All right.

Now, I am going to start going through the report, and I will yield at the end of my timeslot, and then we will get back to the report. So that everyone can follow, I will cite what page number I am referring to from time to time so you can follow along, and perhaps others who have copies of the report can do likewise.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Page 2, the phrase “generally accepted accounting principles”—and I have used that a time or two in my questioning—what are “generally accepted accounting principles”?

Mr. BOWSHER. I am going to let my audit partner, Bert Edwards, reply to that, Mr. Chairman.

Mr. EDWARDS. Senator, “generally accepted accounting principles.” of course, necessarily are different for different types of organizations and have developed over a period of time as proper reporting techniques and proper accounting procedures have been developed.

With respect to the District of Columbia, the District ought to be reporting under the generally accepted accounting procedures and principles which the American Institute of CPA's, of which all CPA's with our firm are members, have developed. I believe your staff has some familiarity with a publication which the American Institute of CPA's has put out, entitled “Audits of State and Local Government Units.”

This publication came out several years ago as a result of the increasing concern of financial reporting in the public sector which, as Chuck

Bowsher has pointed out, somewhat trailed the development in the private sector and some of the other types of organizations such as insurance companies, banks, and so forth. This publication represents at this point the best thinking of our profession as to how municipal financial statements ought to be.

For example, in reference to the point that Senator Bartlett made, one of the criteria for reporting in your general fund or your regular governmental operations is a comparison of the actual results versus the budgeted results so that mayors, city councils, State legislatures, Congress, or whoever that would have control on an oversight basis could see how the actual result compared with the plan that was established at the beginning of the year and perhaps modified during the year. There are a number of other principles which are set forth in this guide that are somewhat different than you would expect, let us say, in a steel company or so forth. But there is a well-developed body of knowledge of accounting principles which we believe the District in its financial reports in the future ought to be following in terms of producing an annual report similar to this green report which I think you probably have seen.

ANNUAL REPORT MISLEADING

The CHAIRMAN. Is it fair and accurate to say that that green report that you just held up is totally useless; and perhaps even more than that, misleading?

Mr. EDWARDS. Well, it certainly lacks many of the standard types of financial disclosures that are recommended in the industry audit guide and which would be certainly recommended by any firm that would be auditing the District. For example, the area of pension disclosures—and we summarized that on pages 8 and 9 of our report—the information lacking is truly staggering when compared—we are talking about a city of \$1½ billion in revenues, and we have maybe a third of that as pension expense which is being incurred by the city. As you know from the report, by the Federal Government as well, that is not being reflected in the financial statements and has not been a matter of deliberation by the City Council, OMB, or the Congress. It is a type of an expense that has just gone on basically unknown.

The CHAIRMAN. If you were the head of a pension fund or any kind of a mutual fund or any kind of an investing group, would you want to rely on that green report in terms of making an intelligent investment?

Mr. EDWARDS. I do not believe that the types of decisions that a person who would be investing funds in—for example, bonds—would want to rely on that green book. No, sir.

Mr. BOWSHER. Senator, if I could just add something, and that is one of the things that the District wants to avoid and should avoid is the problem that the New York comptroller was faced with last year when he had to add a sentence to his annual report and to his letter which said, "The above principles, practices, and systems are now being changed fundamentally as part of a broad program of fiscal reform." That makes the investor and the people who have been relying upon statements in the past feel like they have been somewhat cheated.

The CHAIRMAN. And in all candor whenever the District gets around to issuing its financial report for 1976 they are going to have to add some such statement similar to that, are they not?

Mr. BOWSHER. Well, I think they are going to have to disclose what were the problems here and what some of the missing areas are that they will probably not have in the 1976 report, that is correct.

INACCURATE AMOUNTS INCLUDED IN REPORT

The CHAIRMAN. At the bottom page 3, "We were informed that District personnel responsible for preparing the 1975 annual report had reason to believe that inaccurate amounts were being included."

You were asked, I think, by Senator Mathias about that statement. You are not saying that there was criminal fraud involved or wanton and willful intention to deceive, but there were individuals that helped contribute to what is contained in this green report that frankly knew what was in that report was inaccurate.

Mr. BOWSHER. Yes, that is correct, Senator.

The CHAIRMAN. All right.

Let us go on to pages 4 and 5. In your illustrations on those pages you use certain rather specific accounting terms. And I think it might be helpful to us if you would explain them for the record such terms as "accounts receivable."

ACCOUNTS RECEIVABLE

Mr. EDWARDS. Senator, "accounts receivable," simply stated, is a term which would represent revenues or moneys due the District which the District has not yet received in cash. This might be billings for patient services in the hospital and neighborhood health clinics, it would be billings for water and sewer services rendered to residents of the District which have not yet been collected by the District, it would represent taxes assessed but not yet paid by the taxpayer, and a variety of similar types of moneys owed the District. Another major area, of course, would be in the whole area of grant programs where the various District agencies have rendered service in accordance with the legislation in the grant application but have not yet formalized those services in an official billing to the respective granting agency.

The CHAIRMAN. Mr. Bowsheer, earlier on in your testimony you stated that if all things worked on a good solid schedule you could have an audit by fiscal 1978, you could even have a balance sheet audit by fiscal 1977. You said there would be one qualifier though, except property.

PROPERTY

Now tell me, first of all, why that exception would have to be part of any statement, and distinguish for me, if there is a distinction, between property and the words "inventories and equipment" as they are found on page 4.

Mr. BOWSHER. I will let Bert Edwards answer that, Mr. Chairman.

The CHAIRMAN. All right.

Mr. EDWARDS. Senator, the property item is one on the bar charts on page 34. You will note that we have suggested that the city implement a system for accounting for its equipment, which would be desks,

chairs, calculators, computers, and that type of item, and its real property. From the standpoint of urgency, however, we believe that real property is certainly not going to be subject to the types of problems, for example, misappropriation, actually even abstraction by employees or others that some of these other areas would. And so we suggest that that probably be given a lesser degree of urgency than, for example, the situation which Cliff Cox described earlier with respect to payroll where there is a very urgent situation there to get the kinds of controls in place so that the individual employees of the District get properly charged to the right cost center. So, in effect, what we would be saying in the qualification of property is that while numbers would be reported, the District records themselves would probably not be susceptible to audit verification so that we could render an opinion on them. And, of course, we would recommend that the District lay out a program so that over a period of time that could be corrected as well. But we do not see that as a problem of urgency as some of the other problems that we have laid out in our report and that is the reason for the statement that you referred to on the exception.

CLOSING PROCEDURES

The CHAIRMAN. Page 5, "closing procedures." Tell me in layman's terms what closing procedures are and why they are important. Why would they be important to me and Senator Bartlett on this committee or would be important to the City Council or to Mayor Washington?

Mr. BOWSHER. Yes.

Mr. Chairman, if you have a small organization like a manufacturing company where the office is in front of the plant, why you can get the books closed up and issue financial statements pretty much telling people what to do while they are in your one operation. But when you are talking about a very large organization, whether in the private sector or in the public sector where you have multiagencies far flung around here and there, you have got to send out a set of closing instructions that tell them how to cut off the receivables, how to take the inventories, how to price the inventories, and how to get that information sent in to central accounting. And then the central accounting has got to understand how they are going to summarize this information and then present it in financial statements.

Now, the District's closing instructions were only about two pages long and were very inadequate to do the job. We have illustrations here from other cities, other organizations, and there are many, many pages in detail because it takes a great deal of planning, and instruction and training—and this is one of the other things we are recommending begin soon here. To do that kind of training and instructions so that you can get a closing schedule and a set of closing instructions that would allow the agency to send up their information to central accounting and then, in turn, to get it into the financial statement.

The CHAIRMAN. I yield at this time to Senator Bartlett.

Senator BARTLETT. Mr. Chairman, thank you very much.

PROBLEMS OF MANAGEMENT POLICY AND ADMINISTRATION

Mr. Bowsher, going back somewhat to the area which I was bringing up before, I would like to ask this. Besides the financial problems, did

you note problems of management policy and administration, generally, that need to be changed?

Mr. BOWSER. Well, we did not do a review of the management organization or the management policies. But in doing our review as we did on the financial management area, I think that some of the things that are noted here in the welfare area, let us say, in other words, one thing we commend very much is the effort they have going on right now to review all the cases. They are finding that 2 out of 3 recipients are either ineligible or getting an erroneous amount, and we think that like some of the management policy considerations that have to be considered in a situation like that is what kind of systems and procedures do you need up at the front end literally to try to reduce this kind of an error rate? Do you need this kind of a postaudit function going on continuously? And so some of these types of areas have been noted in our report.

Senator BARTLETT. I am sure that you are aware of the sharp increase in employment in the District government compared with the national average and of other figures that would compare with New York City. Based on that knowledge, again outside the report, but based on your experience with city governments, would you think it prudent for this committee to conduct a detailed and thorough management and policy study of the administration of the government of the District?

Mr. BOWSER. Yes; I see nothing wrong with moving ahead on a program like that.

Senator BARTLETT. Well besides seeing nothing wrong: Would you think that that is just as important to start immediately as it is to do the audit?

Mr. BOWSER. Well, I think to get the operations efficiently and to have a good management organization and everything like that is every bit as important as the financial management in the system.

WHY AUDIT WOULD COST \$20 MILLION

Senator BARTLETT. Before I get back to page 59, Mr. Bowser, would you outline for the chairman, and for me and the committee just what would be involved in the audit so that I would have a little bit better feel of why it would cost \$20 million? I guess I have difficulty in seeing why it would cost that much. I would appreciate having the information as to why it would cost, say, more than \$1 million.

Mr. BOWSER. Yes.

Well let me point out, Senator, that the \$20 million is for all the systems work. I would like to show that on two charts if I could. And that the audit is not the \$20 million. For the audit, our best estimate is we believe that the 1978 audit could be done for \$11½ million which was in the original Diggs bill, and we think that figure would be adequate. And we think the balance sheet audit would run maybe somewhere around \$1 million. So the audits are much less than this \$20 million. The \$20 million is a one-time investment in systems and procedures.

And if I could show the charts.

Senator BARTLETT. Yes; would the chairman mind?

The CHAIRMAN. Please proceed.

Senator BARTLETT. Proceed right with that.

Yes; I wish you would give a detailed response on that because I think it is important.

Mr. BOWSHER. Fine.

Over here on the left-hand side is the—and this is shown on page 33 and 34 of the report, so if anyone else wants to follow in the report, on the left-hand side and on page 33, what you have here is the systems and the procedures that we think are necessary to get to where you could do an audit. And if you notice the last step, step No. 9, is conducting the annual audit.

Now step No. 1 is where you actually implement immediate improvements in your financial control in such areas as payroll, hospital billing, water and sewer billing, and financial reporting areas. And this could be started immediately.

Then the next one is this area of improving procedures and implementing the training program. And that would be like in the closing procedures in training the people in the various agencies to how to close up their set of books and get the information in to District accounting, and how to eliminate some of those errors that Cliff Cox described in the payroll area.

Then No. 3 is the establishing of a systems organization and project management which would keep tabs on all these systems efforts, not only shown on the first chart but on the second chart, because with these computerized systems the District and any organization that goes into them is making a significant investment, and you want to see periodically how the program is going. And so you want to use what we call systems management techniques that check how these programs are going on a milestone-type basis.

WATER DEPARTMENT BILLING

Now I think, unfortunately, the District has a classic example at the moment of a water billing system in the Department of Environmental Services where there were some real problems developed in a major system, and they, unfortunately, now have great problems as a result of that.

So step No. 3 is to watch over all these systems so that kind of a systems just does not happen.

Senator BARTLETT. Let me break into that testimony because we have to get to it anyway.

Mr. BOWSHER. Yes.

Senator BARTLETT. Describe in a little greater detail the systems breakdown in the water department. Now this goes to how the District can collect money from the water users. If the system doesn't work you do not collect too well. Explain that, would you?

Mr. BOWSHER. Yes.

I am going to have Lou Herremans, our partner from our Detroit office who did the work in this area, explain that to you, Senator.

Mr. HERREMANS. Well, Mr. Chairman, the Department of Environmental Services attempted to implement a customer billing system for the water and sewer customers, and it converted to this new computerized system starting in May 1975. After issuing the first set of bills it

found that these were in error because it did not adequately plan the computer process which was being billed. As a result, DES deferred billing. And in May 1976 issued bills for 18 months.

Now the heart of the problem was that the development of the computerized system did not adequately take into consideration the need of the Department of Environmental Services for the type of information that had to be built into that system. As a result, DES was unable to continue the plan of billing the customers using the computerized system. It had to go back to utilizing the manual systems to get those bills out. It is currently under a tremendous workload as a result of trying to continue that billing operation, and that system at this time is not able to take over the billing operation for the water and sewer usage.

The CHAIRMAN. So we do not know for sure how much the customers owe the city for water bills at the present time.

Mr. HERREMANS. During the course of this billing, this problem of issuing the bills for 18 months, there was a great deal of activity in the department, and as a result some controls which DES intended to be in place over the number of customers' bills and the amount of money that was outstanding were not kept up. DES was just in a flurry of trying to get the bills out. As a result, we do not know if all the customers are regularly paying their bills or if all the customers are not.

Senator BARTLETT. Mr. Chairman, I might just comment that an 18-month water bill would be quite a blow to the family budget, and I think it also would be quite a blow to the dissipated revenues of the city budget.

Mr. BOWSHER. That is correct, Senator.

RECOMMENDED STEPS

Then if we would look at step No. 4, this would be actually finalized in the financial reporting requirements of the District. We can highlight here with a few charts as to what that would be in just a few minutes.

Step No. 5 would assist in determining the financial reports for fiscal year 1976 and 1977. What that step means is the annual report here kind of assists the District people in getting the right statements in there, the right footnotes, the right formats, on their financial reports.

Step number 6 would be the yearend closing procedures which we have described here previously.

And then you come to steps numbered 7 and 8 which are the two big systems that have to be implemented to get the control that you need, I think, to do the annual audit, and get ready, and that is your central financial management information system, and then your central payroll personnel system.

And then step number 9 is the audit.

SYSTEMS THAT ARE NECESSARY

Now if we go over to the second chart which is shown on page 34 you will see the systems that we believe are necessary to get good financial management in the District but are more agency oriented.

In other words, here we are talking about a water and sewerage billing system. We are talking about the purchasing and material management, equipment and inventory system, the real property system, the welfare payment controls, the human resources eligibility payment and reporting system, the health care billing system, and the last one is the traffic ticket system.

So this is what you are spending \$20 million for, plus the audit, which is, as I pointed out, \$1 million in 1977 and \$1½ million we think would be the amount for fiscal 1978.

Senator BARTLETT. I think my time, Mr. Chairman, is probably up.

The CHAIRMAN. Well we took a lot of your time, Senator Bartlett, because of these charts. And I will not charge that to you if you have got some other pressing matters here.

Mr. BOWSHER. Right.

OUTPUT FROM THE SYSTEMS

If you would like to, Senator, we could go through now, we have just a few more on the financial reporting which would be the output from some of these systems.

The CHAIRMAN. Let us do that because of the logic of the problem.

Mr. BOWSHER. Yes, let us do that.

I am going to ask Will Archie from our New York office to make this presentation.

Mr. ARCHIE. Senator, we have outlined in volume 8 of our report our ideas regarding the financial reporting of the District in six different areas. What we have attempted to do here and what we have reflected in volume 1 are just an illustrative report to highlight three of these reporting areas.

The CHAIRMAN. What pages are you talking about in the executive summary of volume 1?

Mr. ARCHIE. In volume 1 this begins section VI.

The one report that you see here on the left is currently on page 58 of volume 1.

RESPONSIBILITY CONCEPT

There are three areas that we would like to illustrate here that pertain to organizational reporting, which are those reports that should exist that reflect the expenditures and the revenues, where appropriate, associated with the various organizational units within the District.

These reports incorporate what we call a responsibility concept or accountability reporting concept which says that various individuals must be designated as being responsible for certain revenues and expenditures, that information must be provided to those individuals that allow them to monitor these responsibilities, and that information be reported to them only at the level of details necessary for them to achieve the management objectives.

One of the reports here, if I can go right into some of these, the report that you see on the left, which is shown on page 58, is illustrative of a report that we would see going to the Mayor and, if so designated, perhaps to the members of the City Council, and also to Congress.

What this report shows are the revenues and expenditures by the major agencies that report directly to the Mayor. Information would

be shown in terms of the current month as compared to a predefined budget and any differences from that budget would be noted as you can see there.

We also show information on a current year-to-date basis which says that if we are 10 months into the fiscal year we would show revenues and expenditures actual versus planned for that 10-month period.

The right-hand side report would show some information concerning the annual budget. The balance in that budget plus, as far as expenditures are concerned, would show any outstanding obligations as of the end of the reporting month.

These reporting concepts currently do not exist within the District. There are some monthly reporting but not to the extent of bringing this information together in a format that we think is useful, and also in terms of summarizing for the various management levels within the District.

The organization chart that you see on the right-hand side is an illustrative organization chart within the District. And what we have done, and again for purely illustrative purposes, we have selected the Department of Human Resources.

The boxes that are shown in the darker lines represent those organizational units that we have included as illustrative reports in volume 8.

What is important here, too, is this concept of accountability reporting. And as you might note there the Director of the Department of Human Resources, for example, would be very much interested in the financial status of those organizational units that report directly to him, such as community health and hospitals, assistance of the administration, and so forth. Therefore, that individual should receive management information geared particularly toward his needs.

Again, currently the information on the reports now are very detailed level of reports. They are not summarized up so that each level of management can readily access that data and determine the status of each of the organizational units reporting to them.

The report on the left now, which is on page 61 of volume 1, illustrates three of those reports. As you will recall—if I can ask you to flip back to page 58—looking at the report that would go to the Mayor, you will see a one-line entry that summarizes on the bottom sheet the revenues for the Department of Human Resources, and on the top sheet it summarizes the expenses for the Department of Human Resources. Now that is a one-line entry that would be shown for the Mayor's purpose, and perhaps the City Council and Congress. Supporting that, of course, would be detailed reports for each of those organization units, such as the Department of Human Resources. These illustrations of three of those reports are shown on page 61 for the Department of Human Resources, the Community Health and Hospitals Administration, and for District of Columbia General Hospital.

MONITORING PROGRAM ACTIVITIES

The same concepts that we talked about for organizational reporting would likewise be in place for monitoring these program activities of the District. You would, of course, want to stay on top of both revenues and expenditures associated with each program.

What we have shown on the righthand side here and also shown on page 61 of volume 1, is an illustrative programmatic organizational chart. For example, the human resources area again might consist of a number of major programs, four of which we have shown here, one of which is the financial assistance program. That financial assistance program again might be made up of a number of different programs, one of which would be the AFDC program.

Included, again in volume 8, are illustrative reports that each program manager might receive that would give him or her a monthly status report as to revenues to be received, or grant funds to be received for that program, and also planned versus actual expenditures regarding that program. This would allow a current status of each program to be supplied to each level of management.

On the left-hand side and shown on page 64 of volume 1 are examples of three of these program reports. The numbers there sort of follow the numbers and the arrows on 64 would indicate how each lower level program in terms of revenues and expenditures would be summarized up to each higher level program. For example, AFDC, the manager of that program would receive data giving him the status of each program that makes up AFDC.

PROJECT GRANT REPORTING

The last area that we illustrated reports there in volume 1 is one of project grant reporting. The illustration that we have shown on page 66 is for project reporting which will allow perhaps a project manager to monitor not only how each individual capital project is going on in the District but would also summarize information so that perhaps the head of the recreation department would get a one- or two-page summary showing the status of each capital project being undertaken by that department.

I think what is important here, although we have illustrated the project accounting concept, this same concept would be used for grants which are much more important as regarding the District. We would use these concepts to report on revenues that were reimbursed that should have been received for each grant program, likewise, we would be monitoring grant expenditures.

BUDGET SCORE CARD

The CHAIRMAN. Mr. Bowsher, are you familiar with a document that is made available to the Members of the Senate—we call it the "Budget Score Card"—which periodically attempts to tell us where we stand.

Mr. BOWSHER. Yes; I am.

The CHAIRMAN. Are we in black ink or red ink? Are we overspending here, underspending there?

Could a rough analogy be made to this that this would on a month-by-month basis or whatever period, give the Mayor, the Council, and the Congress some idea of where the District is on expenditures and receipts?

Mr. BOWSHER. That is right, Senator, it could be done.

One of the things we have in volume 8, which Will Archie does not have in these charts, is the exception reporting, which we have illustrated for the Mayor. All of this could be programed right in and shown on a timely and periodic basis.

The CHAIRMAN. I have cut you off, Senator Bartlett, and you are entitled to more time.

Senator BARTLETT. I am much obliged.

On this point I have just a couple of more questions I think.

ACCURATE LOOK AT SMALLEST OF ENTITIES

The controls you have outlined here would give you a good accurate look at the smallest of departments, the smallest of entities. So wherever there happened to be a problem this would, hopefully, identify that problem immediately within a few months of when a situation became critical or became of concern. Is that correct?

Mr. ARCHIE. That is correct.

Senator BARTLETT. This information would be available just as the chairman said to the City Council, the Mayor, to the Congress, and the general public. It would also be available to the supervisors; would it not, between the City Council and perhaps a small entity of government, who would be in a position to take action directly?

Mr. ARCHIE. Yes; I think that is one of the things which would be done would be, of course, the following of the exact distribution of each of the reports to interested parties.

SYSTEMS ANALYSIS

Senator BARTLETT. Mr. Bowsler, going back to the systems analysis: Am I correct that this study that you are talking about actually would take place over a 3½-year period?

Mr. BOWSHER. That is correct, Senator. The systems work would be about a 3½-year period.

Senator BARTLETT. Do you have a flow chart showing the number of people who would be under your direction engaged in this work during that 3½-year period?

RECOMMEND CHOOSING AUDITING FIRM EARLY

Mr. BOWSHER. No; we do not, Senator, because there will be more than one firm involved in doing this work. What we recommend is that the auditing firm be chosen early on so that much of the work on these controls and procedures can be improved immediately, and the central accounting and the payroll be done by this one firm. But then the projects on page 34 on these individual systems would probably be done by several firms. And only as you went to each one would you develop the information that you are requesting at this time, Senator. But it would be a large number of people. There is no question about that.

MANPOWER COST

Senator BARTLETT. Turning back to the \$20 million: Are you looking upon that estimated cost as an estimate of bids that would be made or would this be done on a per diem basis? It would seem to me

that you are talking about almost 100 percent manpower cost doing the study.

Mr. BOWSHER. Yes; that is correct.

Senator BARTLETT. And it would seem to me for this committee to have a rather accurate idea of what was going to be involved manpowerwise we would need a flow chart to show the approximate number of people.

Mr. BOWSHER. Yes; we can certainly explain that for the record, Senator. It is an approximate number of man-days and it is based on a per diem basis, on what we expected and on a competitively bid basis.

Senator BARTLETT. Pardon?

Mr. BOWSHER. It was based on a per diem basis, and a man-hour estimate and total, and we can give you some kind of a flow chart and provide that to you.

HEARING TO DETERMINE DIRECTION

Senator BARTLETT. Mr. Chairman, if I can make a very brief statement. I will be here for another 30 minutes and want to hear more explanation. But I would say I am very impressed with the detailed work that has been submitted to us, and certainly I favor proceeding on some basis to have an accurate audit made, and to be in a position to have an accurate audit made and to have the systems analysis that will enable that to take place. But it appears to me that this committee should also consider as soon as it can and perhaps have hearings to determine just what steps should be taken in a management study of administrative and policy procedures that could be also undertaken right away so that there could be efficiencies in the operation gained both from an administrative point of view and from a policy point of view in the operation of the city government.

MANAGEMENT AND POLICY STRIKE FORCE

I just happened to introduce last week some legislation affecting the Federal Government in this area that follows the success of some 26 States in studies that were done in the latter part of the sixties and the early seventies.

It started in the State of Ohio, and it was done in the larger States of Pennsylvania and in California—that brought about savings of 5 percent of the operating budget. So the successes were rather significant. And we happened to do this in the State of Oklahoma and achieved a success of about 5 percent.

Some of the States called us a little Hoover Commission; some of them called us Government task forces or strike forces and so forth. But I would hope that we could discuss this to see if there could be a hearing on this to determine what direction we might go in; not necessarily the direction of the legislation that I did introduce, but I would like to have a chance to show that as a guide for achieving some very quick savings. It is a kind of study that is different from any other study made. It has unique approaches that have made it the most effective studies, at least in State government—and it has been done in city governments many times—most effectively with

the best results. It has a unique approach wherein the press are very much involved in weekly reports for actions that can be taken administratively, and can be done while the study is going on. So when the study is completed, a lot of the suggestions have already been administratively put into effect.

I will provide to the committee a copy of an article that is in a recent Reader's Digest about the summary of the 26 States' studies which shows the success at the State government level. I think this would be very appropo to a large city in a rather somewhat similar problem area.

But I again want to compliment Mr. Bowsher, and I also particularly want to thank the chairman of the committee for his actions in moving in this direction.

[The Reader's Digest article follows:]

THEY'RE TRIMMING THE FAT FROM STATE GOVERNMENT

Working without fanfare, volunteer teams of businessmen are finding ways to reduce the costs of their state governments and at the same time provide public services more efficiently. Savings to date: an estimated \$5.5 billion

(By Trevor Armbrister)

By December 1974, Wisconsin's Division of Motor Vehicles (DMV) was disastrously behind in its work, and citizen complaints were mounting. It took eight weeks to process auto-title registrations—with a backlog of more than 50,000. Gov. Patrick J. Lucey decided to call for help from the business community. Allen A. Sieczkowski, a 28-year-old budget manager for the J. C. Penney Co. in Milwaukee, accepted the challenge.

Studying procedures at the DMV main office in Madison, Sieczkowski found administrative disorder and a crying need for modernization: "They had buried themselves under a mountain of red tape." Drawing on his own experience, the young businessman recommended solutions. There were far too many steps in the processing; cut some of them out. Applications were processed manually; a computer could do the work more efficiently. Job assignments should be more clearly defined; DMV employees agreed. By December 1975, the office work load had been substantially reduced, the backlog had disappeared, and processing time had been slashed to ten days.

Quietly, without fanfare, businessmen all across America are volunteering their skills to help state governments cut costs and perform more efficiently. The names of these programs, and their accomplishments, vary from state to state. Yet, over the past dozen years, they've saved taxpayers an estimated \$5.5 billion. The contribution has been costly to the firms which pay the salaries of businessmen spending time away from their own jobs. But by helping state governments function more smoothly, they've created a healthier business climate, and that in the long run has been a more than adequate reward. As Dr. Richard L. Leshner, president of the U.S. Chamber of Commerce, stresses, "Businessmen have a big stake in helping governments get along on less."

Better way.—The 1960s witnessed a disturbing, accelerating trend all across the United States. While state populations increased only slightly—most by less than 15 percent—state payrolls ballooned. Government at the state and local level became one of the fastest growing "industries" in the country and, as demands for services multiplied, expenditures began climbing out of sight. Raising taxes provided only temporary relief.

When James A. Rhodes took office as governor of Ohio in 1963, the state, despite increased taxes, had unpaid bills of more than \$100 million. Unemployment was high and rising rapidly; corporations were moving out of state. What was needed was a total reorganization of Ohio's state government.

State finance director Richard Krabach remembered how a blue-ribbon commission headed by former President Herbert Hoover had once probed the federal government's efficiency. Couldn't similar security be directed at state government? Krabach consulted with Hoover in New York, then sought further advice from Warren J. King, president of Warren King and Associates, a Chicago-based

consulting firm. Quickly, the two men drew up ground rules: It would not suffice to "borrow" executives one or two days a week. They would have to recruit the best talent in the state, on a full-time volunteer basis, until the job was done. Governor Rhodes enthusiastically issued an executive order establishing the Council for the Reorganization of Ohio State Government.

At a meeting of the top executives of two dozen Ohio firms, Krabach called for volunteers. "We're not looking for checkbook patriotism. What we want from your companies is talent. And not just anyone; we need the people you can't spare."

"Who do you want from me?" asked Alfred S. Glossbrenner, then president of Youngstown Sheet & Tube Company.

"Howard Bishop, your chief industrial engineer."

With Bishop as their chairman, 94 Ohio businessmen studied every department of state government. Three months later, they presented 511 recommendations—to save Ohio taxpayers \$50 million a year. Reforms included abolition of specific jobs, such as that of the employee whose duty it was to measure the depth of the Toledo-Cincinnati canal—which had been closed for 63 years. Other recommendations called for application of modern business techniques, and even consolidation of whole overlapping agencies. Rhodes implemented nearly 75 percent of the recommendations. Actual annual savings were \$60 million—or \$10 million above the estimate—and for the next five years Ohio led the United States in its rate of industrial growth.

Cost-cutters at work.—Encouraged, consultant King took the idea to other states' chief executives. In 1965, Gov. Dan Evans of Washington agreed to give the concept a try. Ninety of that state's top business executives hammered out a report with 670 recommendations. Two-thirds of these were implemented, to save some \$20 million per year. Oklahoma businessmen suggested 399 ways to streamline their state's government; 250 of them were okayed, for annual savings of \$15 million.

Then, in 1967, Gov. Ronald Reagan of California asked King to coordinate a study in his state. The 252 "loaned executives," divided into seven teams, weighed in with 2000 suggestions. These enabled Reagan to cut spending by \$175 million a year.

By 1976, some 20 states had asked King to coordinate management reviews of their governments. More than 1,500 businessmen had participated. They offered 14,500 suggestions which could, if put into action, save taxpayers a monster \$4.8 billion. (Encouragingly, a large number of those suggestions came from state employees themselves.) Meanwhile, other states—including Missouri, Minnesota and Wisconsin—had instituted programs of their own, and savings there over the years had run into the hundreds of millions.

In almost every state, cost-cutters discovered that government could become more efficient by:

Restructuring agencies to provide services more efficiently.—During the 1960s, West Virginia's welfare rolls had increased dramatically. Thus, when Gov. Arch A. Moore, Jr., took office in 1969, one of his first acts was to ask state businessmen for recommendations to "help bust the welfare cycle." Accepting their suggestions, he merged the state's Welfare and Employment Security departments. He expedited welfare applications by reducing the number of offices—county, district and state—through which they had to make their way, and by installing computer terminals in the county offices.

Moore added refinements of his own. At his instigation, West Virginia became the first state to require that recipients, if able to work, accept appropriate employment. Before, 14,000 welfare fathers had received benefits. Today fewer than 1,000 do. Recipients used to average 20 months on the rolls. Today they average seven. The six-week processing time for new applications has been cut to one. Savings thus far: \$60 million. Between 1970 and 1974, the nation's welfare rolls increased by 36.2 percent; in West Virginia, the rolls dropped by 32.4 percent.

Reorganizations and consolidations haven't been limited to welfare departments. Inspired by businessmen's recommendations, Florida is working on the development of a "one-stop" automotive services system to replace its 690 locations for such services as driver's licenses, vehicle inspection, license-plate sales, and processing of titles.

In Connecticut, alarmed by the high cost of maintenance at state buildings in Hartford, businessmen discovered that a private firm would do the job for one-third the price. The saving: \$760,000 per year.

Insisting on tighter money management.—In Minnesota, members of Gov. Wendell Anderson's volunteer task force found that it took Revenue Department employees an average of 4.5 days to process each incoming check. By depositing checks the day they arrived, the department could reap additional interest of nearly \$700,000 per year. In New Jersey, businessmen recommended saving \$1.5 million by reducing the amount the state kept in checking accounts and investing the money in securities. Another \$4 million could be realized simply by improving the investment portfolio of state pension funds.

Stopping unnecessary purchasing.—Almost everywhere, businessmen have found, states are buying items they don't need, paying more than they should, and keeping excessive supplies in inventory. Simply by purchasing compact cars instead of standard-size vehicles, businessmen discovered, North Carolina could save \$265,000 per year. In Ohio, businessmen learned that one state hospital had bought enough sugar to last it for 16 years.

In Minnesota, executives found that the highway department had enough supplies for 18 months. Their recommendation: keep on hand only enough for three to four months. The department agreed. The \$5 million that had formerly been funneled into excess inventory every year was poured instead into concrete, asphalt and blacktop. Result: the state has been able to continue its highway construction program, while some states—because of reduced gasoline-tax revenues and heavy inflation—have had to shut down their programs.

Charging users fees for state services.—Copies of birth certificates, professional licenses, driving permits—the list of services that citizens expect from state government is varied and long. Often, states don't charge enough to defray the costs. Ever since 1927, for example, New Jersey had charged a constant \$5 fee for issuing teaching certificates—though in the interim teachers' salaries had increased by 700 percent, and the Department of Education was losing money. The businessmen's suggestion: raise the certificate fee to \$20, and glean an additional \$600,000 per year.

In Alabama, the Governor's Cost Control Survey discovered that the Alcoholic Beverage Control Board was spending \$75 to process each annual license renewal for retail beer outlets, but charging just \$10. Raise the fee, the businessmen said. (This has not yet been done, as of this writing.) In Iowa, executives concluded that the state could earn \$1.4 million by increasing its charges for hunting and fishing licenses and boat registrations. (This was one of the minor recommendations by a blue-ribbon Economy Committee, which has helped Gov. Robert D. Ray cut taxes, expand services, and establish a substantial surplus in the state treasury.)

Facing fiscal reality.—The mere establishment of a businessmen's task force is, of course, no panacea for the problems that plague state government. Without a determination by the governor to recruit the best talent available, without his firm commitment to implement as many of the recommendations as possible, without follow-through by the businessmen themselves, the effort can fail. Some suggestions may prove impracticable: legislatures may stall others for reasons of their own. Yet, in all but a few of the states which have attempted to improve their management functions, the result has been more efficient, more economical government. And that is what taxpayers want.

Recently, Ohio and Pennsylvania invited businessmen back to study their operations for a second time. One executive involved in the Pennsylvania study—Otto Ehrsam of Bethlehem Steel—was visiting a correctional facility with other members of his team. Invited for lunch, they discovered to their surprise that they did not have to pay. Checking further, they discovered that the state provided free meals to 2700 correctional-bureau employees every day. Annual cost: \$745,000. "We decided that this ought to stop," Ehrsam recalls. "We said that there should be no such thing as a free lunch in state government."

DO NOT WANT TO WAIT

The CHAIRMAN. I think the point from the Senator from Oklahoma, Mr. Bartlett, is well taken. The point I believe he is trying to emphasize is that what Mr. Bowsher and his associates have testified to is a 3-year or 4-year plan to get the books and records of the District government up to snuff so that the information the Council is getting, the Mayor is getting, and the Congress is getting is accurate information.

But Senator Bartlett says, and I agree with him, "We do not want to wait 3 or 4 years while all of this fine work is being done before considering whether there are inefficiencies, waste, and imprudent expenditures of public moneys."

PAYROLL OF 55,000 EMPLOYEES

I have indicated to Mayor Washington and to the members of the Council my personal disenchantment with the existence of a District of Columbia payroll of 55,000 employees. When you add it all up—everything on the D.C. payroll, including schools and Metro—it is 55,000 employees, an incredibly high figure. I have urged Mayor Washington to prune that figure down. That urging has not been successful to date. But this committee holds the ultimate weapon—I will be reluctant to use it, but I, for one, will use it. I will not support one additional dime of the Federal payment to the District of Columbia until that payroll is pruned. Now, that could be stringent and tough, but I see that we have no choice but to do it.

NEW YORK CRISIS

I still follow the New York saga pretty close. Even though New York City is committed to a 3-year plan of getting on a balanced budget basis, to date in this calendar year 1976, they have done very, very little. The way that plan is playing out, all the great cuts are going to have to be made in the third year and will not work. In fact, I never thought the 3-year plan would work anyway. I thought it was a pie-in-the-sky promise that never could be achieved. But nevertheless, as it has progressed in New York in the calendar year of 1976, we know it will not work.

Senator BARTLETT. I think also their proposed economy budget counted on certain actions by the State government and the Federal Government to take over city functions which have not been agreed to by either the State government or the city government.

MANAGEMENT AND POLICY STRIKE FORCE

I might just add that the proposal that I have submitted to Congress as far as the Federal Government is concerned, that I mentioned here, as a vehicle to make a management and policy strike force study of the District of Columbia, is one that does use a consulting firm. In our State, for example, the consulting firm had one full-time and one part-time employee assigned for a 6-month period of study of the State government, but we had 54 volunteers at no expense to the State. I would assume there would be expenses but not salary expenses involved in this one.

People who have no ax to grind and people who have no vested interest in city government, but who are made available from colleges, as individuals, and from business to bring about economies. This has worked very effectively in a number of States. It is a most inexpensive and most effective kind of study. So I hope we will have a chance sometime later, Mr. Chairman, to present this along with other approaches to improve management of the government of the District of Columbia.

I thank the chairman.

The CHAIRMAN. Senator Mathias?

Senator MATHIAS. Mr. Chairman, I have just one brief line of questioning at this time.

LIMITATIONS OF THE SYSTEM

We have talked about what this program of new fiscal management might do. I think we ought to discuss for a couple of minutes what it will not do.

For instance, last night the Washington Star had a story by James Barron in which the GAO report on District of Columbia schools was commented on. The reaction of the school system was that it was an accountant's view of how to teach children, and that a child's education and training really cannot be measured or judged or programed by an accountant.

And, of course, this again reflects some of the larger problems that the Federal Government has in dealing with the programs in which it participates in the area of scientific research, health care, and other human resource areas.

So I suppose what I really want to ask Mr. Bowsheer is how his program for restructuring the financial management system will address the issue of quality of public service?

As I said in my opening statement, I think you have two phases here, one in which you provide yourself with a system for getting reliable facts. Then you have to assume that policymakers are going to use those facts in devising better policies. But maybe we ought to see the limitations of what we are doing here because I think that reflects on what Senator Bartlett has just been commenting on.

Mr. BOWSHER. Yes, Senator, I think it is a very good point.

What we are talking about here with our plan, and one that was recommended, is a financial audit in basically financial management systems. So what you are going to get is the cost information, the financial information, how you are doing against the budget. But we are not holding these systems out as the ones that would be used to determine the quality of the education program. Our audit is a financial audit. The GAO audits, the audits of the municipal auditor, and internal auditors are what is known as management and operations type audits. Those would be separate and different from what we are laying out here. There is no question that you do not know what the decisionmakers and the leaders of any organization would do given good information. You hope that it would improve the decisionmaking system of making these decisions, but again it is no guarantee. So those are the limitations.

I would like for Bob Kelley, who is at the end of the table here, who has installed these types of systems in several States to comment on your question, Senator.

Mr. KELLEY. There is no question that the quality of the programs delivered is certainly an intangible factor. What we are recommending is to get our hands on what is tangible, in the dollars associated with delivery of the services. The program reports that we have placed up here have associated some units of measure of service, delivery of service, so that we can correlate those tangible factors with dollars,

because in the final analysis the program effectiveness would also be addressed in the financial reports system.

Senator MATHIAS. But you are not proposing a substitution of the policymakers discretion for the accountants' rigid rules of detailing information.

Mr. BOWSHER. Absolutely not.

Senator MATHIAS. I think that is a concern that some people have.

Mr. BOWSHER. Yes; it is a concern.

Senator MATHIAS. I think there is a misconception about this.

NOT PROPOSING A SUBSTITUTION FOR THE POLICYMAKER

Mr. BOWSHER. Yes. And we are not in any way proposing a substitution for that policymaker or decisionmaker.

Senator MATHIAS. In questions on education, health services, and the other human social services that Government must offer today, that these are subject to the human judgments of elected officials, and to peer review. The other supplementary and complementary system of analysis that would be added would be the accountants' cold hard facts.

Mr. BOWSHER. That is correct.

I think another way to look at this, Senator—and it is a very good area to look at—is the Comptroller General's recent efforts in trying to determine the financial, efficiency, and effectiveness of programs. In other words, he wants to look and he wants his people to evaluate Government programs in those three major viewpoints. Our systems here would definitely be a big assist in the financial area. Then in efficiency, as Bob Kelley has pointed out, if you can get some units of measure agreed to by the program people as to this is what should be accomplished, lots of times you can tie that into your financial reporting, and get some things reported like that. The effectiveness, of course, then is much more subjective, and again goes to the discipline of that program area, whether it be in an education field or in a health field or anything like that.

So I think what the Comptroller General is trying to do is very consistent with what this is, but it does not do it all. But it is a first and a very key step. You cannot hardly do the other two if you do not get the financial data and the cost associated with the programs properly.

Senator MATHIAS. That is right.

It also sets the perimeters for you. An educator might envision an ideal school, and an ideal ratio of teacher to pupil, and an ideal material condition of the school buildings and all the rest of it. But without the facts as to what you actually have to invest you may not be able to make the practical decisions that have any bearing on what is ultimately going to happen to your children.

Mr. BOWSHER. That is correct, Senator.

Senator MATHIAS. Thank you.

PENSION EXPENSE

The CHAIRMAN. Page 8, Mr. Bowsher, in the middle of the page. "If the District properly calculated its pension expense for police-

men, firemen, teachers and judges, pension expense for fiscal 1976 would be approximately \$266 million instead of the \$56 million reported as the estimated appropriation in the multiyear plan following the unacceptable 'pay-as-you-go' method," or the difference between those two figures, \$210 million.

Could you describe how these amounts are calculated, and why is it necessary to record these amounts if the actual amounts currently due are much less?

Mr. EDWARDS. Senator, I am going to have Gerry Bass, who is with our Washington office and who is largely responsible for this work, go through that for you.

Mr. BASS. Mr. Chairman, the pay-as-you-go method which is presently being used by the District really does not match the services that are being provided with the costs assumed by the taxpayers today.

What that is going to do in the future is raise the percentage that has to be paid out as a percentage of the cost of salaries and the taxpayer will have to provide the extra dollars paid for the service that is being performed today. So what generally accepted accounting principles attempt to do is match these services with the cost of the services that are being performed. The calculations which we have made to estimate this cost is based on actuarial studies which were done by the District. What that entails was the calculation of the normal cost an actuary will compute. The normal cost, for instance, of the police and fire plan is 54 percent of salaries. That normal cost should be funded on a current basis today.

In addition to the normal cost, we have the unfunded liabilities. You are aware that the District is trying to get Congress to fund that at the current time. That is \$1.7 billion. That \$1.7 billion should be amortized up to 30 years. To come up with that kind of a ratio that adds approximately another 50 percent of current payroll cost.

Now, in addition, there is another economic number that has to be added to that cost, and that is the interest on the unfunded liability. The actuarial calculation of normal cost is based on the theory that there is a fund being provided, and that fund should be earning interest. Currently the District does not have that invested fund. There is an interest factor that has to be added to that liability on a year-to-year basis, and that was approximately 75 to 80 percent of salaries for policemen and firemen.

So, in total, that is what makes up the differences. We do not have a calculation in detail in volume 9 on page 36.

The CHAIRMAN. So that the finger of blame is not pointed to the District as being the sole sinner: Would not the same general precepts to which you have just testified apply to the Federal Government insofar as its civil service retirement system and the military retirement system of the Defense Department?

Mr. BASS. Yes, it does. But the Civil Service statutory funding on that is based on no inflation which says that should be about 14 percent of salaries. But, in effect, it is much greater than that, and we calculated that as roughly 77 percent. There is a tremendous unfunded liability also for the Civil Service that really needs to be disclosed.

The CHAIRMAN. Yes.

Are there other cities and States that you have either done work in or are aware of where they have a large and burgeoning unfunded liability in their pension systems?

Mr. BASS. Yes. I did not personally work on the New York study, but in the New York study we found that it, too, had funding based on law which was unsatisfactory as far as the funding should have been.

NEW YORK PENSION OBLIGATIONS

The CHAIRMAN. I will ask this of Mr. Bowsher because he is our New York expert.

New York which is the classic example of a city that has just gone crazy insofar as its expenses are concerned. Even in New York the system is partially funded. That is, the policemen and the sanitation workers are funded. And it is out of the moneys of those systems that they have been making loans to bail out New York City. Incredible. It must be in violation of the prudent man rule. They have got a lot of Wall Street lawyers that say it is prudent, but it has got to be in violation of it. But, nevertheless, New York is at least partially funding their system, whereas in the District of Columbia they are totally unfunded except for a tiny amount for the teachers.

Tell us about New York, Mr. Bowsher, so far as unfunded pension obligations are concerned.

Mr. BOWSHER. You are absolutely right, Senator, that one of the biggest financial problems facing the New York situation is this pension problem. Although it has funded a good portion, it was using out-of-date assumptions on mortality rates and things like that. It had built up to them so that the liability was much greater.

UNDERREPORTING OF PENSION LIABILITIES

You are also correct in that probably if you had to pick one single thing, that the municipalities and the States are underreporting as far as to their taxpayers, to their own employees, is this liability in the pension area that is building year after year. They are understating the expense on their financial reports. Some are doing a better job than others. But just take the public sector or the government sector, there is just no question I think that the biggest single financial problem facing them all is in this pension area.

The CHAIRMAN. Would this be a fair generalization, especially for the older cities to which we referred to, by the year 2000, unless some steps are taken immediately in some of these older cities that there is really a financial time bomb ticking away, where if left unattended by the year either 1990 or 2000, financial disaster is on the horizon?

Mr. BOWSHER. We have not done a detailed study in this area, but our general impression is very similar to yours.

INTEREST LOSS

The CHAIRMAN. Could you explain for us what interest will be lost if the District does not put its surplus cash in an interest bearing account?

Mr. BOWSHER. Yes, Senator. This is somewhat complicated, and we have used a hypothetical situation in there because at the present time and for a number of years here the District has had you might say an interest-free line of credit at the Treasury of \$40 million. So unless the District borrows over that \$40 million it is not costing them interest money.

But at the same time it has to be recognized that somebody is paying the cost of that money. In other words, the Federal budget, let us say, is picking up the cost of that money.

Now I think the important thing to keep in mind is that the District is phasing out this reliance on the U.S. Treasury and soon will be handling—in fact, there is legislation on the books—its own cash investments and its own cash management. And at that time it will be like any other municipality, that when it has excess funds, it will be able to invest it, and when it is in a position where they do not have excess funds it will have to borrow. So we are just pointing out here that a situation like this where you have a deferral of somewhere around \$6 million that you truly have quite an interest cost that follows.

DUPLICATE PROCESSING

The CHAIRMAN. The next paragraph on the same page 11, "Duplicate processing of cash receipts is required, since the new computer system was not designed to accommodate the inclusion of outstanding customer balances."

Put that in a little more laymanlike language for me, will you, please?

Mr. BOWSHER. I would like Lou Herremans to respond to that. He was the one who worked on this area.

COMPLETE SYSTEMS

Mr. HERREMANS. Senator, this goes back to the computerized billing system which was installed. In fact, the District was trying to post the cash that was received for those customer bills against the computerized system. Because of the problems of the design of that system, it also had to post those cash receipts manually or by hand ledger that existed in the Department of Environmental Services. So at that point we will have to make efforts to attempt to try to get the cash posted so that we could get the next set of bills out.

The CHAIRMAN. To me, as a layman, I take it that whatever computer system was installed was a woefully deficient system.

Mr. HERREMANS. That is correct.

The CHAIRMAN. Well, why did they install such a woefully deficient system? Was there common knowledge around amongst the sophisticates of computers that a better system could have been installed?

Mr. HERREMANS. Well, of course, I was not here when it was installed, but we did do a review of that system. Our thinking was that it did lack a lot of the requirements that we, as a firm, would require be placed in the system. I think it was done without a lot of communications between the system designers and the needs of the Department of Environmental Service.

The CHAIRMAN. One of the costs in this \$20 million then is to develop a new workable and meaningful system?

Mr. HERREMANS. That is correct.

The CHAIRMAN. Senator Bartlett?

Senator BARTLETT. Mr. Chairman, these last two points you made are points that came out in the study that I referred to earlier that was made in the State of Oklahoma in 1959. We happened to call it the Management Study of State Government. But we happened to find out that moneys, revenues in the bank, would have gone on the various accounts of the State but were not in very many instances drawing interest, and the interest that they were drawing was a very low interest rate compared to the normal interest rate, and that they were not the procedures of buying CD's over the weekends, which a number of States do.

So we were able, both by increasing the interest earned on State money deposited in State banks—Federal and State banks—and by reducing the amount of money not drawing interest, and by other procedures—and we did not make our system as perfect or as good as we wanted—but we increased very sharply the revenues of the State that way. I would assume that this is part of what you are talking about here.

The other point on the computers: We found that every department wanted its own computer or computer system. They did not want to share a computer with anybody else. And I found out in the process of all this that even IBM with the computers they need in dealing with their own operations, that they have trouble getting people to share time on a computer. But I would just guess that if the District was anything like the government of the State of Oklahoma several years ago, and apparently still is today, that there was an awful lot of excess capacity. That they were not the computer systems designed to really do the job that needed to be done. And there were great improvements made as a result of this management study. I am glad that your study does include this because obviously this is something that needs to be taken care of right away rather than wait. So I am glad that this is one thing that is not being waited upon to take action.

Mr. BOWSHER. That is correct, Senator. And that is one of the areas, the computer area, that we would spend a great deal of time on if the plan was to go forward.

The CHAIRMAN. At that point, let me read into the record because it bears on Senator Bartlett's comments, page 25, the first paragraph—

The computerized payroll system is more than 5 years old, and consists of over 300 separate computer programs, and does not operate efficiently.

I take it that figure "300" is a very, very high figure. So comment on that, please.

Mr. Cox. Senator, in our experience on payroll systems such as the District has, it should need no more than 20 to 30 separate computer programs—computer programs being separate acts of instructions to the computer. The 300 programs indicate that this is very inefficient. The net effect of that is that a great deal of resources are needed to process the data and it is very difficult to control a system with that many programs. So you have a double effect, one of control, to make sure you are accurate, and, second, one of resources because of the great deal of programs used.

The CHAIRMAN. Mr. Bowsher, do you want to continue that?

Mr. BOWSHER. No; I have nothing to add, Senator.

FEDERAL GRANT PROGRAMS

The CHAIRMAN. All right.

Page 14, "Lack of control over Federal grant programs."

In your discussion of the lack of controls over the Federal grant programs you list a series of examples. Did you total the amount of revenue lost in these examples where the District government failed to receive moneys from the Federal Government that were due?

Mr. BOWSHER. No; we did not total it up, Mr. Chairman. What we did was look for certain illustrations, and we have highlighted them here. I think it would possibly run into several million dollars but we did not total them.

The CHAIRMAN. I see.

But the ones you do mention are for illustrative purposes, but that is by no means a total or a complete list.

Mr. BOWSHER. Yes, sir, that is correct.

PUBLIC ASSISTANCE PAYMENTS

The CHAIRMAN. Page 17, at the bottom of the page. We are talking about "Erroneous public assistance payments." On the bottom line on page 17 it says—

However, the District's error rate is substantially higher than the national average.

Is this perhaps because the District has been more diligent in tracking down these erroneous payments or what do you have to say?

Mr. BOWSHER. I would like Chuck Storm, who heads our State and local practice, to answer that question.

Mr. STORM. There are several ways to look at national averages, Senator. The District of Columbia is a highly urban area, and you would expect its average to be higher than one of, say, North or South Dakota where you have a lot of people scattered over a large area.

The CHAIRMAN. I am a layman again.

North or South Dakota should have a higher or a lower error rate?

Mr. STORM. Lower. They would have a much lower error rate. That is right.

They would probably fall within the limits of the 3 to 5 percent that the Federal Government has established. And we would expect that the highly urban areas would be more like 25 to 30 percent.

The CHAIRMAN. All right.

Now is the District's error rate substantially higher than the national average? Do you have any comparative statistics for the District's error rate versus other metropolitan areas of a size similar to Detroit or New Orleans?

Mr. STORM. If I remember correctly, the Federal Government was saying that the New York error rate was about 15 to 18 percent.

The Chairman. And what is the District's?

Mr. BOWSHER. The District's, in their own findings, are somewhere around 66 percent.

The CHAIRMAN. Sixty-six percent error rate?

Mr. BOWSHER. Yes.

The CHAIRMAN. Is that what it is?

Mr. BOWSHER. Yes.

The CHAIRMAN. And New York's is 18 percent?

Mr. STORM. I am calling back on my memory, but I believe that is correct.

The CHAIRMAN. Well, there were a whole series of revelations on New York in which at least the people in New York thought that was an incredibly high error rate.

Mr. BOWSER. Yes; but one thing is certain, Mr. Chairman, that has got to be pointed out, that in this area of welfare, lots of times the more prudent the city or the State is that is going after their own error rate—and I think that the District here should be complimented on its own effort that they are presently embarked on of reviewing all of their cases.

The CHAIRMAN. Well, I want to compliment them, but we have no choice in the matter.

Mr. BOWSER. It is a high error rate.

I guess the one thing I want to point out is that they are finding that error rate themselves at that high level. I am not sure that if some of the other States were to make a comprehensive review of their caseloads, that theirs would not be higher than what their average reported is now.

The CHAIRMAN. Well, I think that is very fair.

DATA PROCESSING

The top paragraph on page 27 says, "These are serious weaknesses in light of the fact that the two computers located in this facility, Metropolitan Police and SHARE, process highly sensitive law enforcement, accounting, and financial information."

I think we discussed that earlier. We are dealing, of course, with data processing to secure the backup of that processing. At least it has just been pointed out that the responsible individuals in charge of this have taken administrative action, too.

Mr. STORM. We talked with the man who heads the computer system, Senator, and he told us he was going to buy locks, and he was going to put in the security system. And, in fact, we did see him remove some unauthorized people from the computer room at that time.

The CHAIRMAN. This is not some distant theory or kind of a concept, but an enormous amount of important information is contained on computers, and in the interest of both fairness and privacy, they have to be made very secure from outsiders or even insiders who have no need to know, misusing that information.

Mr. STORM. That is correct.

The CHAIRMAN. And in the private sector, do not corporations go to great lengths to protect the security of their computerized system? Is that not true?

Mr. STORM. That is true; yes.

SYSTEMS APPROACHES

The CHAIRMAN. Page 31, and we are talking here about "System Development Efforts in Process," right?

And you say near the top of page 31, at the bottom of that paragraph, "That the present systems development activities should be redirected."

Would you indicate what you think about the present systems approaches used by the District of Columbia and why they will not solve the problem?

Mr. BOWSHER. Yes. I would like Bob Kelley, who handles this, to talk on that.

Mr. KELLEY. Mr. Chairman, in reference to our observations, we have seen that statement. Those were some of the more salient points that we saw as we analyzed this current process.

One of the redirections should be to place more emphasis on the accounting type data. But the present effort is primarily concentrated on the appropriation and allotment control. We think that one of the primary shortcomings in the present effort is due to the fact that there have been limited resources committed to the development of a new system. These resources have been committed as a result of previous studies; however, they have never been fully funded for the amount of effort it would take to actually design these systems and implement these systems.

Mr. BOWSHER. One thing, too, I would like to point out, Mr. Chairman, and that is that it is awfully important if it is decided to go forward in programs that you were recommending, that the commitment be a steady commitment, and the resources and the funds be provided throughout the 3-plus years that it will probably take to do the job.

In other words, nothing hurts the modern computerized systems efforts more than to get the money and the funding and the resources to begin them but not to get them in the second year or things like that. So I think that has been one of the problems that District officials have faced, is that there have been some start-and-stop efforts in funding and support of some of their programs, and I would hope that those problems and errors in the past would not be repeated here if it is decided to go forward with the program.

The CHAIRMAN. I think that is a valid point. There is no way we can do it on the cheap and say, well, let us not buy that whole \$20 million; let us buy \$2 or \$3 million, and that will cure everything. That would only be fooling ourselves and the public.

Mr. BOWSHER. I think that is correct, Mr. Chairman.

TRAINING OF PERSONNEL

The CHAIRMAN. What does your plan of action consist of in this area? Do you include any provisions for training of District of Columbia personnel? What do we do about that?

Mr. BOWSHER. Oh, very much.

The CHAIRMAN. In your computer systems, what do we do about having the right number of trained people to use them?

Mr. BOWSHER. Right, We believe a great deal in training. We have learned over the years, as I am sure all the other major CPA firms and consulting firms have learned, that if you do not get the employees of your client properly trained and you do not have adequate numbers of people and I think in the Government a grade structure that will attract a quality of people that you need, you cannot get the system done in a way it has to be done, and it cannot survive after it is once implemented.

So our step 2, if you remember on our bar chart here, is training, and it is a major effort and would have to be a major effort here in the District.

The CHAIRMAN. Now, that training effort, is that included in the \$20 million budget?

Mr. BOWSHER. Yes; it is, Mr. Chairman.

PROPOSED REORGANIZATION

The CHAIRMAN. Let us skip to page 52 because I think it bears on this cost and so forth of that proposed reorganization, Director of Financial Management, that would be a new position, I take it.

Mr. BOWSHER. That is correct, Mr. Chairman.

The CHAIRMAN. Now, there is the Mayor and the Director of Financial Management. Down on the next line, there are five positions there. Two of which the District now has, I take it. They do have a Director of Financial Planning and Budget.

Mr. BOWSHER. That is correct.

The CHAIRMAN. They also have a Director of Revenues. The other ones are Comptroller, the Director of Cash Management, and the Director of Data Processing; those would be the positions.

Mr. BOWSHER. Yes, sir.

DIRECTOR OF FINANCIAL MANAGEMENT

The CHAIRMAN. In the private sector of a large corporation, what would be the salary of the Director of Financial Management?

Mr. BOWSHER. Well, in a \$1 billion corporation, it would be at least \$100,000.

The CHAIRMAN. Well, what do we do in the light of the political realities that there will be no \$100,000 salary assigned to that? How do we accommodate that? Charts are nice to look at. See all the lines going up there. They look good. How do we make that chart live?

Mr. BOWSHER. Yes; it is a very good question and a tough question, but many organizations in the Government arena have achieved it. It is not easy. In other words, you have got to attract somebody of exceptional ability, background, and experience to come work for the District at \$40,000. It is very similar to the Federal Government where all of the Presidential appointees have to come in here and work at \$38,000-\$40,000. It is the same problem and it is not easy. But I would hope, and we believe that we have seen enough other Government agencies that successfully have attracted a person of competence and experience and ability that would come in and fill these positions. But it will not be easy because of that salary limitation.

The CHAIRMAN. Some individual presumably may be with a private corporation and this corporation will almost loan him to the District for a couple of years; or some very talented guy who is getting to the age of retirement, perhaps in a private corporation, has great skills, et cetera, that could be used in this capacity.

Mr. BOWSHER. Yes; those are two possible answers and I think there is also the third and that is some District officials today are younger but are just willing to put in a period of time in public service and are

willing to take pay cuts but to put in a 2- to 4- or 5-year period and some have stayed longer. Some have given great distinguished service to their Government in this area.

BREAKDOWN ON THE \$20 MILLION

The CHAIRMAN. Now let us move on to page 32 and tie down a little better if I can the question Senator Bartlett pursued about the \$20 million—a not insignificant amount of money.

Mr. BOWSHER. No; it is not.

The CHAIRMAN. Could you give us a little breakdown on some of these parts. It would be helpful because of the Budget Act to have them broken down on a yearly basis. You are talking about 3 years, aren't you?

Mr. BOWSHER. Yes.

The CHAIRMAN. I am not going to try to hold you to the exact dollar and cents. How do you see this thing playing out?

Mr. BOWSHER. We are still trying to determine that, Mr. Chairman. Our best estimate, it is not that accurate, is in each of these 3 years it would fall in the ballpark of \$5 million to \$10 million. I do not see any fiscal year where you would need more than \$10 million.

I think it is important that they have about a good sum in the first fiscal year because that is where often sometimes in a 3-year program, if you hold back too much on the first year then you have got to slow down on the program as you come toward the end of that fiscal year. I think you could say it is going to fall in that \$5 million to \$10 million range.

The CHAIRMAN. I would be interested in knowing what the cost of training, or the retraining, of the systems personnel is going to be. I would like sort of the subparts of that cost figure.

Mr. BOWSHER. Yes; we will try and do it. You have to be somewhat careful on the systems items themselves. Until the proposals are submitted and the one that is picked, for example, a welfare system, you can have different features of a welfare system that it is tough to estimate and that is why it is easier to come up with a total estimate than it is to come up with all the parts. But on the training, we certainly can do that.

The CHAIRMAN. I think this has been mentioned in the record, but if it has not, we will get it in at this point.

I gather when we had those earlier charts, we had nine things to be done on the left hand chart and there was eight or nine more on the right hand chart. Items No. 1 through 9 I take it you think should be done by one accounting firm?

Mr. BOWSHER. Yes.

The CHAIRMAN. The other chart 10 through 17, whatever it was, could be done by individual or other accounting firms.

Mr. BOWSHER. Yes; and also consultant firms.

The CHAIRMAN. Consultant firms.

Mr. BOWSHER. Yes, sir; that is correct.

The CHAIRMAN. Do you think it is essential that items 7 and 8—the chart on page 33, item 7 being, install financial management information system and item 8, install payroll personnel system. Should those two items be done by the same firm, the same contractor?

Mr. BOWSHER. Yes, we do, Senator, and for this reason and that is that these are so critical to getting the central financial management in good shape. If the District had a very adequate, talented, sophisticated group of systems people who were used to monitoring these large computerized systems, then it is possible that you would want to consider having more than one firm to do them, because the District systems people can coordinate it and control it and everything like that.

I think in a situation like this with the District that we would recommend that one firm be given the responsibility so that the Mayor, the City Council, the Congress could look to that one firm to control this overall, central, financial improvement effort.

Now there is no question that some other people would probably say that you ought to split it up and give it to more firms, but in this situation and certain other situations we have faced where the client himself or the organization does not have that talent, we generally recommend consideration be given to holding it to the one firm and then all the other work be done on an individual effort.

HOW OFTEN TO AUDIT

The CHAIRMAN. Page 41. You mentioned earlier that you were thinking in terms of an annual audit. The bill that came over from the House calls for an audit being done every 3 years. Would doing it once every 3 years keep the cost down to one-third of what an annual audit would cost? If not, why not?

Mr. BOWSHER. No, it would not, Senator. Because you are having to audit the 3-year period at one time. One effort does not mean that, if you were to take it in three individual periods, the costs would be all that much. You have to look at the beginning balance sheet and the ending balance sheet. You have to review the payroll, you have to check the procedures, and you have to come up with much of the same work, it is only a case of concentration.

Now, I know that the General Accounting Office and many internal audit functions tend to go more for a 3-year or 2-year basis because they will put their team in once and do a complete review at that time and can do it more efficiently. The CPA firms tend to put in their teams on a preliminary basis before the end of the fiscal year and then on a final basis, and therefore they can generally get their audit work done more timely after the end of that fiscal year than if they did it otherwise, and so the savings are not that great. We tried to explain that on page 41.

I think there are two other factors that have to be considered, too, and that is an annual audit is a great feature in keeping your systems and your procedures up to date. If the accountants or systems people in any organization know that an outside group is going to be coming in and review on an annual basis, there is a great deal more incentive and tendency to keep those systems current, keep the controls working well; and after the District has made an investment, as outlined by this plan of action, it seems to me that to go to an audit every 3 years or every so many years would not be the best plan of action.

SELLING OF SECURITIES

In addition, the other factor I would like to cover is the selling of securities. I think again with the New York crisis and the reevaluation that is going on in investing markets and by the underwriters and by the large investing houses, the trend is going to be for an annual audit and away from those concepts like you mentioned with Detroit and some of the cities that were having an audit every so many years. That generally goes back to when the State auditor or some other group within the government was doing the audit more than when they were having independent auditors from the outside.

The CHAIRMAN. Mr. Bowsheer, of course, we could go on at almost unlimited length, considering your very excellent report. Is there anything which you or your associates wish to add that you think is vital to this presentation that we have not yet touched upon in the 3 hours that we have been at this today?

AUDIT COMMITTEE

Mr. BOWSHER. No; I think we have covered it pretty well, but maybe one last item, on page 47. I think it is awfully important that on this, if a CPA firm is selected to audit the District, that the independence of that firm must be assured, and that they have to be independent from any influence of the Congress, the City Council, the Mayor, the District management, as they have to be with all their clients. One of the things we have urged for consideration is the trend that has taken place in the private sector in the last 5 years and now is being moved into the public sector and certainly accelerating in the private sector, and that is the concept of an audit committee or some kind of a committee that the auditing firm can report to so that if they find problems, that they have a reporting vehicle, you might say, that they can report these problems to. I think that that is awfully important, and I would like to just cover that here as I have for the record.

The CHAIRMAN. You mentioned that on page 46, and there are audit committees in major corporations.

Do you know of any examples where there are committees in the governmental sector?

Mr. BOWSHER. Yes, sir. Go ahead, Mr. Kelley.

Mr. KELLEY. Yes, sir. In the State of Louisiana for the last 3 years, the legislature has appointed a joint committee which is an oversight committee. One of the primary responsibilities of this audit committee is to give the legislative auditor a forum and to follow up on his recommendations and findings between audits.

Mr. BOWSHER. I think it is especially important here in the District where you have so many components that are vitally interested in the District operating—the congressional, the City Council, and the Mayor. I do not know how the audit committee should be composed. I will leave that to yours and others' considerations, but we do believe some kind of vehicle like this would be awfully important.

SUMMARY

The CHAIRMAN. Let me say where I think we are on this situation and where I think we might be heading.

As to where we are: The Arthur Andersen & Co. people have done an excellent piece of work. Literally thousands of man-hours went into the preparation of these nine volumes. We have only dealt with volume 1 which highlights the summary, but there are the backup volumes of great detail and specificity that have treated the subject matter, and I think they have done an excellent job. They have pulled in from around the country some gentlemen who have been introduced and others who have not yet been introduced, but they have brought in their best experts on governmental accounting, and various authors and auditors. I will just give them unqualified high marks on what they have done.

Now, what does Congress do with the Arthur Andersen & Co. reports? This by and large is my thinking. I do not have it set in concrete, but this is the basic thrust that at least I am considering. I will attempt to meet in the foreseeable future, maybe not Monday, but in the foreseeable future, with Senator Chiles, Congressman Natcher, and Congressman Diggs. The four of us have in the committee's jurisdiction over the District of Columbia from the Federal Government point of view. I personally think it is necessary that we go forward with the program as suggested by the Andersen people. Maybe not in every precise detail that they suggest, and maybe not even the cost that they suggested, but I know one thing, we cannot do it on the cheap. We are only fooling ourselves if we think we can do it on a bargain basement basis. So I am satisfied with the basic presentation of the Andersen people.

OBLIGATION OF THE CONGRESS

Second, I think this is a financial obligation of the Congress of the United States, not of the District of Columbia government. But what the Andersen people have recommended here are matters and things that the Congress should have done or have done many years ago.

You can go back to the Civil War, if you want to go back that far. You can go back to the 1920's or the 1930's. I care not which date you pick. These are things that the Congress should have done. Back when home rule came about 1½ years or so ago, the whole government inherited the situation that is described in considerable detail in these reports. The home rule did not conjure this thing, did not dream it up, did not concoct it; they inherited it.

In all candor, it has not gotten any better under home rule and probably is just as bad today as it was when Congress exercised jurisdiction in this area. So Congress by its inattention played a role in the creation of this nonsystem. Then I think Congress, however belatedly, ought to pay the bill for its rectification.

Thus as I would see it, the future program that we ought to go forward with—we, meaning the Congress—would include full payment for all necessary costs involved in getting the books and records of the District of Columbia in adequate shape.

I also think, although I think it is not indispensable or vital to this, that the Congress might well pay for the first year or two of the annual audit; that is, after the books and records are put into workable shape; that is, the annual audit for fiscal 1978, perhaps even for 1979.

ANNUAL AUDIT SHOULD BECOME PART OF THE GOVERNMENTAL STRUCTURE

Then after that and if all is going well, then the annual audit should become the obligation and the duty of the District of Columbia government. It should become part of their governmental structure. It should be something that they should do on a regularized basis, as many other cities and counties around the Nation do.

Of the four major political entities in my State, three of those four have annual audits as a matter of their governmental charter—Kansas City, Mo., Jackson County, Mo.—which include Kansas City, St. Louis County—the biggest governmental entity, population 1,100,000 people—have annual audits.

Interestingly the entity that needs the annual audit the most, does not have it. The city of St. Louis, the oldest city in the State, the city beset with the greatest fiscal problems does not require an annual audit. It is a curious thing that cities and entities that need it the most do not have it, that is, New York, Detroit, Cleveland, and Washington, and the entities that need it the least do have it.

I agree with Arthur Andersen & Co. people that the day is rapidly coming where various governmental units would have to go to an annual audit or an audit every other year, if for no other reason than the question of finance—the question of sales of securities. If Congress would pass my bill that would require an outside audit before bonds could be issued, but even if the Congress does not pass that law as a practical matter, I think good prudent investors or underwriters, people who buy governmental securities are going to want it before they buy a bond that a city has. The law may not dictate it, but prudent investment of client's money I think would dictate it.

So, this I think, brings to a close the first of these hearings. I think in subsequent days we will hear from others as to just how solid the Arthur Andersen proposal is and ask other accounting firms to consider what they have said here. It may not be the ultimate word. I think others who are knowledgeable in this field should comment on it and we will certainly want the District government to comment on it and give their observations and suggestions. Perhaps other witnesses can contribute to this.

THINGS HAVE TO BE DONE IN THE INTERIM

I also want to continue in some form or another the suggestion that is made by Senator Bartlett. I agree with him that while we are waiting for all of these Andersen recommendations to come to pass, we are waiting for the time when we can have annual audits, there are other things that have to be done in the interim. I will name three that come very quickly to my mind.

INFLATED PAYROLL

The size of the District of Columbia payroll, an unacceptably high figure, totally unjustifiable by any comparative measure of any other governmental structure in the world. Nowhere else do you find a ballooned payroll of this order. It must come down. The Mayor and City Council must bring it down. They can avoid bringing it down for a

short period of time, but the day is going to come when they come to this committee for increased payroll payment. No increased Federal payment will go forward for a payroll of this inflated magnitude.

PENSION SYSTEMS

Second, the pension systems of the District. I have not forgotten about it. It is still one of my keen interests. Testimony was given to it in this hearing as to the nature of the unfunded liability. I think we have got to go forward with something in that area. I realize that my views are not shared by all of the members of this committee in that regard, but I will continue to give some attention to those systems because if they are permitted to go unattended for another 15 or 20 years, they will strangle the city financially and so I think it is a matter of time and attention.

RENT CONTROL

Rent control—the first rent control situation in the District of Columbia, to use that same word again, is strangling the development of new rental properties in this District. I do not know who under the Sun with a modicum of wisdom would build a new apartment house to rent in the District of Columbia. You would have to have all of Howard Hughes' money and J. Paul Getty's and want to throw it away to rent a property in the District under the rent control law. This is another matter.

On the matter of pensions—as a footnote to that—we are in the process of considering actuarial firms, one of whom we will retain for such advice and counsel as they can give in this area.

So without any further ado, that will conclude the hearings of the District of Columbia Committee at this time and further matters on this can be taken up in the near future.

[Whereupon, the committee adjourned at 12:13 p.m.]



