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FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

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

ON
S. 3608 AND H.R. 11009

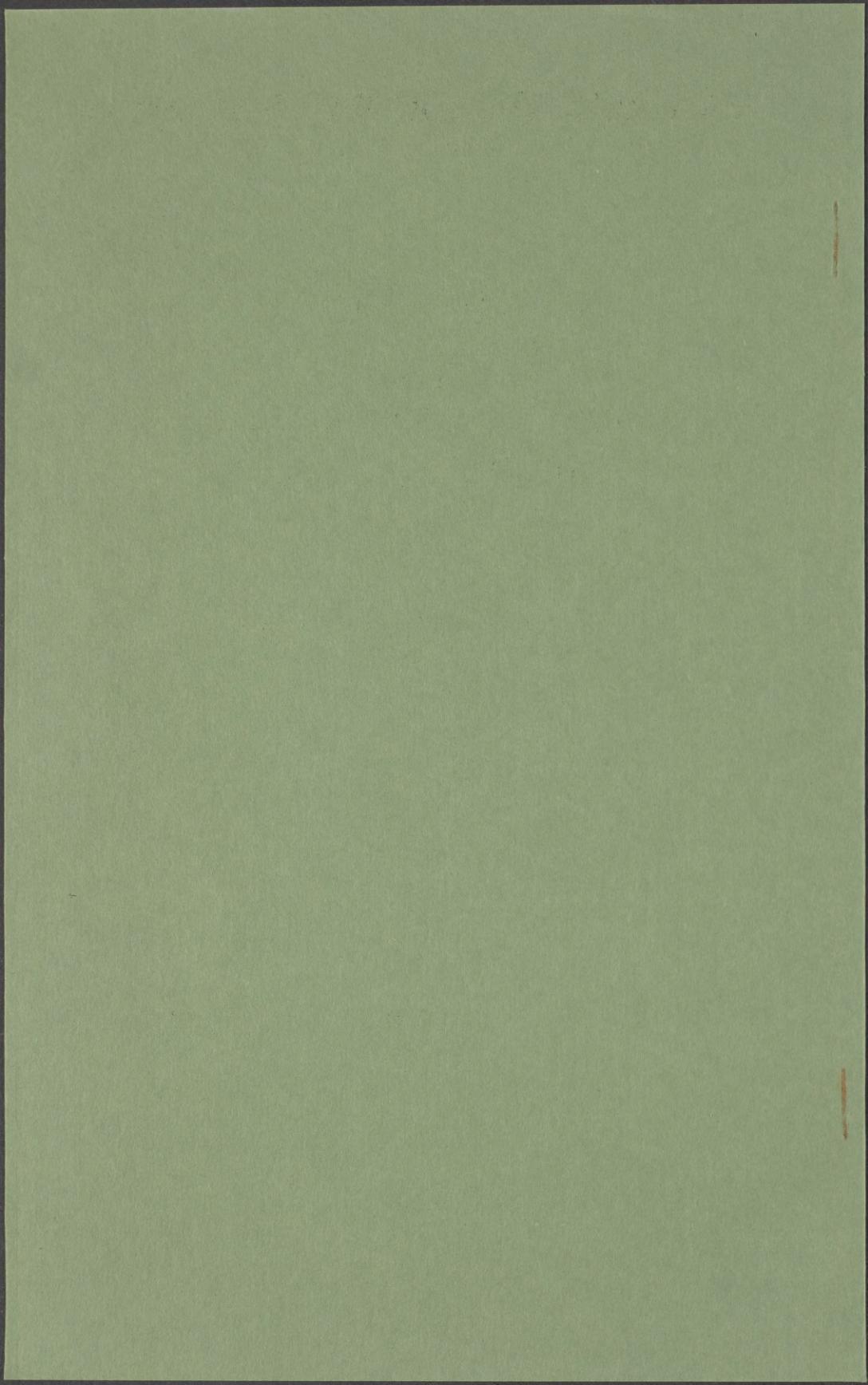
PART 5—AUDIT

JUNE 28, 1976

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

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FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

HEARING
BEFORE THE
COMMITTEE ON
THE DISTRICT OF COLUMBIA
UNITED STATES SENATE
NINETY-FOURTH CONGRESS
SECOND SESSION
ON
S. 3608 AND H.R. 11009

PART 5—AUDIT

JUNE 28, 1976

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Committee on the District of Columbia



U.S. GOVERNMENT PRINTING OFFICE

74-479 O

WASHINGTON : 1976

For sale by the Superintendent of Documents, U.S. Government Printing Office
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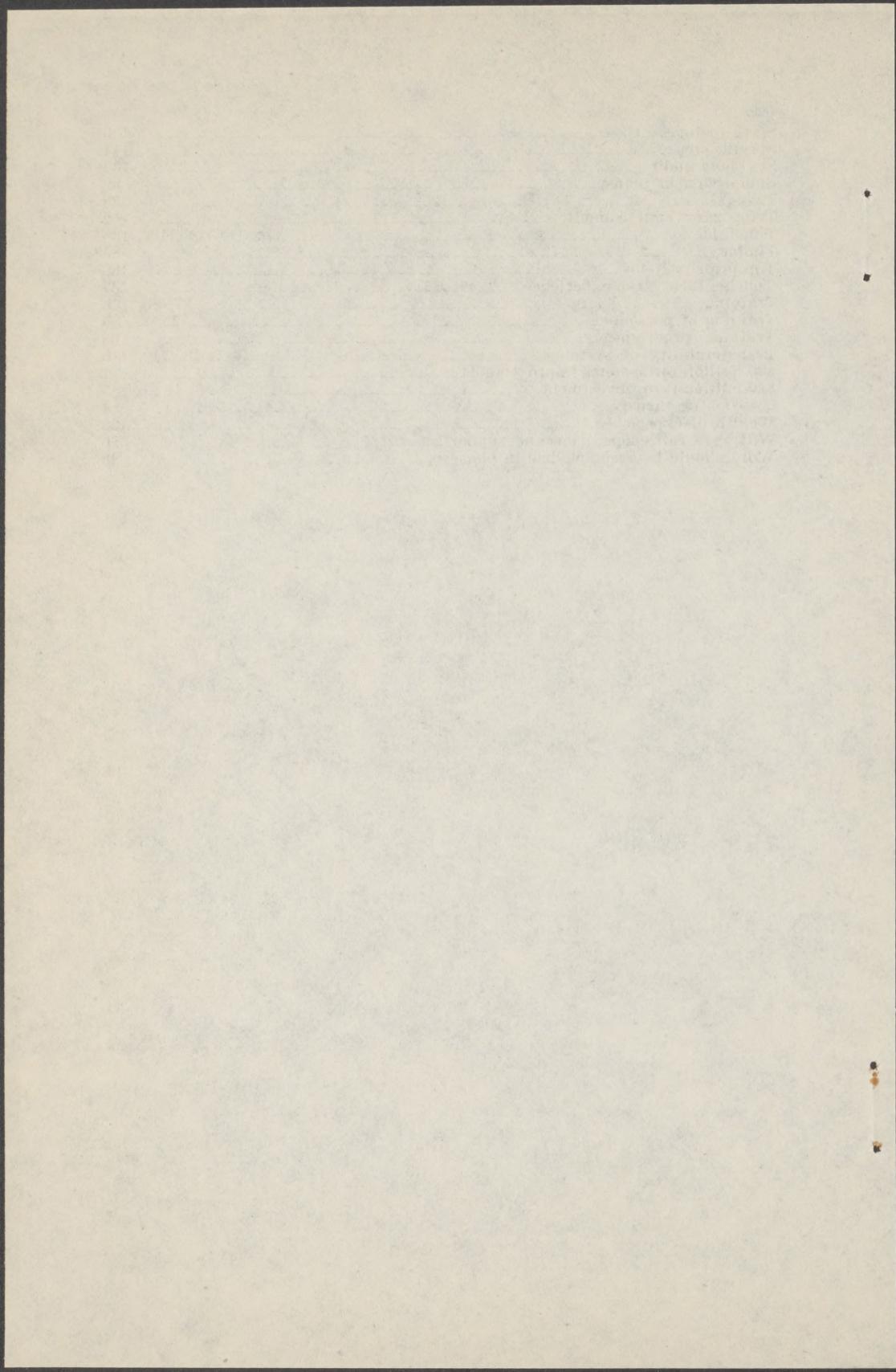
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FISCAL PRESSURES ON THE DISTRICT OF COLUMBIA

Part 5—Audit

MONDAY, JUNE 28, 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 6226, Dirksen Senate Office Building, Senator Thomas F. Eagleton (chairman of the committee) presiding.

Present: Senator Eagleton.

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

The CHAIRMAN. Good morning, ladies and gentlemen.

The Senate District of Columbia Committee is now in session.

We have before us two bills to improve the financial management and accounting systems of the District of Columbia government today: H.R. 11009, which has passed the House of Representatives, and S. 3608, introduced by Senator Mathias, Senator Chiles, and myself last week. We are interested in hearing the witnesses' views on these two bills, the feasibility and appropriateness of the work that is suggested, and comments on their own role in carrying out this project.

TWENTY MILLION DOLLARS FOR SYSTEMS IMPROVEMENT

For those who have not had an opportunity to study the Senate bill, I would like to comment briefly on what is intended. As I see it, Congress is providing the wherewithal to make improvements in the financial system of the District that should have been made before home rule. There is authorized in the bill \$20 million for systems improvement work over the next 3 years. A series of three annual audits, progressively more detailed, is also included.

Some may say that \$20 million is too much money, that we should only authorize a few million to patch up the system. I submit that would be false economy. This work cannot be done on the cheap. Moreover, \$20 million spread over 3 years represents less than 1 percent of the District's budget. It is a one-time cost that should be regarded as a capital investment—something that will yield many times its cost in the years ahead.

As the bill is written, a number of outside contractors would be engaged to perform the work. While some of the proposed tasks are

so large as to tax the resources of even the major accounting firms, this committee believes that smaller local firms must also participate by handling the less extensive aspects. I think the District will benefit from the diverse points of view brought to bear on these problems by a consortium approach, rather than using a single firm.

TEMPORARY JOINT COMMITTEE

A temporary joint committee of Congress is established to get this project moving. The General Accounting Office, as the accounting arm of Congress, will effectively administer the contracts. A very important part of this legislation is the provision for input from city officials as these systems are designed and implemented. This project is designed for the city's benefit, and control will revert to the city when the temporary committee's mandate expires in about 3 years. It should also be noted that the legislation expressly requires that District employees be thoroughly trained in the operation of these systems as they are installed.

This is a limited bill designed to do only one thing—finish a piece of business that Congress overlooked when home rule was passed. I have said it before and I shall repeat it: Congress is largely responsible for the current state of the city's books and records, and therefore Congress must accept the burden of rectifying those problems. When this work has been successfully completed—I hope within 3 years—then Congress will get out of the auditing business as far as the District is concerned. At that point I expect the District to have a good, solid financial management and accounting system, without a lot of expensive frills, but which provides the necessary information in accurate and timely fashion and which operates efficiently so as to maximize the city's available financial resources.

I now place in the record copies of S. 3608 and H.R. 11009.

[The bills referred to follow:]

94TH CONGRESS
2D SESSION

S. 3608

IN THE SENATE OF THE UNITED STATES

JUNE 23 (legislative day, JUNE 18), 1976

Mr. EAGLETON (for himself, Mr. CHILES, and Mr. MATHIAS) introduced the following bill; which was read twice and referred to the Committee on the District of Columbia

A BILL

To provide certain improvements in the financial planning, reporting, accounting, control, and operating procedures of the government of the District of Columbia.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That there is hereby established the Temporary Joint Com-
4 mittee on Financial Oversight of the District of Columbia
5 (hereinafter referred to as the "joint committee").

6 (b) The joint committee shall consist of four members
7 as follows:

8 (1) the chairman of the Committee on the District
9 of Columbia of the Senate;

1 (2) the chairman of the Committee on the District
2 of Columbia of the House of Representatives;

3 (3) the chairman of the Committee on Appropria-
4 tions of the Senate, or his delegate; and

5 (4) the chairman of the Committee on Appropria-
6 tions of the House of Representatives, or his delegate.

7 (c) Three members of the joint committee shall con-
8 stitute a quorum.

9 (d) A chairman and vice chairman of the joint com-
10 mittee shall be selected by a majority vote of the full joint
11 committee from among the members thereof. The vice chair-
12 man shall act in the place and stead of the chairman in the
13 absence of the chairman.

14 (e) The first meeting of the joint committee shall be
15 called by the majority leader of the Senate and the Speaker
16 of the House of Representatives, jointly.

17 (f) The joint committee is authorized, with the ap-
18 proval of the chairman thereof, to utilize the personnel of
19 the Committee on the District of Columbia of the Senate,
20 the Committee on the District of Columbia of the House of
21 Representatives, the Committee on Appropriations of the
22 Senate and the Committee on Appropriations of the House
23 of Representatives.

24 SEC. 2. (a) For the purpose of meeting the responsi-
25 bilities imposed by the Constitution on the Congress with

1 respect to the District of Columbia, it shall be the function
2 of the joint committee, after consultation with the Comp-
3 troller General, the Mayor of the District of Columbia, and
4 the Chairman of the Council of the District of Columbia,
5 to select such qualified persons as the joint committee may
6 determine necessary for the development of certain plans on
7 behalf of the government of the District of Columbia (in-
8 cluding assisting in the implementation thereof) for the
9 purpose of improving the financial planning, reporting, and
10 control systems of such government. Among the plans to be
11 considered for development and implementation are the
12 following:

13 (1) financial management system improvements
14 plan;

15 (2) personnel-payroll system improvements plan;

16 (3) water-sewage billing and information system
17 improvements plan;

18 (4) purchasing and material management system
19 improvements plan;

20 (5) property accounting systems improvements
21 plan;

22 (6) real property system improvements plan;

23 (7) welfare payments system improvements plan;

24 (8) human resources eligibility, payment, and re-
25 porting system improvements plan;

1 (9) health care financial system improvements
2 plan; and

3 (10) traffic ticket system control improvements
4 plan.

5 (b) Each contract entered into with a person pursuant
6 to subsection (a) of this section for the development of a
7 system improvements plan shall contain a provision requir-
8 ing that person to include within such plan procedures for
9 the establishment of an ongoing training program for oper-
10 ating personnel of the government of the District of Co-
11 lumbia whose duties involve matters covered by such plan
12 or part thereof in order to provide training for such person-
13 nel in connection with the operation of such system.

14 (c) Upon the selection by the joint committee of each
15 qualified person to develop and implement a plan pursuant
16 to this section, the chairman of the joint committee shall
17 enter into a contract or contracts with that person for the
18 development and implementation of such plan.

19 (d) (1) Each such contract so entered into shall set
20 forth the scope of the work to be performed, amounts to
21 be paid thereunder, and a schedule of reporting and com-
22 pletion dates, including a schedule of implementation dates,
23 for each portion of such work. Each contractor shall have
24 full access to such books, individuals, accounts, financial
25 records, reports, files, and other papers, things, or property.

1 of the government of the District of Columbia as such con-
2 tractor deems necessary to complete such contract. The
3 Comptroller General shall have full access to all documents
4 produced under each contract in order to facilitate his review
5 and approval.

6 (2) At least once during each one-hundred-and-
7 eighty-day period after establishment of the schedule for
8 completing each such contract and until the completion of
9 such contract, each contractor shall report to the joint com-
10 mittee on the progress toward completion of such contract.

11 (e) (1) With respect to any such contract or part
12 thereof involving the design (including a preliminary de-
13 sign) of a system referred to in subsection (a) of this sec-
14 tion, the contractor, upon the completion of the plan or part
15 relating to such design (including procedures for its im-
16 plementation), shall submit such plan or part, together with
17 a schedule for its implementation, to the Comptroller General
18 of the United States for his consideration.

19 (2) With respect to any such contract involving work
20 other than the design and implementation of such a system,
21 the contractor, upon the completion of the plan or part
22 thereof relating to such work (including its implementa-
23 tion), shall submit such plan or part thereof, together with
24 a schedule for implementing such plan or part, to the Comp-
25 troller General of the United States for his consideration.

1 (3) Notwithstanding the foregoing provisions of para-
2 graphs (1) and (2) of this subsection, no such plan, part,
3 or schedule shall be submitted to the Comptroller General
4 for his consideration unless such plan, part, or schedule has
5 first been submitted to the lead contractor responsible for
6 the development and implementation of a financial manage-
7 ment system improvements plan pursuant to subsection
8 (a) (1) of this section for such contractor's review, com-
9 ments, and recommendations. A copy of such comments and
10 recommendations, if any, shall be submitted, together with
11 such plan, part, or schedule, to the Comptroller General in
12 accordance with paragraphs (1) and (2) of this subsection.

13 (4) Within the sixty-day period following the date of
14 the receipt by him of such plan or part thereof, and after
15 consultation with the Mayor of the District of Columbia,
16 the Council of the District of Columbia, and the joint com-
17 mittee, the Comptroller General shall be authorized to ap-
18 prove, disapprove, or modify such plan or part (including
19 any schedule for the implementation thereof), in whole or in
20 part. On or before the expiration of such sixty-day period,
21 the Comptroller General, if he approves or modifies such
22 plan or part in whole or in part, shall submit such plan or
23 part, as so approved or modified, to the Congress. In any
24 case in which the Comptroller General disapproves any such
25 plan or part, in whole or in part, the Comptroller General

1 shall, within such sixty-day period, submit such plan or part
2 so disapproved to the Congress, together with his reasons
3 for such disapproval.

4 (f) Each such plan or part thereof so approved or
5 modified by the Comptroller General shall be deemed to be
6 a part of the financial planning, reporting, accounting, con-
7 trol, and operating procedures of the government of the Dis-
8 trict of Columbia. No plan or part thereof disapproved by
9 the Comptroller General shall take effect.

10 (g) With respect to any such plan or part so deemed
11 to be a part of the financial planning, reporting, accounting,
12 control, and operating procedures of the government of the
13 District of Columbia, the Mayor of the District of Columbia,
14 with the assistance of the contractor responsible for such plan
15 or part, shall implement such plan or part for the govern-
16 ment of the District of Columbia in accordance therewith.
17 The Comptroller General shall monitor such implementation
18 and report as he deems appropriate to the joint committee.

19 SEC. 3. (a) For the purpose of meeting the oversight
20 responsibilities imposed by the Constitution on the Congress
21 with respect to the District of Columbia, the joint com-
22 mittee is authorized and directed to cause to be undertaken,
23 on behalf of the government of the District of Columbia,
24 by a certified public accountant licensed in the District of
25 Columbia, a balance sheet audit of the financial position of

1 the District of Columbia as of September 30, 1977, as
2 follows:

3 (1) identify assets, liabilities, accumulated surplus
4 or deficit;

5 (2) exclude statements of revenues and expenses,
6 changes in fund balances, and statements of changes
7 in financial position for enterprise funds; and

8 (3) exclude property and equipment.

9 (b) The joint committee shall further cause to be under-
10 taken, on behalf of the government of the District of Co-
11 lumbia, an audit of the financial position and results of opera-
12 tions for the fiscal year commencing October 1, 1977, and
13 the next following fiscal year, as follows:

14 (1) identify assets, liabilities, accumulated surplus
15 or deficit;

16 (2) include statements of revenues and expenses,
17 changes in fund balances, and statements of changes in
18 financial position for enterprise funds; and

19 (3) exclude only property and equipment (if
20 necessary).

21 (c) For purposes of conducting such audits, the joint
22 committee shall include, as a part of any contract entered
23 into pursuant to section 2 (a) for the development of a finan-
24 cial management system improvements plan, provisions re-
25 quiring such audits to be carried out. Each such audit shall

1 be carried out in accordance with generally accepted audit-
2 ing standards and the financial statements shall be prepared
3 in accordance with generally accepted accounting principles.
4 The results of each such audit shall be submitted to the Con-
5 gress, the President, the Council of the District of Columbia,
6 the Mayor of the District of Columbia, and the Comptroller
7 General of the United States.

8 (d) Such contractor shall have full access to such books,
9 individuals, accounts, financial records, reports, files, tax
10 returns, and other papers, things, or property of the govern-
11 ment of the District of Columbia as such contractor deems
12 necessary to complete each such audit required by such
13 contract.

14 SEC. 4. (a) For the fiscal year beginning October 1,
15 1979, and each fiscal year thereafter, the government of the
16 District of Columbia shall conduct, out of funds of the gov-
17 ernment of the District of Columbia, an audit of the financial
18 operations of such government. Each such audit shall be
19 conducted by a certified public accountant licensed in the
20 District of Columbia and carried out in accordance with gen-
21 erally accepted auditing standards and the financial state-
22 ments shall be prepared in accordance with generally accepted
23 accounting principles.

24 (b) For the purpose of conducting an audit for each
25 such fiscal year as required by subsection (a) of this section,

1 the Mayor of the District of Columbia shall, on or after
2 January 2, 1979, select, subject to the advice and consent
3 of the Council of the District of Columbia, a qualified per-
4 son to conduct such audits for the fiscal year commencing
5 October 1, 1979, and the next following three fiscal years.
6 Thereafter, each individual elected as Mayor in a general
7 election held for Mayor of the District of Columbia shall,
8 on or after January 2 next following his or her election
9 to, and the assuming of, the Office of Mayor, select,
10 subject to the advice and consent of the Council of
11 the District of Columbia, a qualified person to conduct
12 such audits for the fiscal year commencing October 1
13 of the calendar year in which such Mayor takes office,
14 and the next following three fiscal years. If the Council fails
15 to act on any such selection within a ten-day period follow-
16 ing the date on which it receives from the Mayor the name
17 of such person so selected, the Mayor shall be authorized to
18 enter into a contract with that person for the conduct of such
19 audits. If any person so selected by the Mayor to conduct
20 any such audits for such fiscal years is rejected by the Coun-
21 cil, the Mayor shall submit to the Council the name of an-
22 other qualified person selected by the Mayor to conduct such
23 audits. In the event that the Council rejects the second
24 person so selected by the Mayor, the Mayor shall, within
25 thirty days following that rejection, notify the chairman of

1 the Committee on Appropriations of the Senate and
2 the chairman of the Committee on Appropriations of
3 the House of Representatives, in writing, of that fact. Within
4 fifteen days following the receipt of that notice, such chairmen
5 shall jointly select a person to conduct such audits and shall
6 inform the Mayor, in writing, of the name of the person so
7 selected. Within ten days following the receipt by the Mayor
8 of such name, the Mayor shall enter into a contract with such
9 person pursuant to which that person shall conduct such
10 audits for such fiscal years as herein provided.

11 (c) The Mayor shall submit a copy of each such audit
12 so conducted to the Congress, the President, the Council of
13 the District of Columbia, the Mayor of the District of Co-
14 lumbia, and the Comptroller General of the United States.

15 (d) (1) There is hereby established the Audit Control
16 Commission of the District of Columbia (hereinafter referred
17 to in this subsection as the "Commission"), which shall be
18 composed of the following members:

19 (A) chairman of the Appropriations Committee of
20 of the Senate, or his delegate;

21 (B) chairman of the Appropriations Committee of
22 the House of Representatives, or his delegate;

23 (C) chairman of the Council of the District of
24 Columbia;

1 (D) chairman of the Committee on the Budget of
2 the Council of the District of Columbia; and

3 (E) chairman of the Committee on Finance and
4 Revenue of the Council of the District of Columbia.

5 (2) Three members of the Commission shall constitute
6 a quorum.

7 (3) A Chairman and Vice Chairman of the Commission
8 shall be selected by a majority vote of the full Commission
9 from among the members thereof. The Vice Chairman shall
10 act in the place and stead of the Chairman in the absence of
11 the Chairman.

12 (4) The first meeting of the Commission shall be called
13 by the Chairman of the Council of the District of Columbia
14 not later than October 1, 1979.

15 (5) Among the functions of the Commission shall be
16 to—

17 (A) discuss with the auditing firm prior to the
18 beginning of an audit—

19 (i) the scope of the audit,

20 (ii) the District's accounting principles, poli-
21 cies, and practices,

22 (iii) recent developments in accounting prin-
23 ciples or reporting practices that may affect the
24 District, and

1 (iv) the status of suggestions and recomenda-
2 tions developed as part of the last audit;

3 (B) discuss with the auditing firm after the com-
4 pletion of each year's audit—

5 (i) the results of the audit,

6 (ii) overall evaluation of the financial state-
7 ments, and

8 (iii) suggestions for improvements in account-
9 ing, financial, and operating controls.

10 (6) The foregoing provisions of this subsection shall
11 take effect upon the date of the execution by the Mayor of
12 the District of Columbia of a contract for the conduct of
13 such audits pursuant to the first sentence of subsection (b)
14 of this section.

15 SEC. 5. (a) Notwithstanding any other provision of
16 law, all costs and other expenses arising out of any contract
17 entered into pursuant to this Act for the development of a
18 plan referred to in section 2 of this Act, including all costs
19 and other expenses in connection with the implementation
20 of such plan, shall be an obligation of the District of Columbia.
21 Any and all assistance provided by the Comptroller General
22 in connection with the carrying out of this Act shall be on
23 a reimbursable basis.

24 (b) Upon certification to him by the chairman of the

1 joint committee of any amount due and payable to any per-
2 son on the basis of a contract entered into pursuant to section
3 2 of this Act, or to the Comptroller General on the basis of
4 assistance furnished by him pursuant to this Act, the Mayor
5 shall pay such amount to that person or the Comptroller
6 General in accordance with such certification.

7 (c) For the purpose of making payments under con-
8 tracts entered into pursuant to section 2 of this Act (in-
9 cluding audits carried out under section 3 of this Act), and
10 for the purposes of subsection (b) of this section, there are
11 authorized to be appropriated to the District of Columbia
12 such sums, not to exceed in the aggregate \$20,000,000, as
13 may be necessary.

14 SEC. 6. As used in this Act, the term—

15 (1) "person" means any individual, partnership,
16 firm, corporation, or other entity; and

17 (2) "government of the District of Columbia" in-
18 cludes the Mayor of the District of Columbia, the Coun-
19 cil of the District of Columbia, and all agencies (as de-
20 fined in paragraph (3) of section 3 of the District of
21 Columbia Administrative Procedure Act (D.C. Code,
22 sec. 1-1502 (3))).

1 SEC. 7. Thirty days after notification by the Comp-
2 troller General to the joint committee of the completion and
3 implementation of all plans and designs and after final pay-
4 ment of all contracts entered into pursuant to sections 2 and
5 3 of this Act, the joint committee shall cease to exist.

94TH CONGRESS
2D SESSION

H. R. 11009

IN THE SENATE OF THE UNITED STATES

MAY 25, 1976

Read twice and referred to the Committee on the District of Columbia

AN ACT

To provide for an independent audit of the financial condition of the government of the District of Columbia.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) after consulting with the chairman and ranking
4 minority member of the Committee on the District of Colum-
5 bia of the House of Representatives, the chairman and rank-
6 ing minority member of the Committee on the District of
7 Columbia of the Senate, the chairman and ranking minority
8 member of the Committee on Appropriations of the House
9 of Representatives, the chairman and ranking minority mem-
10 ber of the Committee on Appropriations of the Senate, and

1 the chairman of the Council of the District of Columbia
2 about (1) the scope of one or more contracts for the design
3 and implementation of financial planning, reporting, and con-
4 trol systems for the government of the District of Columbia,
5 (2) the selection of the contractor to perform each such con-
6 tract, and (3) the schedule for completing each such con-
7 tract, the Comptroller General of the United States shall
8 enter into one or more such contracts.

9 (b) Each contract entered into pursuant to subsection
10 (a) shall set forth the scope of the work to be performed and
11 a schedule of completion dates for each portion of such work.

12 (c) Each contractor shall have full access to such books,
13 persons, accounts, financial records, reports, files, and other
14 papers, things, or property of the government of the District
15 of Columbia as such contractor deems necessary to complete
16 such contracts.

17 (d) At least once during each calendar quarter after
18 establishment of the schedule for completing each contract
19 and until the completion of such contract, each contractor
20 shall report to the Congress, the President, the Council of the
21 District of Columbia, and the Comptroller General of the
22 United States on the progress toward completion of such
23 contract.

24 (e) Upon completion of each contract for the design of
25 any financial planning, reporting, or control system of the

1 government of the District of Columbia, the contractor shall
2 submit to the Congress, the President, the Council of the Dis-
3 trict of Columbia, the Mayor of the District of Columbia, and
4 the Comptroller General of the United States, a report con-
5 taining recommendations for (1) such changes, within the
6 scope of such contract, in the financial planning, reporting,
7 and control systems of the government of the District of
8 Columbia as such contractor determines should be made
9 before an audit can be conducted in accordance with generally
10 accepted auditing standards in order to render an opinion that
11 the financial statements of the funds and account groups of the
12 government of the District of Columbia present fairly the
13 financial position of such funds and account groups and the
14 results of operations of such funds and the changes in finan-
15 cial position of such funds, in conformity with generally
16 accepted accounting principles, and (2) a schedule for im-
17 plementing the recommended changes, including the amount
18 of time and the number of District of Columbia personnel re-
19 quired to complete the implementation of such changes.

20 (f) The Mayor of the District of Columbia, with the
21 assistance of one or more contractors chosen pursuant to
22 subsection (a), shall implement the changes recommended
23 pursuant to subsection (e) in accordance with the schedule
24 recommended for implementing such changes. Within three
25 months after submission to the Mayor of the District of

1 Columbia of each report required by subsection (e), and at
2 least once each calendar quarter thereafter until each change
3 recommended in such report is implemented, each contractor
4 shall report, within the scope of his contract, to the Congress,
5 the President, the Council of the District of Columbia, and
6 the Comptroller General of the United States, on the status
7 of the implementation of the changes recommended pursuant
8 to subsection (e) in accordance with the schedule recom-
9 mended for implementing such changes. Each contractor
10 shall make such other reports as may be requested by the
11 Congress, the President, the Council of the District of Co-
12 lumbia, or the Comptroller General of the United States.

13 SEC. 2. Within six months after the first day of the
14 first full fiscal year after the Mayor of the District of Colum-
15 bia has completed implementation of the recommendations
16 made pursuant to subsection (e) of the first section of this
17 Act, the Council of the District of Columbia shall provide for
18 and allocate funds for an audit for such first full fiscal year
19 in accordance with generally accepted auditing standards to
20 be carried out by an independent certified public accountant,
21 who shall conduct such tests of the accounting records of the
22 government of the District of Columbia and such other audit-
23 ing procedures as he deems necessary, in order to render an
24 opinion that the financial statements of the funds and account

1 groups of the government of the District of Columbia for
2 such first full fiscal year present fairly the financial position
3 of such funds and account groups and the results of opera-
4 tions of such funds and the changes in financial position of
5 such funds, in conformity with generally accepted accounting
6 principles. At least once every three years thereafter, the
7 Council of the District of Columbia shall provide for and
8 allocate funds for an audit in accordance with generally ac-
9 cepted auditing standards to be carried out by an independent
10 certified public accountant, who shall conduct such tests of
11 the accounting records of the government of the District of
12 Columbia and such other auditing procedures as he deems
13 necessary, in order to render an opinion that the financial
14 statements of the funds and account groups of the govern-
15 ment of the District of Columbia present fairly the financial
16 position of such funds and account groups and the results
17 of operations of such funds and the changes in financial posi-
18 tion of such funds, in conformity with generally accepted
19 accounting principles applied on a basis consistent with that
20 of the immediately preceding audit required by this section.
21 The results of each such audit shall be submitted to the Con-
22 gress, the President, the Council of the District of Columbia,
23 the Mayor of the District of Columbia, and the Comptroller
24 General of the United States.

25 SEC. 3. (a) For each of the fiscal years ending Septem-

1 ber 30, 1977, September 30, 1978, and September 30, 1979,
2 there is authorized to be appropriated to the Comptroller
3 General of the United States \$750,000 to make payments
4 under contracts entered into pursuant to subsection (a) of
5 the first section of this Act. Sums appropriated under this
6 section are authorized to remain available until expended.

7 (b) The Comptroller General may enter into such con-
8 tracts only to the extent and in such amounts as are provided
9 in appropriation Acts.

10 (c) (1) No funds appropriated under subsection (a)
11 may be used for any payment under any such contract in
12 an amount greater than 50 per centum of the total amount
13 of such payment.

14 (2) The Council of the District of Columbia shall make
15 available to the Comptroller General of the United States
16 such sums as the Comptroller General certifies to the Coun-
17 cil are necessary in order that the District of Columbia pro-
18 vides an amount, with respect to each payment under each
19 such contract, equal to the amount of Federal funds for
20 such payment.

21 SEC. 4. For purposes of this Act, the term "government
22 of the District of Columbia" includes the Mayor of the Dis-
23 trict of Columbia, the Council of the District of Columbia,
24 and all agencies (as defined in paragraph (3) of section 3

1 of the District of Columbia Administrative Procedure Act
2 (D.C. Code, sec. 1-1502(3)) of the government of the
3 District of Columbia.

Passed the House of Representatives May 24, 1976.

Attest: EDMUND L. HENSHAW, JR.,

Clerk.

The CHAIRMAN. I will now read the statement of Senator Mathias into the record.

STATEMENT OF CHARLES McC. MATHIAS, JR., U.S. SENATOR FROM MARYLAND

I would like to commend the chairman for his prompt action in scheduling hearings on legislation concerning improvements in the financial management of the District of Columbia. Cities throughout the Nation are confronting unprecedented financial pressures, and Senator Eagleton has taken the lead in addressing the need for clear information about the municipal financial crisis that affects our Nation's Capital. Although the clear picture of financial conditions may not be a pretty one in many of our cities today, the experience of New York should provide explicit proof that what you don't know can hurt.

Four years ago, as a member of the Nelsen commission, I made a number of recommendations about the need for improvements in the financial management practices of the District government. Although a few of these recommendations have been implemented, the reluctance of Congress to appropriate the necessary funds has been a significant obstacle to a thorough reorganization of the District's accounting systems. While Congress has allowed the District to grow into a \$1.5 billion corporation, we have set it out on its own under home rule without allowing for an adequate investment in financial management systems.

I hope that the hearings today will help focus attention on the basic goal of our efforts: To provide the Nation's Capital with an effective financial management system. To achieve this goal we will have to involve appropriate local officials in the process of developing plans for improvement. Experience has shown that plans and systems developed without the cooperation of the user are doomed to failure.

The ultimate result of our efforts will not be simply an array of shiny new computers or a statement of good financial health from an independent auditor. The result should be a system that helps Congress to exercise its Constitutional responsibilities to protect the Federal interest and enhances the ability of elected local officials to make important policy decisions. If we can achieve this, we will have contributed not only to improving the quality of life in the Nation's Capital, but we will have established a model for other cities throughout the Nation.

I am pleased to have as our first witness, the Mayor of the District of Columbia, Mayor Walter Washington, and his staff.

STATEMENT OF WALTER E. WASHINGTON, MAYOR, DISTRICT OF COLUMBIA, ACCOMPANIED BY COMER S. COPPIE, DIRECTOR, OFFICE OF BUDGET AND MANAGEMENT

MAYOR WASHINGTON. Thank you, Mr. Chairman.

It is my great pleasure to be here once again, and to hear your very excellent statement, putting this entire matter in perspective.

AGREES WITH BASIC GOALS

We are in agreement with the basic goals of this bill, and we welcome the support of the Congress in seeking remedies for longstanding deficiencies in the District's financial and accounting operations.

Our efforts to deal with these problems have been limited in the past by our resources. We are prepared to move forward, with the assistance of the Congress and with the resources you have indicated will be forthcoming, to make needed reforms and to develop a unified financial management structure.

We also are in accord with the bill's implicit recognition of the responsibility of the Congress in the major long-term improvement

effort that is before us. But I do want to emphasize that I feel it is essential that the executive branch of the District government be involved in the development of plans for improving our financial planning, reporting, accounting control, and operating procedures because we are going to have to carry out those plans.

INITIAL STEPS TAKEN

In line with my commitment to take immediate steps within existing resources to respond positively to the findings of the Arthur Andersen & Co. report to this committee, I have taken the following initial steps to strengthen our financial management practices.

I have established clear lines of responsibility and accountability for carrying out the report's plan for making necessary improvements.

I have created task forces to make recommendations on centralizing and improving our data processing capabilities and procedures and to monitor progress by all District departments and agencies in meeting the report's recommendations. I also have imposed a freeze on purchasing new automated data processing systems and equipment until the recommendations of the data processing task force are in.

We are developing a contract with an independent public accounting firm to assist in preparing accounting and financial statements for the current fiscal year, an action which will enhance the reliability of the financial information made available by the city.

In addition we have acted to improve security and controls over District payroll operations to prevent improper or erroneous payments.

We also have set in motion a series of additional steps to carry out recommendations of the Arthur Andersen & Co. report.

WILL HAVE FULL COOPERATION AND SUPPORT

Your efforts to achieve the aims of the legislation before you today will have our full cooperation and support.

I would add, Mr. Chairman, that as I mentioned to you the other day, I felt it necessary for us wherever we had an opportunity to move forward, and that seemed to meet with your concurrence, that we did not wish to just simply wait. It seems to me one of the steps is that we should not be ordering a fragmented data processing system and equipment, while we are studying a comprehensive plan, and so I have frozen all purchases in that regard.

We are developing contracts, a small one, based on our 1976 funds, to provide \$100,000 for independent accounting firms to assist in preparing accounting and financial statements for the current fiscal year, an action which will enhance the reliability of the financial information made available by the study.

In addition, we have acted to improve security controls over the District's payroll operations, to prevent improper payments.

Mr. Chairman, we will submit for the record a series of actions we took in this regard, because certainly we recognize the seriousness of this matter.

Your reference, Mr. Chairman, to achieve the aims of the legislation before you will have our full cooperation and support, and I would say, if I could reiterate a statement that I have made, parenthetically, to indicate our posture, Mr. Chairman, we are in full support of the efforts that are outlined in this bill. The bill calls for a partnership as we see it, and we are prepared to do our part.

Second, Mr. Chairman, to reiterate again, I have instructed within the week's period of the announcement of the Andersen report my agencies to look at this report in a most constructive way as they have been doing, not to nitpick the report, but to move ahead and to see if we can get it accomplished. I am committed to moving forward in partnership with you.

I feel that is important, and in addition to that, we have taken some initial steps which we think will be helpful.

We do have a number of observations in connection with the detailed report, which I will leave to Mr. Coppie. It is very brief. I want to reiterate again, I am not only pleased, but I wish to commend you with the forthrightness with which I believe you have undertaken this effort, and you will be assured of the full support of our executive branch as we move forward.

Mr. Coppie has a statement, Mr. Chairman.

Mr. COPPIE. Mr. Chairman, we support the proposed bill to authorize funds for improving the financial planning, reporting, accounting, control, and operating procedures of the government of the District of Columbia.

CONCERNS WITH THE BILL

However, we have a number of areas of concern with the bill as presently drafted. They are:

One: The bill authorizes the Temporary Joint Committee on Financial Oversight of the District of Columbia to incur obligations on behalf of the District to improve the city's financial planning system. Section 5(a) states that all obligations incurred will be obligations of the city. There is no limit placed on the amount of obligations that can be incurred. Moreover, the incurring of obligations is not tied to the appropriation of the funds provided in section 5(c) of the bill. Thus, the city could find itself obligated to spend considerable resources with no control over the incurring of the obligations.

Two: The bill sets forth a schedule for specific actions to be undertaken but does not tie those actions to the appropriation of the funds to carry them out. The proposed schedule is only realistic if resources are provided in a timely fashion.

Three: The bill requires the Mayor to implement totally any improved plan. This could be interpreted to include organizational changes. We believe that the Mayor and the Council should have the authority to determine the city's organizational structure, as provided for in the Home Rule Act.

Four: The Mayor's ability to implement the changes may depend on the appropriation of sufficient resources. Section 5(c) authorizes the payment of the \$20 million only for the purposes of making payments to contractors and the General Accounting Office. We believe that this money must also be made available to the city for costs that it must incur to implement the plan.

As I am sure you realize it is extremely important that action on this bill move as quickly as possible if we are to meet the schedule set forth in the bill.

I will be pleased to answer any questions that you may have.

EXCELLENT COOPERATION

The CHAIRMAN. Thank you very much, Mayor Washington, for your very fine statement. Let me add at this time, throughout the entire period when the Arthur Andersen people were working with your staff, the various department heads, the cooperation not only from your office, but from all of the others who worked with you, was uniformly and consistently excellent.

The Arthur Andersen people told me, from time to time as I was reviewing the progress of their study, that they received total and excellent cooperation from you and your staff. Further, I think your statement, and the statement of Mr. Coppie, since the Andersen report has been made public, have been uniformly forthcoming.

You said you did not want the report to be nitpicked and every little detail commented on, but the basic thrust of the report, you thought, pointed out some very important problems, and you want to get busy on those to try to rectify them. Your opening statement indicates that you have already taken some executive steps and you intend to take others, as the need is more specifically noted. So I do thank you, Mayor, for your cooperation, during the period of the study and for the very positive way you review the recommendations of the study.

I also must compliment, Mr. Coppie, the individual who has had most direct contact, for his cooperation with the Arthur Andersen team. I want to thank him on behalf of them and this committee.

RETRAINING OF PERSONNEL

Mayor, or Mr. Coppie, insofar as the future is concerned, how much retraining and upgrading do you think will be necessary in order to have the requisite personnel in the District of Columbia government to implement the various proposed recommendations of the Andersen people?

Mayor WASHINGTON. It would be my judgment, Mr. Chairman, that substantial retraining would be necessary.

That is said in a very constructive way. I think the basic core of personnel in the District is strong. We will move consistently with the approaches called for in the Andersen report to make that possible.

As I had the briefing, and as I looked at the report, it became obvious that many of our personnel are related to your Federal system.

Now we are moving to a full set of municipal standards, which in fact is a relatively new system. Wherever the training is called for and needed, I intend to see that it is done, in connection with the new system and with the new computerization which is called for in the report.

The CHAIRMAN. Mr. Coppie, I am not an accountant, and that puts me at a disadvantage in trying to comprehend the various techniques that accountants utilize.

BENCHMARKS TO SHOW VALUE RECEIVED AND PROGRESS MADE

Are there certain benchmarks that should be written into the bill, or written into the contracts that are let to the various accounting firms, that will show to us and to you, especially, what progress is being made at certain points in time, so that we know we are getting value received for our money?

I will phrase it another way; \$20 million is a lot of money, and as this contract or contracts are worked out in the future, how will we know whether we are getting value received?

We do not want to wait 3 or 4 years from now—pay \$20 million and not know what we have gotten or how it will work.

Mr. COPPIE. I think that should be written into the contracts, Mr. Chairman. I think it should be something we approach in partnership with this committee, and with the potential contractors, right from the beginning.

TRAINING OF PERSONNEL

The CHAIRMAN. Let me read you a section of the bill, and ask you to comment on it.

This deals with the training question, which I think is the key and indispensable part of any proposal.

That is, it is a nice thing to have new systems, and it is a nice thing to have a big book, or a whole series of books on new systems, but if we do not have the requisite personnel to administer those systems, and if we do not have certain checkpoints along the line to see how they are working, we just may have some collector's items on the bookshelves.

I direct your attention to section 2(b), page 4 of the bill.

"Each contract entered into with a person pursuant to subsection (a) of this section for the development of a system improvements plan shall contain a provision requiring that person to include within such plan"—this is the key language—"procedures for the establishment of an ongoing training program for operating personnel of the government of the District of Columbia."

Do you consider that to be an indispensable part of any legislation that we might enact on this subject?

Mr. COPPIE. I think the critical point here, Mr. Chairman, is that the system only will be as good as the people who are finally operating it, and the information that is going into it. So we would see the training aspect as being the vital part of the contract implementing the system.

The CHAIRMAN. Thank you, Mr. Mayor, and thank you, Mr. Coppie.

MAYOR WASHINGTON. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness is Sterling Tucker, Chairman of the District of Columbia City Council.

**STATEMENT OF STERLING TUCKER, CHAIRMAN, DISTRICT OF
COLUMBIA CITY COUNCIL**

Chairman TUCKER. Good morning, Mr. Chairman.
It is good to be here.

I would want, Mr. Chairman, to support the Mayor's position, and to state the Council's feeling as he expressed here, the appreciation of the Council, for the leadership you are giving in this matter.

The other day I had a briefing of the full Council by some of the leadership of the Arthur Andersen group.

It proved to be very helpful. I now have all nine volumes, and I am working my way through them, hoping to understand more fully. Mr. Chairman, we hope this is not a dark day, but a bright day, where we begin to straighten out the situations that are critical.

AUDITOR OF THE DISTRICT OF COLUMBIA

I would point out several things, as I read the bills, both the House and Senate bills, I do note that neither reflects a role for the District of Columbia auditor, and the home rule act specifically establishes that office.

It would seem to me it might be useful in some way that there be a role carved out for the auditor, even in the early stages.

It is my view, that it might be that the responsibility for the selection of the accountant might have been a role for the auditor in some way. Not necessarily taking away from any other role, but I think the District of Columbia auditor, with a continuing responsibility in this whole matter, might well, in being on the ground floor, be in an extraordinary position to function later on in connection with the work.

REPORTING OF PROGRESS

Second, Mr. Chairman, on page 5 of the Senate bill, lines 9 and 10, advises the contractor shall report to the joint committee on the progress toward completion of the contract.

I would think, Mr. Chairman, it might be useful to do some reporting to the District of Columbia also.

The Council would appreciate an opportunity to keep abreast of the progress being made by each contractor, as the work proceeds.

I know that there are roles written in later, but again I feel these later roles can be performed more effectively when there has been an opportunity to follow the work very closely all along.

OVERSIGHT RESPONSIBILITY FOR CITY COUNCIL

Page 7 of the bill, beginning about line 10, it would seem to me, Mr. Chairman, it might be useful to write into the bill some oversight responsibility on the part of the Council for the implementation of the work.

By so doing, I think it would establish a legitimate role that ought to be played, so that that legislative body of the government of the District of Columbia would exercise a function which I think properly is its function.

Mr. Chairman, I would state, I do not know from what source in the Federal Government the \$20 million would be coming, but I would hope that it would not be considered a part of the Federal payment. It should not come from that. We should not be shortchanged in the amount already written into the law. That, of course, there will

be needed an amendment to Public Law 93-198, so that everybody will understand that there is not to be any confusion later on as to how that money is to come to us.

Again, Mr. Chairman, I would say that I think the work on this point has been very carefully worked out. We are anxious, in the Council, to exercise our responsibility under the law and to participate in whatever way you and other Members of the Congress feel we can best carry out our roles, both in this interim period and in that period beyond.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Tucker.

I have been very pleased by the receptive way in which the Andersen report has been received by not only the Mayor, as I said earlier, but by the District of Columbia City Council of which you are the Chairman.

That gives me great cause for hope that working together cooperatively, we can in due time get these matters in good and responsible shape.

I will instruct the staff to consider in what way the District of Columbia City Council and the auditor can be made part of this ongoing process, so we can have the benefit of their input, and their commentaries as these matters are being worked upon.

Insofar as the money questions are concerned: I view it that this ought to be additional money, not taken out of the Federal payment, but additional money taken out of the Federal Treasury to finish and complete this work, as I said earlier, which should have been done many, many years ago prior to home rule, so it would not be a penalty to the District of Columbia in a reduction of Federal payment.

I think our bill is clear in that regard, but if it is not, we will try to use additional language to make it clearer.

Thank you very much.

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

The CHAIRMAN. Our next witness is the Hon. Elmer B. Staats, Comptroller General of the United States.

General Staats, welcome to the committee.

STATEMENT OF ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES; ACCOMPANIED BY RICHARD W. MAYCOCK, DEPUTY DIRECTOR, FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION, GENERAL ACCOUNTING OFFICE

General STAATS. Thank you very much, Mr. Chairman.

We appreciate your invitation to be here this morning.

I would like to say we are very appreciative of the work you are doing here, Mr. Chairman. You are bringing about a reform, as you indicated to the previous witnesses, which is long overdue and which should have been dealt with many years ago.

GAO SUPPORTS EFFORTS

We fully support the efforts of this committee and the House District Committee to strengthen the District government's financial man-

agement and to improve the credibility of its financial statements. As you know, we have issued numerous reports through the years recommending improvements in the District government's financial management and addressing many of the matters discussed in the Arthur Andersen report. In addition, to help bring about needed changes, GAO employees served on the Nelsen Commission, which issued a comprehensive report on the District government's financial management in August 1972. Our staff also served from 1972 to 1974 on a District government project team which obtained information needed to design new accounting systems. On several occasions, we have obtained information about the District government's financial management for the Congress. Most recently, we provided the House District Committee with our views on the improvements needed in the District government's accounting systems in a report dated February 27, 1976, which is an attachment to my statement. Because of this extensive involvement, we are very pleased at the action being taken by the Congress to improve the District government's financial management.

We believe that either H.R. 11009 or S. 3608 could bring about the needed improvements in the District government's financial management systems and, of course, both bills provide for independent audits of the District government's financial condition.

CONSULTATION IMPORTANT

At the invitation of the staff director of this committee, we provided suggestions which have been incorporated into S. 3608. We are pleased that subsection 2(a) has been revised to require the joint committee to consult with the Comptroller General, the Mayor of the District of Columbia, and the Chairman of the Council of the District of Columbia before selecting the contractors. We believe that it is important that District government officials be consulted regarding the nature of the systems to be designed because they will be responsible for operating the systems after they are implemented. It is important that we be consulted regarding the scope of the contracts to assure that the documentation prepared by the contractors will be sufficient for our evaluation. One purpose of our evaluation of the documentation will be to approve the accounting systems, which is required by the Budget and Accounting Procedures Act of 1950.

TRAINING OF PERSONNEL

Subsection 2(b) requires the contractors to prepare ongoing programs for training District government personnel. This is essential. We are aware of many cases in which systems have not been implemented, or have not functioned properly, because the contractor was released before the client's employees were trained.

SUBMISSION OF PLANS

Subsection 2(e) (4) provides that the Comptroller General shall submit the plans which he approves or modifies to the Congress. We presume that it is intended that the plans will be submitted to the Congress for informational purposes only since we have the basic statu-

tory responsibility and authority for reviewing and approving the accounting systems of the District of Columbia.

AUDIT CONTROL COMMISSION

Section 4(d)(1) establishes an Audit Control Commission consisting of members of the Congress and City Council. Although we do not have strong views on this, it might do well to limit the period in which members of the Congress would be on the Commission. After an appropriate period, say 5 years, the two positions held by the members of Congress could be filled by citizens of the District of Columbia.

COST ESTIMATION PROBLEM

Section 5(c) authorizes \$20 million to make the financial management improvements and the first two audits authorized by the bill. We believe—and understand that representatives of Arthur Andersen & Co. said the same thing during the hearings on June 19—that the cost of doing this work cannot be estimated with any degree of accuracy until some preliminary work has been done. As my staff informed the Subcommittee on Government Operations of the House District Committee on March 30, 1976, to make a reasonable cost estimate additional information is needed on certain factors, including: The number of agency systems which need little or no improvement; the use which can be made of systems developed for other cities; the use which can be made of systems developed for Federal agencies, such as payroll systems; the possibility of developing a system which can be adapted to several District agencies; the extent to which portions of existing systems, and the central system being developed by the District government, can be salvaged.

Although we have not completed our review of Arthur Andersen's report, we do not believe that it contains enough of this additional information to resolve the cost estimation problem. For reference purposes, it may be useful to know that New York has contracted for about \$14 million of improvements in its accounting system.

WORK SHOULD BE ACCOMPLISHED IN PHASES

Because of the unknown factors, we believe the work should be accomplished in phases and that the first five tasks set forth in our February 27, 1976, report should be accomplished, under contract, before contracting for the design of the accounting systems. The information produced under the initial contract would permit the scope of the subsequent contracts to be better defined. This approach would permit the maximum use of competitive procurement methods and fixed-price contracts.

We believe this to be more in the spirit of the District of Columbia charter.

TASKS

I might read for the record here, Mr. Chairman, these tasks which are in our report. Perhaps it would clarify the point.

The CHAIRMAN. What page are you on?

General STAATS. Page 25 of the February 27, 1976, report.

The first is to consult with the District government and contractor personnel, particularly about our documentation requirements for accounting system designs.

If requested by the Congress, monitor the contract, or contracts, for improving the District government's accounting systems.

Evaluate and approve designs for the District government's accounting systems as expeditiously as possible.

Review the new accounting systems after they have been implemented to insure that they are properly implemented and operating effectively and efficiently.

Strengthen the overall management of the District government's accounting operations by placing the responsibility and authority for all accounting operations with a high level official in OBMS who can devote full time to these responsibilities. If a contractor is not used to improve the accounting systems, we suggest that this individual personally direct the improvement of the accounting systems through the first seven tasks identified in chapter 5. We also suggest that this individual establish policies and procedures for the design and operation of all of the District government's accounting systems.

Strengthen the management of the individual accounting systems of the District government by requiring the Director of OBMS to designate a manager for each accounting system who will be held responsible for the system's design and operation.

After the first seven tasks identified in chapter 5 have been completed, change the role of the Systems Development Division to a service organization responsible for providing systems accounts and computer experts to work under the direction of the accounting systems managers when so requested by the manager. We believe the accounting systems managers must have this authority if they are to be held responsible for the performance of the accounting systems.

Request adequate resources for the design and operation of the accounting systems.

Establish an office under the accounting officer in OBMS—the new position recommended above—to prepare the financial statements and reports required by the Congress, City Council, Mayor, and other District government officials. We believe that the lack of a collection point for financial information has contributed to the weaknesses in financial statements and reports referred to in chapter 2.

After the new accounting systems are designed, prepare an accounting manual for each accounting system and written procedures for each employee performing an accounting operation. The procedures should establish a deadline for completing the operation.

Assign the manager of each accounting system the responsibility for insuring that all employees performing accounting operations for that system have been properly trained.

Require the Office of Municipal Audit and Inspection to review each accounting system at least every 3 years to insure that it is functioning properly and assign the OBMS accounting officer the responsibility for insuring that weaknesses disclosed by the reviews are corrected.

CONTRACTING

The CHAIRMAN. Let me see if I understand, Mr. Staats.

Are these recommendations, are these matters that you and your fine people in the GAO will do prior to the contracting being let, that is, the first five points, or are these indispensable prerequisites prior to hiring outside contracting firms, or do we hire outside accounting firms to do these five?

General STAATS. It would be the latter. We would favor a contract, but to make it up in two phases, so that before you go to the design of the complete system, that in fact this would be the system, and we do not believe you could get a good contract on a fixed price basis for the design of the systems until you have gone through these five preliminary steps, but we would favor having a contractor to do these first five.

The CHAIRMAN. How would we design the contract? We, in Congress, in receiving your advice: How would we design the contract to establish those five?

Do you think a contract could be let which would be sufficiently specific to accomplish these five goals.

General STAATS. We think so. We, of course, would want to keep in touch with the two District committees and work with the District of Columbia government in doing that, but we would favor a contract to carry out what we have tried to incorporate in these first five tasks.

PHASES

The CHAIRMAN. I have used the vernacular since we have been discussing these things back in the tail end of 1975, and through the early months of 1976, I have been talking in terms of phase 1 and phase 2, and this is just my layman's approach, phase 1 is what has been accomplished by the Arthur Andersen report. It is the overview.

In listening to your testimony, I think maybe now we have got a situation where there are four phases, and let me run through this and see if my layman's understanding of this makes some sense.

Phase 1 is completed, the Arthur Andersen report, the overview.

Phase 2 would basically be specific detailed work done in accordance with the five suggestions on page 24 of your report.

Phase 3 which will take maybe a couple of years, would be getting the new systems into place, new systems as designed by the independent accounting firms, pursuant to the guidelines on page 24.

Phase 4 would be the first and succeeding annual audits.

Now, is my layman's understanding of this reasonably accurate?

General STAATS. We believe so. I have consulted with Mr. Maycock. I believe that would be a good summary of our understanding.

One other way to characterize your phase 3 would be to pick up steps 6-9, as set forth on page 24 of our report.

The CHAIRMAN. Let me glance at 6-9, if I may.

Yes, I concur with that, because number 8 on page 24 reads as follows: "Design as many of the new systems as possible during the remainder of the 2-year period, starting with those most vital to pro-

ducing the information needed, to prepare financial statements, and report to the Council and Mayor."

"Eight and nine, after the design has been approved by our office at GAO."

I will not read it all.

The first four is the first and succeeding annual audit, once these new systems are in place.

General STAATS. Mr. Maycock reminds that phase 2, which is 6 through 9, might actually be done by more than one contractor.

The CHAIRMAN. Absolutely. I do not think there is any question about it. I am not sure even with these big firms here in the District of Columbia, that any one of them could do the total package, because of the amount of personnel that may be required.

Number two, I am not sure that we should consider any one of them doing it. I think it is wholesome to have this spread out, insofar as is feasible and functional, among several of the accounting firms, and particularly I am going to insist that a minority accounting firm or firms be brought into this picture.

General STAATS. That is a bridge, of course, we could cross after phase 2.

The CHAIRMAN. With phase 2, there is no way to parcel that out? As you view it, it ought to perhaps go to one public accounting firm.

General STAATS. This is a single contract.

What you are essentially doing is contracting for the scope of the work that would be done under phase 3, and phase 3 then could be broken into two parts.

PHASE 2: ESTIMATE ON TIME AND COST

The CHAIRMAN. I may be catching you on your blind side, but phase 2: How long do you think that might take?

Give us a very rough estimate. We will not hold you to the precise day, but are we talking of something that will take a few months or a half a year or what?

General STAATS. We think 6 months would be a good estimate.

The CHAIRMAN. Another one, what are we talking about roughly in dollars on this, is this something under a million?

General STAATS. I think we made an estimate that when we were discussing this with the House committee, in the range of a million to a million and a half.

The CHAIRMAN. I see.

General STAATS. I hope you will not hold us to a precise figure on that, Mr. Chairman, but it is in that neighborhood.

The CHAIRMAN. We may have made a mistake in publicly discussing this. Since we said that figure, I presume some firms when they bid on this may be pretty close to those figures, but I will get into the bidding business with you a little later on.

COST OF IMPROVING FINANCIAL SYSTEMS

General STAATS. If we could continue then on page 5 of our statement, the last paragraph, we worked closely with the House District Committee during the preparation of H.R. 11009 and believe that the bill would be adequate with the addition of a requirement for

contractor-developed training programs as contained in S. 3608. The only provision of the House bill that concerns us is section 3, which authorizes a total of \$4.5 million for contracts to be awarded by our office for the design and implementation of the financial systems. As we said previously, we believe that there are too many unknown factors for a meaningful estimate to be made at this time of the cost of improving all of the District government's numerous financial management systems. We believe however, that the cost will be considerably more than the \$4.5 million authorized by H.R. 11009. As you know, Mr. Chairman, we brought this matter to your attention and to the attention of the Chairman of the House District Committee, in letters dated June 14, 1976.

If you act on H.R. 11009, we recommend that section 3 be revised to authorize the appropriation of such sums as may be necessary. Congressional control would still be exercised over the cost, of course, in that each year the appropriations committees would determine the amount to be appropriated for continuation of the contracting effort. In our letters, we also recommended certain technical changes in H.R. 11009 which we suggest be incorporated.

That concludes my statement, Mr. Chairman. We will be pleased to try to answer any questions that you and the other members of the committee may have.

The CHAIRMAN. I do have a couple of questions, Mr. Staats.

MONITORING THE PROGRESS

Assuming we follow the basic form of the Senate bill, I am not satisfying every detail of the Senate bill, but the basic thrust of the Senate bill, will there be certain benchmarks in the months and years ahead that you will be able to adhere to, and in turn be able to inform us as to how well the work is going?

By that, I mean, if we appropriate \$20 million, how are we going to be able to tell as we go down this course, that the money is being well spent?

Are there certain identifiable targets as we go down this course, you say, yes, we are progressing on this, the personnel are being trained.

I do not want to be in position when appropriating \$20 million, and then at the end, say we did not get all we thought we would be entitled to.

General STAATS. I would think so. I would think the answer would be we could monitor the effort of the contractors involved, keep the committee advised, either in writing, or orally or both, as to how it is progressing.

One of the reasons we believe so strongly in the need for this phase 2, is to sharpen up as much as we can the specifics of the system to be designed.

We think that way we can hold the contractor more accountable, we think we can get a better fix on costs, and we think we will be able to monitor progress better.

TRAINING

The CHAIRMAN. On the question on training, I see in your statement on page 3: "Subsection 2(b) requires the contractors to prepare an ongoing program for training District government personnel. This is

essential. We are aware of many cases in which systems have not been implemented, or have not functioned properly, because the contractor was released before the client's employees were trained."

Let me say I fully concur with that section, and I consider it to be an indispensable part of the new systems technique. I think I said to Mr. Coppie, or someone earlier, it is one thing to devise a wonderful system—the certified public accountants think they are wonderful, they have them in big books—and it is another thing, maybe an even more difficult thing to make sure you have the personnel on hand to make those systems function.

Are you aware of other governmental entities in this country, passing for the moment the Federal Government, that have established new systems, and have made those new systems work? Are you familiar with any systems, States or counties, that have generally accepted accounting principles as part of their routine techniques, and that they function satisfactorily?

General STAATS. We cannot name specific cities right offhand, but we can certainly supply samples, I am sure, to check it out.

The CHAIRMAN. You might have them check out two or three that are of interest to me, and see what their systems basically are and how well they are working: Kansas City, Mo.; St. Louis County, Mo.; and Houston, Tex.

It has been our information they do have their books and records in shape, insofar as generally accepted accounting principles are concerned, and that they have the personnel to make them function.

Getting back to one of my earlier questions, along the lines, are there benchmarks that will be able to show you, and you in turn show us, that the personnel are being trained as these things are going along, that the personnel are understanding and able to implement it.

General STAATS. I think so. I think we can do that. One of the reasons the training element is so important here is that no modern accounting system can be accomplished, unless accounting related to the computer, and we find in the Federal Government, at least, there is a source of a great deal of difficulty being able, you might say, to marry up the accounting system to the computer system and total management system. So as a condition now for your approval of accounting systems in the Federal agencies, with a lot of tests that we do run, it is to be sure that that is feasible, and it is being done.

COMPUTER USE

The CHAIRMAN. Mayor Washington testified earlier this morning that he put a freeze on the purchase or acquisition of any additional computers, or computer time.

Do you think that is a wise decision, while we are restructuring the systems to put a freeze on new computers, until we know exactly what we want?

General STAATS. We think so.

The CHAIRMAN. How would you describe the degree of sophistication regarding computer use of the current District of Columbia government? Are they using computers to the maximum? Are they using them in a sophisticated way, or does it leave something to be desired?

General STAATS. I will have my colleague respond to that.

Mr. MAYCOCK. Mr. Chairman, it is our observation in some cases, they are using them very efficiently and others are not so efficient.

There is great variation among the different uses of the computer systems at the present time.

The CHAIRMAN. But in any event, the utilization of computers, of course, is an indispensable prerequisite of any modern progressive accounting system.

Mr. MAYCOCK. Particularly one the size of the District of Columbia government.

The CHAIRMAN. On page 3 you state that you presume it is intended the plans will be submitted to the Congress for informational purposes only, since GAO has the basic statutory responsibility and authority for reviewing the accounting systems of the District of Columbia.

General STAATS. That is correct. What the intent is, we want to flag it in this way, and we assume that is your purpose.

The CHAIRMAN. All right.

Moving on to page 4, you say your staff informed the Subcommittee on Government Operations, that additional costs, costs are needed on certain facts, and you list five factors there.

There are some agencies that made little or no improvement.

ESTABLISHED SYSTEMS

How about systems that are established and functioning well in other cities? What about the cities that are satisfactory as to their accounting systems? What about the possibility of developing a system which can be adapted to several District agencies? Those five factors listed on page 4, they would also be part of the analysis that the independent firm would do in our new phase 2, that picks up the recommendations on page 23 of your report, is that correct?

General STAATS. That is correct.

The CHAIRMAN. I think those are excellent.

General STAATS. One of the points we have noted here, is the one you refer to: That use will be made of systems developed in other cities.

The CHAIRMAN. Yes, it may well be that some cities have developed good and workable systems. We can borrow from their experience, and adapt it to the District of Columbia.

General STAATS. If the systems proved their worth, there is no point in reinventing the wheel.

The CHAIRMAN. That is correct.

TRAINING OF PERSONNEL

How important is the training of personnel, on an ongoing basis, to the ultimate success of this endeavor.

General STAATS. The more involvement with the District of Columbia government personnel, the better.

As the work proceeds, they will be kept advised and trained. Where you can install part of the system and implement it, the more involvement there would be.

The CHAIRMAN. In your opinion, are there enough college graduates coming out that have some training in accounting, or accounting

principles, to supply the personnel needs of the District of Columbia, or are we running the risk of setting up some grandiose system for which there are not enough adequate personnel to operate it?

General STAATS. Well, I would like for Mr. Maycock to respond to that also, but my general impression is that this would not be a source of major difficulty.

We may have to work out some problems on salaries, and problems of that type.

Mr. MAYCOCK. I think that would be the problem of the District of Columbia government being able to employ and secure these people, but they are available.

We have approved similar systems, as we contemplate here, for other Federal agencies, and they have been able to secure through the civil service system adequately trained personnel to handle the computer aspects, as well as the accounting aspects.

The CHAIRMAN. We are not talking about hundreds and hundreds of certified public accountants being on the payroll. What we are talking about is some people having training in accountancy, in handling the operation of computers and the like.

Mr. MAYCOCK. And technicians on the ADP side.

General STAATS. It may well be instead of talking about new people, we are talking about training of existing personnel.

COST ESTIMATE

The CHAIRMAN. For phase 3 the Andersen people gave us the very rough outside estimate of \$20 million.

You point out in your statement, that New York is contracting for some \$14 million in improvements in the accounting system.

I take it that it is your opinion we can accomplish these matters, including phase 3, at dollar amounts somewhat less than maybe \$20 million.

General STAATS. Well, again, with the qualifications, we think it is difficult at this point to be too certain, and we think \$20 million will probably do.

The CHAIRMAN. After the contract the phase 2 is complete, the phase 2 you are suggesting, pursuant to our report of February 27, after that contract is let, and information comes in on that contract, we will be better able to target what the dollar price for phase 3 will be.

General STAATS. That is right.

AUTHORIZATION AND APPROPRIATION

The CHAIRMAN. Should we, in this legislation, not even go as far as phase 3? Should we in this legislation merely authorize what is necessary to get you and the outside public accounting firm on the way to phase 2, and yet come back for another piece of legislation in 6 months?

General STAATS. I have not thought about this possibility. My general reaction would be negative in this sense. It seems to me that it would be better to have an understanding and commitment to go ahead and finish off the whole system.

One possibility, of course, would be to authorize an amount to cover phase 2 only, and then come back to Congress for the amount required to implement phase 3.

The CHAIRMAN. We could authorize the amount of phase 3, and only appropriate for the immediate foreseeable future the money for phase 2.

General STAATS. That would probably be even better.

The CHAIRMAN. And then later appropriate on an annual basis for phase 3. That is really the best self-monitoring that Congress can do: Working with you and each year we get a look at how well we are doing; how much is it costing; and what beneficial results are being derived. Would that be a basic work format as you can see it?

General STAATS. That is right. That would be very good.

The CHAIRMAN. I take it that you think that the Senate bill, tidied up in a few areas, and made more specific insofar as the role of the General Accounting Office is concerned, that the basic thrust of S. 3608 is satisfactory to you and your associates?

General STAATS. Yes; that is correct.

The CHAIRMAN. Should we just merely authorize phase 2, and then wait for another date for phase 3? If so we were to authorize phase 2, fund it, and quit there, will we really be buying anything beneficial?

General STAATS. I would not want to say you could not get some beneficial result from it. I would not even want to say it would be worth the money it would cost.

I do think though that it really would not answer the need.

Over several years we have identified enough of the problems in specific situations in the District, and the Arthur Andersen report of course has the advantage of our work, and they were able to identify still other problems, but the essential point I guess we are emphasizing is that you need a total system, a centralized financial management system, bring it up to date, and make it a modern system, that can be audited in the same way as many other cities in this country are able to audit. So without phase 3, I do not believe we would really have addressed the crucial problem that you and we are attempting to resolve.

The CHAIRMAN. That is exactly my viewpoint. I am glad I asked you the question.

Phase 2, for a million and a half, would be useful in gathering more information about the needs of the city insofar as recordkeeping is concerned and other areas of loopholes, which would be discovered, so it would not be a total waste. But if we are talking about getting the books and records of the District into conformity with generally accepted accounting principles, we have got to go for phase 3, and actually to design and put the system into effect, and ultimately go forward with phase 4, the first annual audit.

General STAATS. We simply repeat what we have previously testified, that namely you have to be able to have an audit by a public accounting firm, where an auditor is expected to certify as to the accuracy of those statements.

I do not think it would be possible for any auditor to do this until we have this kind of system in place.

The CHAIRMAN. To make it more specific: After phase 2 is completed, you cannot skip phase 3, and get an audit, there will still be no way to have an annual audit after phase 2 is completed.

General STAATS. That is right.

The CHAIRMAN. Thank you very much.

General STAATS. Thank you.

[The GAO report of February 27, 1976, follows:]

*REPORT TO THE HOUSE COMMITTEE
ON THE DISTRICT OF COLUMBIA
BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*



Improvements Needed In
Accounting Systems
And Suggestions For
Their Accomplishment

District of Columbia

At the request of the Committee, GAO has:

- Identified major improvements needed to get the District government's financial systems in order.
- Evaluated the District government's plans for revising its accounting systems.
- Proposed priorities for accounting system improvement work that might be accomplished by a contractor in the next 2 years.
- Suggested how the Congress, GAO, and the District government can best proceed to improve financial management and reporting by the District government.

FGMSD-76-42



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118638

The Honorable Charles C. Diggs, Jr.
Chairman, Committee on the District
of Columbia
House of Representatives

Dear Mr. Chairman:

The information requested in your December 19, 1975, letter--the improvements needed in the District of Columbia government's accounting systems, our evaluation of plans to improve the systems, and our suggestions for improving the accounting systems and for improving financial management and reporting by the District government--is provided in this report.

Because of the limited time available to prepare the report, District government officials have not been given the opportunity to review and comment on it. To the extent possible, however, we discussed the information in the report with District officials.

Sincerely yours,

A handwritten signature in cursive script, reading "James P. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

CAS	Central accounting system
FMS	Financial Management Information System
GAO	General Accounting Office
OBMS	Office of Budget and Management Systems

COMPTROLLER GENERAL'S
REPORT TO THE COMMITTEE ON
THE DISTRICT OF COLUMBIA
HOUSE OF REPRESENTATIVES

IMPROVEMENTS NEEDED IN
ACCOUNTING SYSTEMS AND
SUGGESTIONS FOR THEIR
ACCOMPLISHMENT
District of Columbia

D I G E S T

In 1972, the Commission on the Organization of the Government of the District of Columbia (the Nelsen Commission) completed a comprehensive review of the District government. It called for a complete redesign of the District government's accounting system, among other things.

The Commission recommended that the Mayor expedite the design and application of a new integrated accounting system that would produce timely and reliable financial information at the operating level as well as the executive level and which would eliminate the existing duplication of effort.

Since that time, the District government has made a number of improvements but the accomplishments have not been nearly as extensive as envisioned by the Nelsen Commission. Audits of selected accounting operations since that date have shown a continued need for accounting system improvement.

As the Comptroller General indicated in his testimony before the Committee on December 8, 1975, the problems are so severe that if an audit of the District government's financial operations and statements were made, the auditor would most likely say that the records and controls were not adequate to enable him to conclude whether the financial statements derived from them presented fairly the District government's financial condition and results of operations.

FGMSD-76-42

Problems identified by the Commission (see pp. 8 to 10) and subsequently by GAO and others (see pp. 11 to 12) which affect the validity of the financial statements include:

- Omission from financial statements of important assets and liabilities, such as real property and the unfunded liability for employees' retirement.
- Incomplete records of amounts invested in inventories of materials, supplies, and equipment.
- Procedures for paying bills which have resulted in duplicate and erroneous payments to vendors.
- Payroll procedures which have permitted payments to former employees after they have left District government's employ.
- Differences between records of District government agencies and central accounting records.

Although the District government has been working on a new system, as recommended by the Nelsen Commission, the results have been disappointingly slow, the time for completion has been unacceptably lengthened, and the integration of the agency systems with the central system is far from being achieved.

Progress has been slow because the District government has tried to do this difficult task without sufficient staff. The District government is planning to request funds for additional staff for the remainder of this year and for next year. Progress will be slow unless additional effort is put into this work.

As requested, GAO has proposed priorities for the accounting system improvement work it believes might be performed by a contractor during the next 2 years. (See pp. 23 to 24.)

Although a contractor could assign enough people to complete all the tasks GAO has outlined in 2 years, this is not probable. However, the design could be completed and at least partly implemented. Any remaining work could be finished in a short time by a contractor or by the District government.

The Congress should enact legislation requiring the District government to improve its accounting systems within a stated period and see that the money needed for that purpose is made available. GAO will continue to provide consultative service to help the District government. For the District government, GAO has proposed changes in organizational structure to facilitate design and implementation of needed system changes.

Because of the limited time available to prepare this report, District government officials have not been given the opportunity to review and comment on it. To the extent possible, however, the information contained in the report was discussed with District government officials.

CHAPTER 1INTRODUCTIONOBJECTIVE OF REPORT

In his December 19, 1975, letter, the Chairman of the House Committee on the District of Columbia requested that we:

- Summarize the major improvements the District government must make to get its financial systems in order. (See pp. 6 to 12.)
- Evaluate the District government's plans for revising its accounting systems. (See pp. 17 to 22.)
- Determine the priorities for the work which can best be done in the next 2 years by a contractor. (See pp. 23 to 24.)
- Suggest how we, the Congress, and the District government can best proceed to meet the objective of good financial management and financial reporting by the District government. (See pp. 25 to 27.)

SCOPE OF REVIEW

To identify the needed improvements, we reviewed the August 1972 report of the Commission on the Organization of the Government of the District of Columbia (Nelsen Commission) and reports issued since 1972 by our Office, the District of Columbia Auditor, the District government's Office of Municipal Audit and Inspection, and the District of Columbia Municipal Research Bureau, Inc.¹/ We then discussed the improvements called for in these reports and other needed improvements of which we were aware with a District government official who knew of the improvements which had been made. The needed improvements listed in the report are those which, we were informed, had not been implemented as of February 13, 1976.

¹/ The District of Columbia Municipal Research Bureau, Inc., is an organization of citizens dedicated to improving governmental services and operations in the District of Columbia.

Since our work was based on previous work performed at different times and since the District government's financial operations are so widespread and varied, the improvements discussed in our report should not be considered all inclusive.

PRESENT ACCOUNTING SYSTEM STRUCTURE

The District government's present accounting system structure consists of three centralized accounting systems--the principal central accounting system (CAS), payroll, and revenue accounting--and an unidentified number of decentralized systems which serve the specialized needs of the agencies.

The accounting principles and standards for the District government were approved by the Comptroller General in February 1972. These principles and standards provide the general guidance for design of accounting systems which will be followed in actually performing accounting operations. As of February 20, 1976, none of the accounting systems designs for the District government had been approved.

The District government's present accounting systems are discussed below.

Central accounting system

This system is under the direction of the District Accounting Office of the Office of Budget and Management Systems (OBMS). CAS (1) maintains the District government's official accounts and records, (2) prepares the District government's financial statements and reports, (3) maintains obligation records and prepares reports on the status of funds for each District agency, and (4) processes documentation for all check disbursements for the District government.

Some of the operations of this accounting system are done centrally and some are done by the agencies. The principal operations and the places at which they are performed follow.

1. Statement and report preparation. This function consists of obtaining the necessary financial information from various sources and preparing the statements and

reports. The principal source of information is the general ledger. Other information is provided by the Office of Budget Operations, OBMS; revenue accounting system; payroll system; the various District government personnel systems; and the District agencies. With the exception of preparing and submitting requested information by the District agencies, the entire function is performed centrally.

2. General ledger maintenance. This function consists of accumulating and summarizing financial information; preparing journal vouchers (documents authorizing entries in the general ledger); and, at the end of each month, recording financial information in the general ledger. Financial information sources include summarizations of financial information processed by CAS, reports prepared by the District Treasury Office on revenues collected, and reports from District agencies.

The reports from District agencies provide information on financial transactions not processed centrally, such as accounts receivable, inventory balances, accounts payable, and capitalized fixed assets. To provide this information, the agencies must perform extensive accounting operations, such as documenting transactions, processing documents, summarizing and recording financial information, and preparing reports required to manage the accounting operations themselves and to provide the information needed to post the general ledger.

3. Maintenance of obligation records. This function consists of major operations at both central and agency levels. Central operations include recording the financial plan for each agency, checking each obligation document for accuracy and legality, determining the availability of funds, recording each obligation, and preparing reports comparing the obligations and financial plan for each agency.

The operations performed by the agencies generally consist of a prevalidation procedure (to determine the availability of funds before incurring an obligation), preparing obligating documents, maintaining records or files of obligations incurred, submitting obligating documents to the central level, and verifying the accuracy of obligations reported by the central level.

4. Check disbursements. This function also consists of central and agency operations. The central operations consist of reviewing and certifying vouchers and preparing checks or computer tapes used to prepare checks. The tapes--used for public assistance and certain other payments--are sent to the U.S. Treasury Department, which prepares the checks and submits them to the District Treasury

Office for distribution. The checks prepared by CAS are sent to the District Treasury Office, where they are signed and distributed.

The operations performed by the agencies include receiving vendors' invoices or initiating documents supporting payments, verifying the accuracy of the invoices and other payment documents, preparing vouchers, and submitting vouchers and supporting documents to the central level.

Payroll system

This system is under the direction of the OBMS District Accounting Office. It prepares the District government's various payrolls, maintains payroll and leave records, prepares payroll-related reports, and administers the District government's retirement programs.

The payroll system consists of both central and agency operations. Central operations include maintaining the customary payroll documents and records; reviewing notifications of personnel actions and time and attendance reports to insure their accuracy and proper approval; computing payroll and retirement payments; preparing vouchers for payment of payrolls, retirement payments, and amounts due to other organizations from amounts withheld from employees and contributed to benefits by the District government; and preparing reports on payroll matters for other District government offices and Federal agencies.

The payroll vouchers are sent to CAS, where the data is recorded on computer tapes. One tape is used to post the general ledger and another is sent to the U.S. Treasury Department, which prepares the payroll checks and submits them to the District Treasury Office for distribution.

Operations conducted by the agencies consist of initiating personnel actions; transmitting employees' authorizations for nonstatutory deductions to the central level; maintaining, certifying, and accumulating time and attendance reports and transmitting them to the central level; and distributing payroll checks, savings bonds, and statements of withholdings to employees.

Revenue accounting system

This system is under the direction of the Department of Finance and Revenue. The revenue accounting system (1) prepares and sends bills for certain taxes, (2) maintains records of uncollected taxes, (3) establishes physical and accounting control over all cash received by the District government, (4) maintains records of cash collections,

(5) deposits collected cash with the U.S. Treasury Department, and (6) provides reports on cash collections to CAS and to various officials of the District government.

Collections for certain purposes are made by District agencies and then transmitted to cashiers in the Department of Finance and Revenue. All other functions of this system are performed at the central level.

Agency accounting systems

In addition to the accounting operations performed with the centralized accounting systems, many District agencies operate internal accounting systems which serve the specialized needs of management. Although the exact number of agency systems is not known by the District government, 28 such systems have been identified to the present time. A list of these systems is included as appendix I.

The primary function of most of the accounting systems operated by the agencies is to accumulate financial information--often costs--for a specific program or function. Although the agency systems may use financial information in reports prepared by the central systems, all accounting operations for these systems are performed by the agencies.

CHAPTER 2IMPROVEMENTS NEEDED IN THE DISTRICTGOVERNMENT'S ACCOUNTING SYSTEMS

The Nelsen Commission recommended that the District government design and implement new accounting systems rather than improve its existing systems. The Commission apparently made this recommendation because of the numerous and serious nature of the needed improvements which it had identified.

The improvements identified by the Commission are listed below, followed by the improvements identified since the Commission's report was issued in August 1972. Some of the improvements identified after August 1972 were referred to in reports issued by our Office, the District of Columbia Auditor, the District government's Office of Municipal Audit and Inspection, and the District of Columbia Municipal Research Bureau, Inc. Other improvements are those which were observed by our staff during the performance of assignments at the District government.

NELSEN COMMISSION RECOMMENDED THAT
PRESENT ACCOUNTING SYSTEMS BE REPLACED

The Nelsen Commission recommended that the Mayor " * * * expedite the design and application of an integrated accounting system which will produce timely and reliable financial information at the operating level as well as the executive level and which will avoid the present duplication of effort."

The Nelsen Commission apparently intended that the new accounting system perform all of the accounting operations required by the District agencies except cost accounting. The Commission's report stated that cost accounting systems " * * * should be in conformance with and auxiliary to the overall (central) system of accounting" and recommended that criteria and guidelines be provided to the District agencies to insure the effective development and operation of cost accounting systems.

The design of new accounting systems was considered necessary by the Commission to correct some of the basic

weaknesses in the District government's accounting operations. The Commission's report summarized the accounting operations containing weaknesses as follows:

"* * * fundamental long-range changes are still required with respect to: organization; fixing accounting policy; designing systems; eliminating duplicate accounting efforts; improving financial discipline and accounting integrity; cost accounting; property accounting; revolving funds; and, most important, redesigning the management reporting system."

Most of the weaknesses disclosed by the Commission have not been corrected. The agencies' accounting operations are still being conducted with only minimal direction from the central level; the design of new accounting systems has been limited to a system to replace CAS; many agencies still perform accounting operations for obligations which duplicate accounting operations at the central level; accounting controls needed to improve financial discipline and accounting integrity have not been implemented in the agencies' operations; the cost accounting systems, all of which are operated by the agencies, have not been improved; improvements have not been made in the procedures for accounting for property; and certain types of property still have not been recorded in the accounting records.

In our opinion, these weaknesses in accounting operations contributed to the financial problems disclosed by our audits during the past 2 years. Some examples of the problems which have been disclosed follow.

- Accounting records were unavailable and accounting data were unreliable and inaccurate at the Forest Haven Home for the Retarded.
- Because of inadequate followup procedures, the Public Schools and Department of Human Resources had not collected 41 travel advances which had been outstanding between 4 and 14 months.
- Controls over the receipt, storage, and issue of supplies by the Public Schools were inadequate, and differences between inventory records and physical inventories were not investigated to determine whether changes in procedures were needed.

- The Redevelopment Land Agency had inadequate records on the number of properties acquired and their acquisition costs. In addition, rent accounts included duplicate charges for some properties as well as improper charges for vacant properties.
- The Department of Human Resources had not requested Medicaid reimbursements for 8,000 patient accounts totaling \$5 million because of incomplete addresses for patients.
- The Department of Human Resources had not promptly posted collections to accounts, bad debts had not been written off, and collection efforts had been minimal.

As shown in the above quotation from its report, the Commission considered the improvement of financial reporting to be very important. It recommended that the District government " * * * develop and implement an effective reporting system which, in coordination with an integrated accounting system, will provide complete and timely financial information for operating management, for executive review and decision-making by the Mayor-Commissioner and his principal staff and line subordinates, and for the information of the public." This recommendation has not been implemented, nor has the need to provide such information been adequately considered during the design of the system to replace CAS.

NEEDED IMPROVEMENTS IDENTIFIED
BY THE NELSEN COMMISSION

The Nelsen Commission's report identified the following needed improvements in the District government's accounting systems.

Needed improvements applicable
to more than one system

- Employ accounting techniques, such as accrual accounting (the recognition of accounting transactions as they occur), which achieve an appropriate matching of revenue and costs.
- Correct the ineffectiveness of the central and agencies' systems caused by the lack of integration and accounting discipline governing operation of the systems.

- Implement controls over documents in transit and those being processed through the accounts.
- Implement procedures for reconciling accounting data entered in more than one accounting system.
- Identify the financial information needed at the various management levels.
- Promote the use of unit costs.
- Issue a new accounting manual to replace the present obsolete and incomplete manual.

The Commission also recommended a number of organizational changes which it believed would strengthen the financial management of the District government. Many of these changes have been made but some have not, such as (1) transferring the administration of comprehensive health planning from the Department of Human Resources to a new Municipal Planning Office, (2) creating a unified manpower agency in the Department of Human Resources, (3) creating a separate Youth Services Administration in the Department of Human Resources, (4) consolidating the Department of Corrections and Board of Parole into a new Department of Correctional Services, and (5) consolidating the various economic development functions of the District government into a new Department of Commerce.

CAS report preparation

- Improve the accuracy of the annual financial statements so that they fairly reflect current financial conditions.
- Include such items as the unfunded retirement liability, the current status of capital outlay and real property accounts, and the status of all assets and liabilities in the published statements.
- Implement a systematic procedure whereby the Mayor is provided with routine written financial information evaluating the District government's effectiveness and efficiency in the services it renders, its progress in major projects underway, and the developing trends which require attention.
- Place more emphasis on financial reports on acquisitions, dispositions, and inventories of both real and personal property.

CAS general ledger maintenance

- Make major improvements needed in the current practices and procedures for maintaining the central accounts.
- Accumulate accounting information needed to provide effective backup support for the budget justification.
- Record all real and personal property which has not been recorded in the central accounts, including the cost of roads, streets, and bridges.
- Implement controls at the central level to assure that reports on inventory balances for materials, supplies, and equipment are received for applicable agencies and posted in the central accounts.
- Integrate cost accounts maintained by the agencies with the central system.

CAS maintenance of obligation records

- Improve administrative control of funds procedures to provide centralized project approval control over capital outlay projects and effective control over incurring obligations.

Agency accounting systems

- Eliminate the duplication caused by operating separate systems at the central and agency levels.
- Revise account titles and codes in the agencies' systems to agree with those used in the central system.
- Improve personal property records maintained by some agencies.
- Implement controls to provide positive assurance that purchases are entered in the agencies' inventory accounts.
- Improve cost accounting for special services and products for which user charges are collected.
- Tailor cost accounting techniques to the needs of each different operation.
- Prepare periodic cost reports, which are almost totally lacking.

NEEDED IMPROVEMENTS IDENTIFIED
BY GAO AND OTHERS

Listed below are improvements needed in the District government's accounting systems which have been identified since the Nelsen Commission's report was issued in August 1972.

CAS report preparation

- Include additional financial statements in the District government's annual published report, including a statement of estimated and actual revenue, a statement of estimated and actual disbursements, and a balance sheet and statement of operations for each revolving fund.
- Improve the combined balance sheet included in the annual published report to improve its completeness and accuracy.

CAS general ledger maintenance

- Improve the agencies' timeliness in submitting to CAS documents of cash receipts and disbursements.
- Post more than once a year the general ledger controlling accounts for accounts receivable, accounts payable, and inventories.

CAS maintenance of obligation records

- Improve fund control for personnel compensation to identify shortages of funds before the end of the fiscal year.
- Implement procedures to insure that employees assigned to grant programs are reassigned before the amount of the grant is exceeded.
- Record advances from the District agencies to the various District government revolving funds as advances rather than as obligations.

CAS check disbursements

- Implement procedures to prevent duplicate and other erroneous payments to vendors.

Payroll system

- Establish controls to insure that personnel are included in and removed from the payroll at the proper time.
- Correct the causes of reported deficiencies in time and attendance reporting and leave accounting.

Revenue accounting system

- Implement procedures in the agencies and the Department of Finance and Revenue to reduce the considerable delay in recording revenue and depositing collections.
- Record revenue, where appropriate, on the accrual basis (when it becomes owed to the District government).

Agency accounting systems

- Identify all accounting systems operated by the agencies and eliminate those which are unneeded.
- Establish policies and procedures to govern the agencies' accounting systems to promote uniformity in the District government's accounting operations.
- Prepare instructions for each employee performing accounting operations.
- Prepare financial statements for revolving funds and other operations and functions.
- Eliminate agency accounting operations for fund control as soon as the CAS reports meet the agency's needs.
- Reconcile accounting information produced by an agency system to that produced by the central systems.
- Improve procedures for identifying and taking action on delinquent accounts receivable.
- Require the agencies to base their annual statement of inventory on a physical inventory, as required by existing instructions.

CHAPTER 3DISTRICT GOVERNMENT'S PLANS FOR IMPROVING
ITS ACCOUNTING SYSTEMS

The District government established a plan for improving its accounting systems in 1971 which has remained substantially unchanged. The plan provides for developing a new centralized system to replace CAS, a new payroll system, and a new revenue accounting system; for eliminating as many accounting operations in the agencies as possible; and for improving those accounting operations which the agencies must retain.

The responsibility for improving accounting systems was assigned to the Systems Development Division of OBMS on April 5, 1972.

IMPROVEMENTS THROUGH 1975

In October 1972 a project team composed of District government and GAO employees was established to (1) identify the specific accounting information needed by each District office and agency, (2) determine an appropriate source for each type of accounting information identified, and (3) design or redesign each accounting system identified as a source of information to conform with the District government's accounting principles and standards, which we approved in February 1972.

The team identified the accounting information needed by many District offices and agencies before District government officials discontinued the project in early 1974. They determined that the objectives of the accounting systems development program could best be met by initially concentrating on replacing CAS with a new principal accounting system--the financial management information system (FMIS). During fiscal year 1975 the financial information that could be provided by FMIS was identified, formats of proposed reports were provided to all District offices and agencies to solicit suggestions for improvement, the concept of the system was documented, and work on implementing the first of 12 subsystems was started.

RECENT CHANGES IN PLANS

At the end of 1975, the District government's plans for improving its accounting systems was to extend into fiscal year 1982. On January 26, 1976, a District government official informed us that a proposed supplemental appropriation

for fiscal year 1976 and the District government's budget for fiscal year 1977 were recently increased by approximately \$1 million and \$3 million, respectively, to provide the funds necessary to expedite needed improvements in the accounting systems.

If the increases in funds are provided, the District government plans to increase from 11 to 48 the Systems Development Division staff working on accounting systems improvements. Twenty of the additional staff would design, implement, and operate a new payroll-personnel system and 17 would work on other systems. The additional funds would also permit the District government to increase its use of contractors.

Since it is not known whether the additional funding will be provided, we have considered both the nonexpedited and the expedited plan in preparing this report.

POLICIES AFFECTING THE IMPROVEMENT
OF ACCOUNTING SYSTEMS

District government officials responsible for developing accounting systems have established many policies which directly affect the accounting systems' development. We believe that these policies--most of which have not been set forth in writing--should be considered part of the accounting systems improvement plan. The policies are as follows:

- Correcting weaknesses in CAS will be given priority over developing new accounting systems.
- Most of the accounting systems work will be performed in-house; contractors will be engaged primarily for consultation purposes.
- The District agencies will be responsible for independently making needed improvements in their accounting operations. The agencies will be required to submit designs of their systems to the Systems Development Division for approval before they are submitted for our approval.
- The central accounting systems will be replaced or improved before the agencies will be required to improve their accounting operations.
- FMIS will perform as much accounting for the agencies as possible.

PLANS FOR IMPROVING SPECIFIC
ACCOUNTING SYSTEMS

The District government's plans for improving specific accounting systems follow.

Central accounting system

CAS is to be replaced with the new system FMIS. The concept of the new system has been documented and the Systems Development Division is preparing design documentation, including computer programs, for the first of 12 subsystems.

Before January 1976 the District government planned to design the subsystems one at a time, implementing each subsystem before starting the design of the next subsystem. Under the January 1976 plan, however, more than one subsystem will be designed at a time if the requests for additional funds are approved. As the design documentation is completed the District government plans to submit each subsystem for our review and approval, which is required by section 112(b) of the Budget and Accounting Procedures Act of 1950.

The target date established before January 1976 by OBMS for completing the design of each of the 12 FMIS subsystems follows.

<u>Subsystem</u>	<u>Completion date</u>
Obligating authority management	Oct. 1976
General ledger	FY 1977
Cash receipts	FY 1977
Federal grants	FY 1978
Capital projects	FY 1978
Accrual processes	FY 1978
Subsidiary ledgers	FY 1978
Long-term debt	FY 1979
Labor distribution	FY 1979
Capitalized personal property	FY 1980
Cost accounting	FY 1981
Material and supply	FY 1982

Under the January 1976 plan the obligating authority management, general ledger, cash receipts, Federal grants, capital projects, and long-term debt subsystems would be implemented in fiscal year 1977 and all other subsystems would be implemented in fiscal year 1978.

Payroll system

Before January 1976 the District government planned to make needed improvements in the existing payroll system. Under the January 1976 plan, the payroll system is to be replaced by a new payroll-position management system. The design of the new system is to start in February 1976 and, if the requests for additional funds are approved, is scheduled to be implemented early in fiscal year 1977.

Revenue accounting system

In the fall of 1975, at the request of OBMS, Department of Finance and Revenue officials evaluated the present revenue accounting system and determined that a new system was required.

Before January 1976 plans had not been established for developing the new system, nor had it been determined whether the new system would be designed by the OBMS Systems Development Division or by the Department of Finance and Revenue. The January 1976 plan, however, provides for work on the design to begin in fiscal year 1977 and for the design to be prepared by the Systems Development Division.

Agency accounting systems

The District government has not established a plan for improving the accounting systems operated by the agencies.

A team of District government and GAO employees was established in the fall of 1975 to identify all the accounting operations performed in each agency to determine the number of agency accounting systems that will be needed after FMIS is implemented. District officials estimate that this task will be completed early in fiscal year 1977. After the accounting systems are identified, the District government is expected to establish plans for documenting these systems and for submitting the documentation for our approval.

CHAPTER 4EVALUATION OF THE DISTRICT GOVERNMENT'S PLANS
FOR IMPROVING ITS ACCOUNTING SYSTEMS

We evaluated the District government's plans for improving its accounting systems in terms of time, cost, and technical approach. We concluded that (1) the planned time frame for making the needed improvements could have been shortened, (2) the cost of implementing the needed improvements had not been determined, and (3) the planned technical approach involved the risk of needing extensive changes after the new systems have been implemented.

The bases for our conclusions are presented below.

EVALUATION OF THE PLANNED TIME FRAME

We reviewed the District government's planned time frame for making needed improvements in its accounting systems to determine whether the improvements were to be made as expeditiously as possible.

Before January 1976 the District government planned to complete the implementation of FMIS in fiscal year 1982 but had not established completion dates for improving the payroll system, implementing the new revenue accounting system, and improving the agency accounting systems. The plan established in January 1976 provided for completing the implementation of FMIS in fiscal year 1978 and for implementing the payroll-position management system early in fiscal year 1977. Completion dates were not established for the revenue accounting system or the agency accounting systems.

In our opinion, fiscal year 1978 is a reasonable target for completing FMIS, considering the size and complexity of the system, and early fiscal year 1977 is a reasonable target for completing the payroll-position management system. We were unable to evaluate the time frame for the revenue accounting system and the agency accounting systems because target completion dates have not been established.

Under present plans the agency systems will be identified in fiscal year 1977, after which the agencies will be required to improve and document the systems. In a letter to the Mayor dated September 23, 1975, we commented on the slow progress in improving the accounting systems and suggested that the agencies' accounting systems be identified so that design

documentation for several systems could be prepared simultaneously. (See app. II.) In his October 21, 1975, reply, the Mayor agreed to attempt to identify the agencies' accounting systems but indicated that the agencies may not be able to assess their needs until the FMIS obligation authority management subsystem is implemented. (See app. III.)

We believe the time required to complete the needed improvements in the District government's accounting systems could be shortened by several years if improvements in the agencies' systems were started now and several were improved simultaneously. This could be done if a complete description of FMIS were prepared to inform agency personnel of its scope and if additional personnel were used to identify the agency systems that will be required after FMIS is implemented.

EVALUATION OF COST

The District government has not determined the cost of making needed improvements in its accounting systems, nor will it be able to do so until it has identified the agency accounting systems that will be needed after FMIS is implemented.

Before January 1976 the District government planned to make the needed improvements in its accounting systems without increasing its staff and, with the exception of consultative services, without using a contractor. The Systems Development Division was to design FMIS and make needed improvements in the payroll system, either the Systems Development Division or the Department of Finance and Revenue was to design the new revenue accounting system, and each District agency was to improve its systems. The District government planned to improve its systems in this manner because it was the least costly way to make the improvements.

We consider the District government's plans to improve the accounting systems with its existing staff to be unrealistic, considering the size and complexity of the systems and the urgency for making the improvements. The Systems Development Division staff assigned to systems improvement work has been increased by only five since early 1972. Six people were assigned to such work in February 1972 whereas 11 are presently assigned.

We have been concerned for some time about the number of employees assigned to the improvement of the accounting systems. In a November 1974 report to the Congress (B-115398, November 12, 1974), we stated:

"To accomplish this most difficult task even within a period of several years will require the assignment by the District Government of additional qualified personnel. The District Government is aware of our views."

The District government's January 1976 plan provides for (1) 17 additional employees to work on FMIS and the revenue accounting system, (2) 20 additional employees to design, implement, and operate the new payroll-position management system, and (3) the increased use of contractors. These changes will, if approved, increase the cost of accounting systems improvement work in fiscal years 1976 and 1977.

We believe the District government has not budgeted for adequate resources for improving the District agencies' accounting systems. These systems urgently need improvement because they provide a large amount of input to the central systems and because they produce all of the District government's cost information.

EVALUATION OF TECHNICAL APPROACH

To evaluate the District government's technical approach for improving its accounting systems, we compared the sequence of work, actual and planned, on FMIS to the sequence of work usually followed by experienced designers of accounting systems. We used FMIS in the comparison because the plans for the other systems did not contain the detail necessary for evaluation.

The sequence generally followed in accounting systems development follows.

- Identify all financial information that must be produced by the system.
- Design report formats and obtain verification from potential users that the reports will meet their needs.
- Identify the most logical source for each item of financial information needed to prepare the reports, considering the new accounting system, other accounting and nonaccounting systems, and cost ascertainment techniques.
- Design a structure of general ledger accounts and subsidiary accounts and records that will provide the financial information to be produced by the new accounting system.

- Design a coding structure which will result in accumulating financial transactions in the proper accounts.
- Design the flow of documents and internal controls for processing accounting transactions.
- Design the computerized aspects of the accounting system.
- Implement the system.

We evaluated the approach followed on FMIS for each of these tasks.

Identify needed financial information

This is a logical first step in designing an accounting system, because the purpose of the system is to provide needed financial information.

In designing FMIS, officials of District offices and agencies were contacted about their needs for financial information. We were informed, however, that many other potential users of financial information from the system were not contacted, including the congressional committees having responsibilities for the District government, City Council, Mayor, and his staff and those responsible for preparing the District government's financial statements. Substantial changes could be required in FMIS at some future date to enable it to produce the financial information needed by these parties.

Design and verify report formats

This step is important in designing an accounting system because it provides assurance that all needs for financial information have been identified and will receive consideration when the account structure is established.

The Systems Development Division staff prepared formats of the reports to be produced by FMIS and gave them to the District offices and agencies for suggestions on improving the reports. The formats were subsequently revised to incorporate suggested changes.

Identify sources of information

A logical source for each item of financial information on the report formats should be identified at this point so that the new accounting system account structure can be designed to provide all of the financial information that the system is to produce.

In designing FMIS the Systems Development Division staff did not identify a logical source for each item of financial information on the report formats. Instead, it identified the financial information that was expected to be produced by FMIS and considered the District agencies to be the source of all other financial information. Therefore, a logical and reliable source has yet to be identified for several important items of financial information to be included on the reports, such as payables, inventory balances, and receivables.

We believe that the information to be produced by each agency system should be identified and that needed improvements be made in the systems as soon as possible.

Design an account structure

The account structure--general ledger accounts and subsidiary accounts and records, including any of those to be computerized--should be established at this point. Because of the work performed previously, the accounts and records can be tailored to accumulate the financial information to be produced by the system.

The Systems Development Division staff is establishing an account structure for FMIS during the preparation of the detailed design for the obligating authority management subsystem. In our opinion, the account structure is being established prematurely because all of the financial information to be produced by FMIS has not been identified.

Design a coding structure

The coding structure can be designed after the account structure has been established, because it is then known how the various types of accounting transactions must be accumulated to post the accounts. The Systems Development Division staff designed the coding structure for FMIS before the account structure was designed. We believe that the coding structure could require extensive revisions after the account structure has been designed.

Design the document flow and internal controls

The flow of documents and internal controls for processing accounting transactions can be designed after the preceding step because the coding structure dictates which accounting transactions must be documented and how the documents should be

batched to facilitate processing. The Systems Development Division staff has not started to design the flow of documents and internal controls for FMIS, except for the flow of obligating documents from the agencies to the central level.

Design the computerized aspects

Changes in the design of the computerized aspects of an accounting system are usually time consuming and expensive. It is therefore important that the manual aspects of the system be firmly established before the computerized aspects are designed. The Systems Development Division staff is in the process of designing the computerized aspects of the obligating authority management subsystem of FMIS. In our opinion, this work is being performed prematurely because, as discussed previously, several manual aspects of the design have not been completed.

Implement the system

We strongly believe that accounting systems which are subject to our approval should not be implemented until the design has been approved. Because our reviews often disclose matters which require extensive changes in the design, the premature implementation of a system should be avoided so that changes will not be required in the implemented system as a result of our review. Changes in implemented systems are often very costly, especially if computerized aspects are involved.

The District government plans to implement the various subsystems of FMIS before they are approved. We, of course, do not agree with the District government's plans in this matter.

CHAPTER 5SUGGESTED PRIORITIES IF A CONTRACTOR IS HIRED
TO IMPROVE THE ACCOUNTING SYSTEMS

The sequence of tasks in this chapter represents our suggested priorities for the work which can best be accomplished with a contractor during the next 2 years. The objectives of most of these tasks were explained in chapter four.

The sequence of tasks which we are suggesting includes an identification of the financial information which must be produced and, if necessary, a restructuring of the accounting systems. Although these tasks may duplicate or negate certain work that has been performed on FMIS, we believe that they are necessary to insure that the District government's improved accounting systems will be capable of producing all needed financial information and will produce it most effectively and efficiently. These tasks were not adequately performed before the FMIS design was started.

Our suggested sequence of tasks follows.

1. Design, in conformity with generally accepted accounting principles, financial statements which will present fairly the financial position and results of operations of the respective District government funds.
2. Identify the financial information needed by the congressional committees with responsibilities for the District government, the City Council, and the Mayor and his staff.
3. With the assistance of District government personnel, identify all financial information needed by each District agency. A special effort should be made to identify the information needed by the heads of the agencies and their staffs, intermediate level managers, and the managers of major programs and functions, because little attention has been given to their needs in the past.
4. Prepare formats of the reports that must be produced to satisfy the identified needs for financial information and obtain verification from the intended recipients that the reports will be adequate. In performing this task, the report formats prepared for FMIS should be used to the extent possible.

5. Identify the most logical source for each item of financial information on the formats of the financial statements and reports.
6. Group the identified sources of information into a logical structure of accounting systems, establish the boundaries for each system, prepare a description of each system, and identify the interfaces between systems.
7. Evaluate the work that has been performed on FMIS and incorporate as much as possible into the new structure of systems.
8. Design as many of the new systems as possible during the remainder of the 2-year period, starting with those most vital to producing the information needed to prepare financial statements and reports to the Congress, City Council, and Mayor.
9. After the designs have been approved by our Office, the contractor should help the District government implement the systems, train District government personnel to operate the systems, and prepare an accounting manual for each system.

Although a contractor could possibly apply sufficient resources in 2 years to design and implement all of the new accounting systems, it is not probable. If the work is not completed in 2 years, we believe that the tasks which we have suggested would bring the work to a point where it could be completed within a relatively short time by the same contractor, another contractor, or by District government personnel.

CHAPTER 6SUGGESTIONS FOR IMPROVING FINANCIAL
MANAGEMENT AND FINANCIAL REPORTING

The following actions are suggested in response to the Chairman's request that we suggest how we, the Congress, and the District government can best proceed to meet the objective of good financial management and financial reporting by the District government.

CONGRESS

- After consulting with District government officials, enact legislation requiring the District government to improve its accounting systems within a stated period of time. We suggest that within a reasonable time the District government be required to submit to the congressional committees with responsibilities for the District government a plan for making the needed accounting systems improvements, specifying the sequence of tasks to be performed and the work to be performed by a contractor. We also suggest that the congressional committees monitor the progress of the accounting systems' improvement by requiring responsible District government officials to periodically report on the status of the work.
- Take such actions as are necessary to see that the funds required to make the needed improvements in the accounting systems are made available.

GAO

- Consult with District government and contractor personnel, particularly about our documentation requirements for accounting system designs.
- If requested by the Congress, monitor the contract, or contracts, for improving the District government's accounting systems.
- Evaluate and approve designs for the District government's accounting systems as expeditiously as possible.
- Review the new accounting systems after they have been implemented to insure that they are properly implemented and operating effectively and efficiently.

DISTRICT GOVERNMENT

- Strengthen the overall management of the District government's accounting operations by placing the responsibility and authority for all accounting operations with a high level official in OBMS who can devote full time to these responsibilities. If a contractor is not used to improve the accounting systems, we suggest that this individual personally direct the improvement of the accounting systems through the first seven tasks identified in chapter five. We also suggest that this individual establish the policies and procedures for the design and operation of all of the District government's accounting systems.
- Strengthen the management of the individual accounting systems of the District government by requiring the Director of OBMS to designate a manager for each accounting system who will be held responsible for the system's design and operation.
- After the first seven tasks identified in chapter five have been completed, change the role of the Systems Development Division to a service organization responsible for providing systems accountants and computer experts to work under the direction of the accounting systems managers when so requested by the managers. We believe the accounting systems managers must have this authority if they are to be held responsible for the performance of the accounting systems.
- Request adequate resources for the design and operation of the accounting systems.
- Establish an office under the accounting officer in OBMS--the new position recommended above--to prepare the financial statements and reports required by the Congress, City Council, Mayor, and other District government officials. We believe that the lack of a collection point for financial information has contributed to the weaknesses in financial statements and reports referred to in chapter two.
- After the new accounting systems are designed, prepare an accounting manual for each accounting system and written procedures for each employee performing an accounting operation. The procedures should establish a deadline for completing the operation.

- Assign the manager of each accounting system the responsibility for insuring that all employees performing accounting operations for that system have been properly trained.
- Require the Office of Municipal Audit and Inspection to review each accounting system at least every 3 years to insure that it is functioning properly and assign the OBMS accounting officer the responsibility for insuring that weaknesses disclosed by the reviews are corrected.

ACCOUNTING SYSTEMS OPERATED
BY AGENCIES OF THE DISTRICT GOVERNMENT

Armory Board:

- Multipurpose accounting (Stadium operating fund)
- Revolving fund accounting (Armory working capital fund)

Department of Corrections:

- Grant accounting
- Multipurpose accounting (Capital outlay)
- Multipurpose accounting (Inmate welfare fund)

Department of Environmental Services:

- Cost accounting
- Revenue accounting

Department of General Services:

- Multipurpose accounting (Educational surplus property)
- Project accounting (Construction services)
- Revolving fund accounting (Postage)
- Revolving fund accounting (Printing and reproduction)
- Revolving fund accounting (Plant repairs and improvement)

Department of Human Resources:

- Multipurpose accounting (D.C. General Hospital)
- Multipurpose accounting (Glendale Hospital)
- Multipurpose accounting (Departmental central system)

Department of Manpower:

- Grant accounting

Department of Recreation:

- Multipurpose accounting

Department of Transportation:

- Project accounting (Highway construction)
- Revolving fund accounting (Maintenance and repair of vehicles)
- Revolving fund accounting (Street restoration)

Executive Office of the Mayor:

- Multipurpose accounting (Publications fund)

Metropolitan Police Department:

- Cost accounting

Office of Human Rights:

- Grant accounting

APPENDIX I

APPENDIX I

Office of Planning and Management:
--Multipurpose accounting (Share computer center)

Office of the Surveyor:
--Cost accounting

Public Schools:
--Multipurpose accounting (Food services fund)

Washington Technical Institute:
--Multipurpose accounting

Youth Opportunity Services:
--Multipurpose accounting

C O P Y

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-140997

September 23, 1975

The Honorable Walter E. Washington
Mayor of the District of Columbia

Dear Mayor Washington:

I have recently reviewed the status of your accounting systems improvement effort and am disappointed, as I am sure you must be, at the slow progress being made.

When we approved your accounting principles and standards almost 3-1/2 years ago, we had high hopes that that was the beginning of a vigorous systems improvement effort in the District of Columbia.

I realize that following our report of March 13, 1972, on violations of the Anti-Deficiency Act, you were under pressure to do a lot of "dike-patching." I am also aware of the reorganization and strengthening of your financial management structure that has since taken place. Nevertheless, progress in developing systems which meet our requirements for approval appear minimal, as indicated in the enclosed summary which is to be included in our 1975 report to the Congress on our accounting system work.

From our point of view--based on observing accounting systems developments in Federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations. This must be done to permit several designs to be prepared simultaneously, which is necessary if all of the District's numerous accounting systems are to be approved and operating within a reasonable period of time. This information is also necessary to determine whether the system which has been informally submitted for our evaluation meets our standards and is therefore approvable.

GAO note: The attachment to this letter was not included in the report because it was not relevant to the subject matter.

FGMSD-76-18

APPENDIX II

APPENDIX II

C O P Y

B-140997

We urge that you and your staff, as soon as possible, address this issue and the related issues of what level in the District organizations will be responsible for designing and operating the various systems and segments. Once these basic issues are settled, the design and documentation work can be planned and undertaken more effectively.

We are appealing to you again on this matter because we are very much interested in seeing that the District has an effective accounting and financial management system. You can count on our continued cooperation.

Sincerely yours,

/s/ Elmer B. Staats

Comptroller General
of the United States

Enclosure



THE DISTRICT OF COLUMBIA

WALTER E. WASHINGTON
MAYOR

WASHINGTON, D. C. 20004

Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

Thank you for your letter of September 23, 1975, in which you expressed your concern regarding the District of Columbia's progress in improving its accounting systems. In my judgment, the District has been moving in a responsible and timely manner in that area, especially when the District's efforts are viewed in the context of its particular requirements as a municipal government.

In your letter you cite experiences with Federal departments and agencies in evaluating the District's efforts:

"From our point of view--based on observing accounting systems developments in Federal agencies--we believe that a major obstacle to progress in the District has been the problem of clearly identifying and defining boundaries of the various accounting systems and subsystems used by District of Columbia organizations."

The District is subject to pressures that are different in many important ways from those being felt by Federal departments, however. The city must operate within stringent funding constraints, thus putting a premium on effective monitoring of obligations and revenues. In addition, city officials and managers need highly detailed program and financial data to respond to the public's demands for accountability by those officials.

In response to the city's special requirements and the overall requirements of sound financial management, we are carrying out concurrently a number of systems development projects, including the work that you have suggested defining the various systems and subsystems in the District.

As the attachment to your letter points out, the city is planning to put in operation by October 1, 1976, a new appropriation-allotment system. That system will improve the timeliness, availability, and accuracy of information on obligations and financial plans at the agency level and at the central level. It will also provide for better safeguards against over-obligations. A more detailed description of the planned system is included in the attachment to this letter.

At the same time, we are planning to make major improvements in personnel management and position control by October 1, 1976. The personnel management system will provide for better information and control.

Preliminary meetings have been held on the development of a new revenue accounting system.

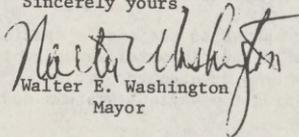
We are also working to identify and define all accounting subsystems in the District, as called for by your letter.

I strongly believe that it is essential that these various improvement efforts be carried out concurrently. The planned improvements in obligation and personnel control are vital to responsible financial management in the District Government and cannot be delayed until all accounting subsystems have been identified and defined. Because of the complexity of the programming and systems design required, it will be difficult to achieve the planned starting date of October 1, 1976, for the systems. Any delay would push the starting date back to Fiscal Year 1978 or later. I believe that such a delay should be avoided if at all possible.

I am hopeful that the concurrent work on the inventory and systems definition will provide the necessary information for the development of the new system. Agencies will be better able to assess their needs as a result of their experience with the design of the new obligation and personnel systems. They will also gain a better understanding of how the new system will meet their needs if they see the system itself under development rather than the design documents for the system.

While we may not agree on the specific steps to be taken in the development of the new system, I am confident that we share the same goal of significantly improving the District's financial management system. I appreciate the ongoing assistance provided by your office in this effort.

Sincerely yours,


Walter E. Washington
Mayor

Attachment

PRINCIPAL OFFICIALS OF
THE DISTRICT OF COLUMBIA GOVERNMENT RESPONSIBLE
FOR THE ACTIVITIES DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
MAYOR (Note a): Walter E. Washington	Nov. 1967	Present
DIRECTOR, OFFICE OF BUDGET AND MANAGEMENT SYSTEMS (notes b, c): Comer S. Coppie	Apr. 1972	Present
DEPUTY DIRECTOR, OFFICE OF BUDGET AND MANAGEMENT SYSTEMS: William R. Krause Max Chaikin	May 1975 Apr. 1972	Present May 1975

a
From November 1967 to January 1, 1975, the position title was Commissioner.

b
From November 1969 to December 3, 1974, the office title was Office of Budget and Financial Management.

c
The responsibility for accounting systems development was transferred from the Office of Planning and Management effective April 5, 1972.

The CHAIRMAN. Our next witness is Mr. Joseph Danzansky, president, Metropolitan Washington Board of Trade.

Welcome to the committee, Mr. Danzansky. You may proceed in any manner you wish.

STATEMENT OF JOSEPH DANZANSKY, PRESIDENT, METROPOLITAN WASHINGTON BOARD OF TRADE

Mr. DANZANSKY. Thank you, Mr. Chairman.

Mr. Chairman, my name is Joseph B. Danzansky, president of Giant Food, Inc., and I am here today as president of the Metropolitan Washington Board of Trade. Accompanying me is Mr. Charles E. Diehl, vice president and treasurer of the George Washington University and chairman of our Economic Development Bureau's Fiscal Affairs Committee.

We commend this committee and you, Mr. Chairman, for your far-sighted leadership in raising issues about the city's financial management and requesting that an independent accounting firm examine in depth the procedures and practices now in existence.

The report you received on June 19 is certainly the most comprehensive review done of the District's financial practices. This morning, I again want to convey to you our belief, as the chairman of this committee expressed well in opening the June 19 hearings, that the results of this report should give no cause for fingerpointing. Political posturing, given the seriousness of the needs outlined in the report, has no place in our community at this time. This committee should be commended, too, for its assumption of some of the responsibilities for the problems depicted in the report. We in the business community share acceptance of the responsibility for the conditions which now exist.

We now stand at the threshold of moving forward to resolve the needs so well portrayed in the report. The bill you introduced provides us with the opportunity to address these problems.

TWO MAJOR THRUSTS

The Board of Trade supports the overall thrust of the report. While we have not had the opportunity to review all of the many recommendations, we support two major needs clearly depicted in the report: (1) Development of strong financial management systems; and (2) development of a centralized financial management capacity.

It is our belief that the charts on pages 33 and 34 of the executive summary are the blueprints for action and contain the elements required to address these needs. Complementing this blueprint, section 2(d)(2) of the bill logically requires a periodic 6-month assessment of the professional contractor's performance so as to assess completion of the several required financial plans.

The Board of Trade endorses the proposed centralized financial management capacity suggested in the report. While we have no particular views on titles and positions in the suggested organizational chart, on page 52 of the summary, we believe that combining the responsibility for control and reporting of revenue, expenditures, and overall financial management systems is prudent and businesslike.

TRAINING

Also, the inclusion in your bill of the mandate that professional contractors provide for personnel training is an excellent requirement. Without adequate personnel orientation and education, no new system can survive to produce its desired results. This training should be accomplished in conjunction with those in the proposed new financial management staff.

OUTSIDE PROFESSIONAL FIRMS

The Board of Trade also endorses the employment of outside professional firms to perform work as outlined in the bill. We would suggest that this committee keep in mind that several such professional firms can work in tandem in preparing the various financial plans outlined in section 2(a). This approach is very similar to the development team concept used in the real estate industry when several professionals are assembled to achieve one objective.

TWENTY MILLION DOLLARS IS AN INVESTMENT

Further, Mr. Chairman, we think that the expenditure of up to \$20 million is clearly justified and is miniscule by comparison to the \$1.5 billion, and probably soon to be \$2 billion, budget approved for the city.

In our own businesses, we stop and question the expenditure of money on systems' improvements and installations, but while such numbers may appear large, they are worthwhile investments for the long-term success of an organization. Your proposed \$20 million for the project should also be viewed as such an investment.

TIMING

Mr. Chairman, we at the Board are very much ready and interested in taking part. Our fiscal affairs work over the last several years has had a high priority. We have spent time educating our members on the city's budget and revenue programs and have taken what we believe to be enlightened but aggressive actions on behalf of our constituency. Our papers and positions have been made available to members of this committee and its staff as well as city government.

The Board of Trade's commitment to systems improvement over the years has seen teams of loaned management talent made available to the city in such areas as education, manpower, human resources, and unemployment administration. We still are ready to provide the city with similar loaned expertise when required.

Lastly, the timing on this, in our judgment, is immediate. Fundamental to the community at large and the region as a whole, the District's financial credibility must be restored and its financial systems become the best in the Nation. Surely, if we are ever to move toward any form of regional financing, the District's financial system must be functional. The bill before you today, coupled with the report provided, clearly provides the direction in which to proceed. Let us coalesce around this bill and move forward.

I might say, in regard to Mr. Staats' testimony this morning and his recommendations: I think they are pretty well covered on pages 23 and 24 of the report, complementing this blueprint section of the bill, logically requires a periodic 6-month assessment of the professional contractor's performance so as to assess completion of the several required financial statements.

Mr. Chairman, that completes my statement.

Thank you.

The CHAIRMAN. Thank you, Mr. Danzansky.

I am interested on page 3 of your prepared statement, the next to the last paragraph, the Board of Trade commitment to systems improvement, and so on.

Mr. DANZANSKY. Mr. Chairman, we are still ready to provide the city with the expertise when required.

LEND TALENT FROM PRIVATE INDUSTRY

The CHAIRMAN. I take it you have followed the events, as they have occurred in New York City, in respect to its financial problems and recordkeeping.

Governor Carey and Mayor Beame have drawn on the resources of private industry to help on a temporary basis some very key roles.

For instance, the vice president and comptroller, I think his name is Alexon, is now the number one adviser to Mayor Beame on budgetary matters. I do not know what his title is. Then there is the overview agency that has been organized. Do you think you could help recruit from private industry in the Washington area some top flight talent that might be loaned to the District of Columbia, on more than just a week or a month basis, but perhaps a couple of years if needed, in order to help get new systems, once they are designed, into place?

Mr. DANZANSKY. Yes, I think we could have tremendous assistance in that regard.

The CHAIRMAN. That may be necessary. It would be preferable to get all the personnel that we can possibly get, and then be able to attract sufficient top management to make it work. But in some of the early startup years, it may be necessary to bring in some personnel from private industry. I hope, if it is necessary, you will extend your best efforts to see that that is accomplished.

Mr. DANZANSKY. We certainly will, and as you know, we have some fine retired people, as well as people who are still active in business, who we think we could call on to perform this kind of service for our community.

The CHAIRMAN. Thank you, Mr. Danzansky.

Mr. DANZANSKY. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness is Mr. Philip M. Dearborn, Executive Director of the District of Columbia Municipal Research Bureau.

STATEMENT OF PHILIP M. DEARBORN, EXECUTIVE DIRECTOR, DISTRICT OF COLUMBIA MUNICIPAL RESEARCH BUREAU

Mr. DEARBORN. Thank you, Mr. Chairman.

The Arthur Andersen Co. report on the District's financial management confirms, and adds considerable detail to the findings of the

August 1975 Municipal Research Bureau publication, "Financial Reporting," which concluded that: "City financial reporting and an accompanying annual postaudit provide the information base on which budget, tax and private investment decisions are made. It is therefore important that the District establish as its immediate goal, the issuance of interim and annual financial reports in conformity with accepted national standards, and with an independent auditor's opinion. Achievement of such a goal will represent a significant milestone for financial management in the District."

We are pleased that the Senate, through the Andersen report, has made clear the specific nature of the financial management problems facing the city and has presented a plan for correcting them. The challenge now is to move ahead as quickly and as effectively as possible. The Bureau welcomes the opportunity to make some brief general suggestions.

AUTHORIZATION AND APPROPRIATION

(1) We urge that there be acceptance in principle of the Andersen report, which provides a total plan for resolving the financial management problems of the city. However, there should be a clear understanding that during the execution of the plan, opportunities will be provided for consideration of alternative approaches to resolving specific problems. One way of achieving such consideration would be to adopt authorizing legislation for the total expected funding, with a requirement for justification and discussion of each major component of the plan, during congressional appropriation hearings.

REPROGRAM CURRENT APPROPRIATIONS

(2) Timing is of the essence. The prime goal and standard for measuring success should be a full audit of the city by fiscal 1978, with no significant qualifications, and with a satisfactory management letter. To achieve this goal will require congressional approval and funds for starting several major segments of the work within a few months. In addition, some of the problems in payroll, sewer and water billings, and other control systems are so urgent that the city should immediately obtain outside help to resolve them. The cost of such immediate assistance should be met by reprogramming current appropriations, without waiting for final decisions on the extent of Federal funding.

FOCUSING AUTHORITY

(3) The management of the project must insure effective implementation of the recommendations. This means that city officials must be motivated, trained, reassigned, and adequately supervised; and that the new systems must be maintained and used on a continuing basis. Such results can only be satisfactorily achieved by focusing authority and responsibility for carrying out the Andersen recommendations directly on city officials, especially the Mayor.

MONITORING PROGRESS

To insure that there is general approval of the actions being taken, the city should be required to fully justify each specific project, prior to congressional approval of funding, and the city should make pro-

gress reports, sufficient to show whether work is proceeding as planned. As a further safeguard, Congress may want to require periodic monitoring of progress by an independent firm, while still leaving the responsibility for carrying out the work with the city.

BUDGET

(4) Congress should consider changes in Federal requirements to aid the city's financial management. The principal problems cited in the Andersen report are the Federal mandating of the October 1-September 30 fiscal year for public schools and higher education; the inability of the city to include anticipated, but unapproved expenditures such as pay raises, in its budget; and the lack of a simple procedure for supplemental budget changes during the fiscal year.

In conclusion, the Bureau commends the Senate for its continued interest in the District's financial management and for providing the Andersen report. We appreciate the opportunity to testify today and at some later time, we will be pleased to make more detailed and specific comments on the Andersen report.

ACQUIRE AND TRAIN NECESSARY PERSONNEL

The CHAIRMAN. Thank you very much, Mr. Dearborn.

Let me direct your attention to page 2 of your statement: That they should work closely with city employees, must be motivated, and so forth.

You, at one time, were the financial officer to the city of Cleveland, is that right?

Mr. DEARBORN. Yes.

The CHAIRMAN. Did you find it difficult, or was it easy, to acquire and train the necessary personnel to do good modern up-to-date record-keeping in the city of Cleveland?

Mr. DEARBORN. Mr. Chairman, that was, I think without qualification, the single most difficult problem I faced in the city administration.

The CHAIRMAN. Is that not an indispensable part of this ongoing program? If we design the systems, but do not have the requisite personnel trained to implement those systems, it will be incomplete?

Mr. DEARBORN. Absolutely. Unless those people understand what you are doing, how you are going to do it, how it fits into the total picture, why it is important to the people above, all the way up to the Mayor, Council, and Congress, belief in what you are doing, and want to make it work, I really do not think you will have success unless you do that.

The CHAIRMAN. So the city personnel have got to be made part of this action very early, they have got to see it evolve, they have got to see it being developed, so that they have an awareness of what their role is, and what this role will continue to be.

Mr. DEARBORN. Absolutely, Senator.

The CHAIRMAN. Thank you very much, Mr. Dearborn.

We appreciate your testimony.

Mr. DEARBORN. Thank you.

[The prepared statement of Mr. Dearborn follows:]

STATEMENT OF PHILIP M. DEARBORN
EXECUTIVE DIRECTOR, D. C. MUNICIPAL RESEARCH BUREAU
BEFORE THE SENATE DISTRICT COMMITTEE
JUNE 28, 1976

The Arthur Andersen Company report on the District's financial management confirms, and adds considerable detail to the findings of the August 1975 Municipal Research Bureau publication, Financial Reporting, which concluded that: "City financial reporting and an accompanying annual post-audit provide the information base on which budget, tax and private investment decisions are made. It is, therefore, important that the District establish as its immediate goal, the issuance of interim and annual financial reports in conformity with accepted National standards, and with an independent auditor's opinion. Achievement of such a goal will represent a significant milestone for financial management in the District."

We are pleased that the Senate, through the Andersen report, has made clear the specific nature of the financial management problems facing the City and has presented a plan for correcting them. The challenge now is to move ahead as quickly and as effectively as possible. The Bureau welcomes the opportunity to make some brief general suggestions.

First, we urge that there be acceptance in principle of the Andersen report, which provides a total plan for resolving the financial management problems of the City. However, there should be a clear understanding that during the execution of the plan, opportunities will be provided for consideration of alternative

approaches to resolving specific problems. One way of achieving such consideration would be to adopt authorizing legislation for the total expected funding, with a requirement for justification and discussion of each major component of the plan, during Congressional appropriation hearings.

Second, timing is of the essence. The prime goal and standard for measuring success should be a full audit of the City by fiscal 1978, with no significant qualifications, and with a satisfactory management letter. To achieve this goal will require Congressional approval and funds for starting several major segments of the work within a few months. In addition, some of the problems in payroll, sewer and water billings, and other control systems are so urgent that the City should immediately obtain outside help to resolve them. The cost of such immediate assistance should be met by reprogramming current appropriations, without waiting for final decisions on the extent of Federal funding.

Third, the management of the project must insure effective implementation of the recommendations. This means that City officials at all levels must work closely with contractors; that City employees must be motivated, trained, reassigned, and adequately supervised; and that the new systems must be maintained and used on a continuing basis. Such results can only be satisfactorily achieved by focusing authority and responsibility for carrying out the Andersen recommendations directly on City officials, especially the Mayor.

To insure that there is general approval of the actions being taken, the City should be required to fully justify each specific project, prior to Congressional approval of funding, and the City should make progress reports, sufficient to show whether work is proceeding as planned. As a further safeguard, Congress may want to require periodic monitoring of progress by an independent firm, while still leaving the responsibility for carrying out the work with the City.

Finally, Congress should consider changes in Federal requirements to aid the City's financial management. The principal problems cited in the Andersen report are the Federal mandating of the October 1 - September 30 fiscal year for public schools and higher education; the inability of the City to include anticipated, but unapproved expenditures such as pay raises, in its budget; and the lack of a simple procedure for supplemental budget changes during the fiscal year.

In conclusion, the Bureau commends the Senate for its continued interest in the District's financial management and for providing the Andersen report. We appreciate the opportunity to testify today and at some later time, we will be pleased to make more detailed and specific comments on the Andersen report.

The CHAIRMAN. We will now hear from Mr. Fred M. Oliver, Government Accounting Specialist, Haskins & Sells, certified public accountants.

Mr. Oliver, you may proceed in whatever way you wish.
First of all, please give us a little history.

STATEMENT OF FRED M. OLIVER, GOVERNMENT ACCOUNTING SPECIALIST, HASKINS & SELLS, CERTIFIED PUBLIC ACCOUNTANTS

Mr. OLIVER. Thank you, Mr. Chairman.

I am Fred M. Oliver, and I am of the firm of Haskins & Sells, and it is a national firm.

HASKINS & SELLS EXPERIENCE

I am a national specialist in the field of governmental accounting and audit.

The CHAIRMAN. Fine.

Mr. OLIVER. I have approximately 36 years of experience in governmental accounting, auditing, and financial affairs of States and local governments.

During this period of time, I have been fortunate in having significant opportunities to make a distinct contribution in the field of generally accepted accounting for States and local governments.

The CHAIRMAN. Could you tell us some of the bigger public accounting work that you have done? Cities that you worked with, counties or States? Could you give us just a few for the purposes of the record?

Mr. OLIVER. I have had the privilege of working and advising, or significantly participating in work in approximately 20 States over the past substantial number of years.

I happen to come from Utah. I designed the general accounting system for the State of Utah, for the Salt Lake Corp., and for a substantial number of cities there.

The CHAIRMAN. Does Utah, either the State or Salt Lake City, have an annual audit or is an audit made every 2 years?

Mr. OLIVER. The State does not audit, as is true in most States.

Salt Lake City is audited annually. We had a very successful implication there.

The CHAIRMAN. You helped design an overall system for Salt Lake City so they could be audited annually?

Mr. OLIVER. Yes.

The CHAIRMAN. Any other cities or counties where you have done similar work?

Mr. OLIVER. Several years ago, I had experience in the designing or overseeing of the implementation called a countywide accounting system and financial management system for Montgomery County, Md.

The CHAIRMAN. Does it have an annual audit?

Mr. OLIVER. They have an annual audit, and it has been one of the most successful system implementations that I have had occasion to be involved in.

Currently, I am serving as a special consultant to the State of New York, for the controller's office.

The CHAIRMAN. That is true of every accounting firm in the United States, is it not?

Mr. OLIVER. Not quite. There will be many accounting firms involved in this process before we are through. The State is using to my knowledge up to this point, only one consultant, and I have had the privilege of serving in that capacity since December, 1975.

My current responsibilities are to advise and assist the State Department of Audit Control, which is part of the controller's office in the exercise of its surveillance responsibilities in accounting, reporting, budgeting, and financial affairs of New York City, and that assignment will continue for some little time.

The CHAIRMAN. Those are very good credentials indeed, and I am going to ask each of the accounting firms to set forth their expertise and credentials in similar fashion.

Now, you can get into the thrust of your statement.

Mr. OLIVER. Thank you very much.

We are pleased to be invited to testify on behalf of our firm. We have already submitted a written statement for the record. We think the thrust of the legislation with respect to the two bills is excellent. We certainly support them in principle.

There are many fine features in each of the respective bills, and it would be desirable to use the best features, that they be encompassed into a single legislative measure.

I will try to leave with you some ideas in addition to what is expressed in my brief statement, that I would hope would be helpful for the particular purpose.

TRAINING PROGRAMS

To begin with, we believe some increased emphasis needs to be placed on significant involvement on District personnel to give assistance.

I have listened to the extensive discussions this morning, emphasizing the importance of that. We think it might be expressed a little more specifically in the bill, and one way to do this would be to expand section 2(b) of the Senate bill, in which the requirement is imposed on the consultants to include an ongoing training program in that particular section during the period of their consulting work.

I think it would be helpful if the responsibility were also fixed on the Mayor of the District of Columbia to see to it that he is required under the legislation to involve his supervisory personnel and obtain enough of them to see that the training really does get accomplished.

LOANING KEY EXECUTIVES

I think it is an excellent idea, what the last speaker has brought out, to obtain on a loan basis key executives with a high degree of financial and accounting training with systems processes on the outside.

As you pointed out it can be done. In New York it is being done with great success. I think it has a parallel connotation in the District of Columbia.

NEW YORK

The CHAIRMAN. Do you think there is even the remotest chance that the books and records of New York City will be in accordance with generally accepted accounting principles within 3 years?

Mr. OLIVER. The Municipal Assistance Cooperation legislation provides now that they should attempt to audit with that hope in mind, as of June 30, 1978. I am sure at that point, and I believe the comment is pertinent to point out, that by that date, it would not be possible for the financial statements to be prepared that would be in conformance with generally accepted accounting principles.

There are already delays in significant segments of the system, which has been designed, which will put it off at least 2 years.

Incidentally, the amendments to the New York City charter, which provided for the revision of the accounting system in total, allowed 5 years—up through the year 1981—for accomplishment of all of this.

They probably might well be more accurate than is the mandated or expressed date in the Municipal Assistance Corporation legislation.

The CHAIRMAN. Not only the MAC legislation, but Congress also thought it would mandate an annual audit in the bailout bill—talked about putting everything in beautiful shape within 3 years, and I see no way that New York will be bailed out within 3 years.

Mr. OLIVER. I will confirm that, I will concur in that judgment.

RESPONSIBLE TO THE JOINT COMMITTEE

I think it would be helpful if it is made clear in the legislation, each consultant would be directly responsible to the joint committee, rather than to a consultant. The legislation is a little unclear, but this would be essential to achieve teamwork and fix responsibility on individual consultants for high grade performance.

FIXING THE DATE

It would seem to be particularly to be premature to fix dates for early audits in the legislative measure.

(1) The important job is to design systems as outlined earlier by speakers and yourself as phase 2, and (2) to assign the consultants, get the work done, find that the system is truly in place, that people who operate it are trained adequately to make it successfully function, and then determine that the District's records are auditable, before undertaking to set a date for an audit.

It seems unwise to fix these dates in the legislative measure so this is sort of a mandate, and it will lead to some false starts in the efforts.

PROGRESS BENCHMARKS

The CHAIRMAN. Would it be useful to have at least certain progress benchmarks so we do not let this thing just slip and slip and slip?

Mr. OLIVER. I think you can establish these benchmarks until completion of the system, without necessarily fixing the date, but try to achieve that date.

For example, I would think it is completely impractical to expect that you would be prepared for a balance sheet audit as of September

30, 1977. I think it is somewhat impractical to set a date within the legislative measure for September 30, 1977, audit.

PHASES

For one thing, phase 1 will take a few months.

The CHAIRMAN. Let us keep our phases numbered accurately.

I am now talking in terms of four phases. Phase 1 has been finished. It is previous to what we are going into now, it is the overview by Arthur Andersen & Co.

Phase 2 is spelling out in greater detail the work that needs to be done, the scope of the new system.

Phase 3 is putting in those new systems themselves.

Phase 4 is an annual audit.

If we can, everybody use that frame of reference, it is the one I can keep in my head.

Mr. OLIVER. Thank you. I should refer to the fact that phase 2 rather than phase 1, will take a few months to be accomplished, and in connection with this, as phase 2 and phase 3 unfolds, there are several review phases in both bills, and those particularly in the House bill involves many more persons than those in the Senate bill. As a result, it would simply be unlikely you would have a system working, the people trained, and the records auditable on a sure basis by September 30, 1977.

Therefore, it would seem that setting dates for these audits, particularly the first one, and perhaps handing them out, perhaps it should be held off to be sure that the system work is completed, and the systems records are auditable.

It seems to me provisions in section 2 of the House bill, from the inception of that section, on page 7, it may be a preferable way to schedule these events rather than that which is named in the Senate bill.

Another reason, of course, is the one I have mentioned, we have mentioned, we have encountered in our New York City consulting experience there, that there have already been requests which appear to be legitimate to delay for at least 2 years the installation of certain keys segments of that total system. It appears that they will likely be approved by the Board of Directors, or Municipal Assistance Corporation, which we believe has the legal power to do so, which will set the auditing back 1 or 2 years at the very least.

Certainly by the 1978 fiscal year that should be the case, and that completes the recommendations we have to make to you, Mr. Chairman, and we would be pleased to answer any questions.

The CHAIRMAN. Thank you, Mr. Oliver.

Let me ask you a couple of questions which I will ask all of the firms.

Have you familiarized yourself with the five points on page 4 of Mr. Staats' testimony?

Mr. OLIVER. It was just handed me a moment before you called me up.

The CHAIRMAN. Why don't you step aside and come back, and I will ask you about those, and do you have a copy of the February 27 report by Mr. Staats?

Mr. OLIVER. I have both documents, and I will be happy to look at them.

The CHAIRMAN. All right. We will be glad to call you back.

Mr. OLIVER. Thank you.

[The prepared statement of Mr. Oliver follows:]

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

1101 FIFTEENTH STREET, N.W.
WASHINGTON, D. C. 20005

June 25, 1976

STATEMENT OF FRED M. OLIVERGovernment Accounting SpecialistHaskins & Sells - Certified Public Accountants

To the United States Senate Committee on the District of Columbia
Honorable Thomas F. Eagleton, Chairman

Mr. Chairman:

As a Partner of the Firm of Haskins & Sells, I am pleased to respond to your request of June 23rd and submit the following statement for the hearing record:

In my judgement, the thrust of the legislative bills is excellent and I would support them in principle. In development of the program for improving the financial planning, reporting, and control systems of the District of Columbia, I would encourage that maximum effort be expended by all consultants to develop pragmatic systems that can be operated effectively by the personnel of the District. Accordingly, it is imperative that the supervisory personnel of the District become deeply involved during the development of each program if they are to

assume operating responsibilities following implementation of each individual system. Approached in this manner, supervisory personnel will cooperate and adopt the new system as "their own". To do otherwise will result in many voluminous reports, acquired at a substantial cost, "gathering dust" on the shelves of the District offices for lack of support and inability to be placed into operation. Mr. Chairman, I say this because I have seen this happen too many times - in short, "money down the drain".

It is suggested that the "financial management system improvements plan" listed on page 3 of the bill include language to incorporate "budgetary procedures". The latter is not specifically mentioned among the ten improvement plans; however, effective budgetary procedures are of such significance that I would urge they be noted in the legislative measures. Likewise, even though not included among the individual plans, it is assumed that the important areas of accounting, budgeting and financial reporting in the public school system are encompassed in the overall system improvement plans, and funding included in the amount specified in the bill.

Indication in the Senate bill of the use of more than one consulting firm seems desirable because:

- (a) this provision will permit the District

- to have the benefit of the most qualified specialists in each plan area when choosing from a number of consulting firms;
- (b) it will facilitate meeting the time schedules set forth in the bill; and
 - (c) it will provide an opportunity to observe the performance of the respective firms during the design and implementation period of each improvement plan.

Under this arrangement, each consulting firm should be assigned a given area of responsibility and required to file its own separate report with the joint committee. It is absolutely essential, in order to achieve proper team work and fix responsibility on the individual consultants, that full recognition be given by the Committee for each consultant's contribution to the overall system improvement plan.

In the fulfillment of each consultant's responsibility it will be of importance to make certain that the resulting accounting records of the District are determined to be auditable before attempting to undertake each of the respective examinations scheduled for September 30, 1977 and 1978.

United States Senate
Committee on the
District of Columbia

-4-

June 25, 1976

It is noted that the Senate bill provides for naming an auditing firm at the same time as engaging consultants for systems development. It would be my judgement that such approval should be delayed for the following reasons:

- (1) a delay of several months would permit the Joint Committee and Comptroller General to observe and evaluate the performance of the firms involved in their design and implementation of the system improvement plans, and
- (2) in the event of unforeseen obstacles, the completion of systems work might be delayed beyond the point that would permit a timely examination of assets and liabilities in the proposed balance sheet audit as of September 30, 1977.

The Joint Committee may wish to provide for flexibility of the time-frame suggested in the Senate bill. In my current service as a special consultant to the State of New York (in prescribing, among other responsibilities, the accounting principles and fund structure applicable to the revised accounting system of New York City, required in a State law to be implemented by July 1, 1977), the City officials have

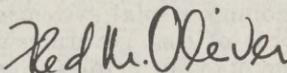
United States Senate
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experienced sufficient difficulties and obstacles to cause them to request a delay of two years for implementation of significant elements of the accounting revision program. In my own role of assisting the State Department of Audit and Control in monitoring the progress of the system revision, it currently appears that such delays are legitimate and may well be approved by the Board of Directors of the Municipal Assistance Corporation (MAC). The current system revision in New York City offers a close parallel to the legislative plans for financial management changes in the District of Columbia.

Respectfully submitted,



Fred M. Oliver
Member of the Firm
of Haskins & Sells

The CHAIRMAN. Our next witness is Mr. J. Robert MacNaughton, Partner-in-Charge, Mid-Atlantic District of Ernst & Ernst.

Do you have a prepared statement, Mr. MacNaughton?

Mr. MACNAUGHTON. Yes. I have one which has been submitted.

The CHAIRMAN. Would you care to highlight it for us?

**STATEMENT OF J. ROBERT MacNAUGHTON, PARTNER-IN-CHARGE,
MID-ATLANTIC DISTRICT, ERNST & ERNST**

Mr. MACNAUGHTON. I have just a couple of comments. One in particular has to do with education.

ERNST & ERNST CREDENTIALS

The CHAIRMAN. You better give us your credentials, or of Ernst & Ernst credentials insofar as Government auditing.

Mr. MACNAUGHTON. We are an international firm of accountants, and we work with a good many cities, towns, and counties.

We, as with others, work with many cities, such as the city of Cleveland and Detroit, and we are working very, very closely on the same kind of basis that Arthur Andersen works here with the District with the city of Los Angeles.

The CHAIRMAN. Has your firm been working with either a city or county in developing a total system of accounting, so as to get the books and records of that governmental entity in order to conform with generally accepted principles of accounting?

Mr. MACNAUGHTON. There are only two principal cities, one is the city of New York, and we are working with this one, and then the city of Los Angeles, and we are working with that one.

The CHAIRMAN. Very good.

EDUCATING PERSONNEL

Mr. MACNAUGHTON. We heard some comments today about education, and how important it is to educate the people who will work with the system.

There are really three phases to education which should be considered. I would like to say a little bit about it.

First, you have to understand accounting to start with, in the city of Washington, we have people that understand basic accounting.

Second, we must teach them what they are to do in the initial instance with their system, and we must keep them educated.

Every public accounting firm that I am familiar with does three kinds of things.

First, they hire people who have education. To the extent they do not, we have special programs to help them in the field.

Second, almost immediately when they come to work with us, we put them in our inhouse schools to start learning what they need to do in the public accounting profession, and then, third, all of us go through continuing education.

I think this is something we have to do with the District of Columbia. We are being most unfortunate to teach people how to work the systems, the equipment, the machines, and learn what reports there are

that have been prepared, and all of a sudden have people move and go some place else, as they do, we must have a continuing education program.

I would like to suggest that we start immediately. I believe part of our next phase, whatever number that might be, and to look at our people and say, now, what kind of things do they have to know at this particular time to get started.

This would not be difficult to do. It would be an inexpensive first contract for some contractors, to look at the educational phase, get people started on them, what is generally accepted accounting principles, what are good bookkeeping procedures to make such a system work.

I think you must do that, Senator, and if you do not, you really do not have much of a chance to make this go.

The CHAIRMAN. I fully concur.

Mr. MACNAUGHTON. But we have not talked about getting started immediately, and I think this is rather important.

ROTATION OF AUDITORS

Just a couple of other comments, which I also include in my written testimony, which I also include in my written testimony under section 4(b).

This section we believe is ambiguous as to its intent.

The section provides for selection of auditors every 4 years, but it does not state whether such selection is part of a formal rotation policy, or whether it is intended to be a reevaluation process.

The CHAIRMAN. What do you think it should be?

Mr. MACNAUGHTON. A reevaluation process.

I think it would be a mistake to provide in the legislation that automatically every 4 years you rotate auditors.

Industrial companies do not do that, other people do not do it.

I think this is something you might want to consider.

The CHAIRMAN. I am told that Kansas City, and St. Louis County, two of the biggest governmental entities in my State as a matter of policy rotate auditing firms on a periodical basis. Not just every year, but every 2, 3, or 4 years: So that no one gets so deeply entrenched they become lackadaisical in their techniques, so that there is some fresh approach, and some fresh ideas. Does that make any sense to you?

Mr. MACNAUGHTON. I am not sure where that information came from, because we have been auditing Kansas City for many years.

The CHAIRMAN. Maybe it was Jackson County.

Mr. MACNAUGHTON. I think it is Jackson County.

The CHAIRMAN. That is the county in which the city is located?

Mr. MACNAUGHTON. That is correct. I lived in that part of the country and worked on it for some time.

The CHAIRMAN. I am told Houston rotates CPA's.

Mr. MACNAUGHTON. On an irregular basis.

The CHAIRMAN. Is there anything to be said for doing it on a regular basis?

Mr. MACNAUGHTON. No.

The CHAIRMAN. Nothing to be said for it?

Mr. MACNAUGHTON. Hardly anything, and the reason is that most accounting firms are big enough, so instead of rotating the firm, they rotate people, and you get new ideas.

That is all I have to add to what I have written.

Perhaps the most important thing though is that educational thing that needs to be studied right now.

The CHAIRMAN. I will address your attention to page 4 of Mr. Staats' testimony, in which he sets forth five things that should be done to make a reasonable cost estimate, as to what ultimately will be needed.

Do you subscribe to those five worthy objectives?

Mr. MACNAUGHTON. I have not had a chance to read it yet.

The CHAIRMAN. Will you step aside then, and read page 4 of Mr. Staats' testimony, and pages 23 and 24 of his February 27 report?

Mr. OLIVER. Yes, sir, I will.

The CHAIRMAN. And then I will call you back to answer questions on that.

Mr. OLIVER. Yes, sir.

Thank you.

[The prepared statement of Mr. MacNaughton follows:]

RESPONSE BY ERNST & ERNST TO THE SENATE COMMITTEE
ON THE DISTRICT OF COLUMBIA ON SENATE BILL 3608

My name is J. Robert MacNaughton. I am a partner with Ernst & Ernst in our Washington office. We are an international firm of certified public accountants with 111 offices in the United States and 63 offices in the major cities of other countries around the world. I appreciate this opportunity to present testimony on Senate Bill 3608

Our firm supports the basic concepts detailed in the two bills, S. 3608 and H.R. 11009, which provide for financial management systems improvement in the District of Columbia Government. We feel it appropriate that the District government should seek to be a model for improvement in municipal financial management and reporting practices.

Our recent assignments with the City of New York, involved with their financial problems, plus our many other municipal and state engagements centering on financial management, have convinced us even further of the need for improvement in governmental financial management and reporting practices. Based on this experience, we believe this Committee and the District of Columbia are certainly correct in their approach to solving the financial management problems of the District through the provisions of these bills. Because of the time requirements set forth in the bill, it will require

many qualified professionals representing several firms to meet these objectives, just as is required currently in the New York situation.

We believe, however, that there are two provisions in the proposed legislation that need modification. First, it is not necessary, nor perhaps even desirable, that the firm that performs the examination of the District's financial statements be the same firm that designs the overall financial management system. Sections 2(a) and 3(c) of the Senate bill provide that the firm selected to develop certain plans for improving the financial planning, reporting and control systems for the District government will also serve as auditors for the period ending September 30, 1978. We believe the Mayor of the District of Columbia and the Financial Oversight Committee should have the flexibility of separating these two tasks in order to give the audit teams adequate time to become familiar with the systems and problems prior to the expected full scale audit requirements of fiscal 1979.

The second provision of the Senate bill upon which we would like to comment is Section 4(b) relating to the method of selection of auditors. We believe this section is ambiguous as to the intent of the Senate. The section provides for the selection of auditors every four years but it does not state whether such selection is a part of a formal rotation policy or whether it is intended to be a re-evaluation process. We believe that arbitrary rotation of auditors is not always in the best interests of the government, particularly

if the present auditors are performing in a professional and satisfactory manner. The interpretation of the legislation as to selection of auditors should not be left to others. Therefore, we recommend that Section 4(b) of the proposed legislation specifically state that the audit firm employed can be reappointed after four years, if selected, through evaluation of their performance.

We commend the Committee for its foresight and action in identifying municipal financial management and reporting practices as an important problem area facing the nation today. We too are concerned with recent trends in our cities' financial affairs. We stand ready to assist the proposed Temporary Joint Committee in its effort to improve "the financial planning, reporting, and control systems" of the District of Columbia government.

Thank you.

The CHAIRMAN. Mr. Oliver, have you had a chance to read those?

Mr. OLIVER. I am still in the process.

The CHAIRMAN. All right.

We will now call Mr. Harold J. Bobys, managing partner, Washington office, chairman, executive committee, Alexander Grant & Co.

Will you come forward and give us your testimony?

First of all, give us the experience that your firm has had in the area of accounting and audit?

STATEMENT OF HAROLD J. BOBYS, MANAGING PARTNER, WASHINGTON OFFICE; CHAIRMAN, EXECUTIVE COMMITTEE; ALEXANDER GRANT & CO.

Mr. BOBYS. I would like to point out I am a managing partner of the Washington office, I am not a technical kind of CPA.

I am an administrator. In addition to running our Washington office, I am chairman of the executive committee of our firm which has offices throughout the country.

ALEXANDER GRANT & CO. EXPERIENCE

We have prepared a statement as to the approach we think should be taken, but in response to your question, let me add quickly that Alexander Grant & Co., has had extensive experience in auditing for municipalities, for cities, and for Government agencies, which is rather staggering.

Some of the more recent kinds of approaches we have taken resemble closely the suggested approach that Arthur Anderson & Co., has made in this particular case.

The city of New Orleans is one in particular I remember well, where we had done a great amount of this kind of operational auditing systems design, et cetera, but I do have a list that is probably 30 or 40 different municipalities that I could recite if you would like.

We appreciate the opportunity to be here today, and to submit our prepared statement.

The CHAIRMAN. Would you like to submit the prepared statement for the record, and give us the highlights of it?

Mr. BOBYS. Yes. A partial list of some of the Government and institutional engagements that I would list would be: The State of Illinois, Department of Finance, which is operations and review; the State of Illinois Department of Conservation, a marketing plan to improve revenue produced by State operations, to enlarge campus facilities.

The city of New Orleans, La., is another one.

The county of Orange, Calif., operations survey and report on various departments of the county government.

The city of Richardson, Tex. I think those are typical of the many I have listed, all of which are contained in our original proposal to your committee last January, which I am sure is on file with your committee.

I would now like to place my prepared statement in the record.

The CHAIRMAN. It is so ordered.

[The prepared statement as read follows:]

Alexander Grant
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INTERNATIONAL FIRM
ALEXANDER GRANT TANSLEY WITT

June 25, 1976

Senator Thomas F. Eagleton,
Chairman
United States Senate Committee
on the District of Columbia
6222 Dirksen Building
Washington, D. C. 20510

Attention: Mr. Robert Harris, Staff Director and
General Counsel

Dear Mr. Chairman:

Alexander Grant & Company appreciates the opportunity to submit this statement for the hearing on the bills designed to provide for improving the financial management systems in the District of Columbia Government.

We have studied the drafts of the Senate and the House bill and have the following comments:

A. There can be no dispute as to the need for a general restructuring and improvement in the financial planning, reporting, accounting, control and operating procedures of the Government of the District of Columbia.

B. The various segments of such a restructuring are clearly delineated in the proposed legislation.

C. The implementation of the various system improvements which are contemplated are necessary before a meaningful audit can be completed in accordance with generally accepted auditing standards.

D. Alexander Grant & Company has had continuing interest in this matter for some time. In June of 1975, we met with officials of the District of Columbia Government and discussed many of the aspects of the problem. These officials indicated their interest in the study and implementation of much of the subject matter now being focused upon.

Senator Thomas F. Eagleton

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E. Alexander Grant & Company believes that the magnitude of the project requires the services of more than one public accounting firm, complemented by the services of at least one management consulting firm.

In our earlier discussions with officials of the District of Columbia Government, we were joined by members of the Booz, Allen & Hamilton, Inc. staff who were and continue to be interested in a joint effort in achieving the goals referred to in the pending legislation.

F. Separation of various segments of the engagement by including in the talent bank several accounting and/or management consulting firms, is a logical one. The advantage, of course, is the opportunity for introducing more objectivity and creativity into the several component phases of the overall project. Extreme caution must be exercised to prevent or limit any duplication of effort in the various phases of the implementation process. Throughout, there are concepts which have mutual application in a number of the problems to be dealt with. For example, payroll controls and system design would apply in the areas of the Department of Human Resources, the School system, etc.

In our original proposal to your Committee last January, we indicated the following reasons for believing that we are qualified to perform this important assignment:

1. We understand the problems.
2. We use the total approach of:
 - Financial auditing
 - Operational auditing
 - Budgeting
 - Controls: Management, Systems, Computer
3. Our approach is a team approach, having our staff work with the District of Columbia Government staff, where possible.
4. We are totally committed to doing the highest form of professional work.
5. Our planning is extensive, pragmatic and realistic.
6. We are objective and impartial.

Alexander Grant
A COMPANY

Senator Thomas F. Eagleton

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June 25, 1976

7. Our firm is large (but not too large), well established, has professional stature and is financially stable.
8. We have had considerable experience in governmental work.
9. We will provide competent, experienced partners, managers and professional staff at a reasonable cost.

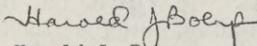
We are prepared to get started at once.

The undersigned, a partner of the firm, has the authority to contractually bind the firm. In addition, he is the managing partner of the Washington office and is the Chairman of the Executive Committee of the firm which has offices in 62 cities in the United States. Questions concerning this matter should be directed to Mr. Harold J. Bobys, Alexander Grant & Company, 1776 K Street, N. W., Washington, D. C. 20006, telephone number (202) 296-7800.

Thank you for the opportunity to submit this information to you. We look forward to hearing from you.

Very truly yours,

ALEXANDER GRANT & COMPANY



Harold J. Bobys
Managing Partner

HJB:sll

The CHAIRMAN. Let me ask you some questions that I am interested in: At the bottom of page 4 of Mr. Staats' testimony he sets forth certain matters that should be considered that would be helpful in making a reasonable cost estimate of what is necessary to be done in phase 2, and then ultimately in phase 3.

I take it you would agree with those as being four or five worthy points?

Mr. BOBYS. I would agree completely with those.

The CHAIRMAN. Now, on pages 23 and 24 of the February 27 GAO report, he sets forth five sequential tasks that should be formulated and used in phase 2: Would you agree with those basically?

Mr. BOBYS. I would agree basically in concept, but also add, sir, if you put 25 CPA's in a room, and ask each of them to come up with a plan, you would come up with 25 pretty good plans, and I suspect in this case there will be some difference of opinion, but generally I would say the thrust is absolutely fine.

The CHAIRMAN. The point is well taken. Not every firm would agree with every detail, but we are talking about basic thrust.

My final question, would you agree with the basic thrust of including paragraphs 6-9 in phase 3?

Mr. BOBYS. Yes, sir; I would.

I think that makes good sense, and it should definitely follow phase 2, which is the scope definition activity.

I think it makes good sense.

The CHAIRMAN. Very good.

Thank you, Mr. Bobys.

We appreciate your interest and your participation here today.

Mr. BOBYS. Thank you.

The CHAIRMAN. Mr. Oliver has raised his hand, so I will let him come back, if we may, and I will ask him the same questions that we asked Mr. Bobys.

COMMENTS ON FIVE POINTS

First, give us your comments on the five paragraphs at the bottom of page 4 of Mr. Staats' testimony?

Mr. OLIVER. I would agree that these are several of the well identified areas on which further information would be needed.

It is difficult to say on the spur of the moment whether they are totally complete, but I have no quarrel with the five points made here.

Certainly there are items on which further information may well be needed, so I have no basic disagreement with it.

The CHAIRMAN. I will save my voice for all of the other firms. I would ask all of the firms, if they are interested, if they are willing to do it, to give me any written critique, and do not give me a huge number of pages, of the five points on page 4, as well as these other points, those that I will raise on pages 23 and 24, I think you could expand on those areas.

I hope you will not overburden me with material, but we want what is pertinent and necessary.

Mr. OLIVER. What would be the timetable on that, Mr. Chairman?

The CHAIRMAN. How about noon tomorrow?

Mr. OLIVER. We will see what could be done.

The CHAIRMAN. I do not mean this to be a work of art, but I think certain of these concepts ought to be perhaps spelled out a little more, and perhaps spelled out in our bill, and I would like to have the expertise of these national accounting firms in doing so.

Do not feel you are compelled. There is no sense of compulsion. This is really the education of me and my staff, but it is not absolutely necessary.

Now, what about the first five points on pages 23 and 24 of the GAO report, would those in terms of basic thrust serve as a useful guideline for our phase 2?

Mr. OLIVER. Yes, I think so.

These are all stated in very general terms, which in terms by identifying scope would be the proper way to do it.

The CHAIRMAN. How about points 6-9: Would they serve as guidelines, or basic thrust for phase 3?

Mr. OLIVER. Yes, I think they are quite well stated. I also think they are stated in pretty general terms. I would like to furnish you with some specifics.

The CHAIRMAN. Bear in mind, in legislation we tend to state things in general terms, in terms of concept, and we expect in this instance the GAO and the District of Columbia government to follow with the specifics, but we would like to set forth certain guidelines, but if you want, you may amplify for us all of these points, we would be pleased to have it.

FUND STRUCTURE

Mr. OLIVER. Let me state there is a different way, in terms of the work that truly needs to be done, which will be in phase 2. The various steps that are significant to be taken in terms of overall design of the system is first to identify the structure in terms of generally accepted accounting principles and for the District of Columbia, I may well want to see the sample development of typical financial statements in order to see that they will produce an end result in reporting which would conform to generally accepted accounting principles. But, basically, the fund structure is step one.

Second, it is to develop the charts and accounts for each fund. Often that is done on the basis of moving the number of accounts, or items like liabilities, equities accounts, revenues, expenditures, and in similar fashion.

Now, these are rather in proportion to the work that would be constituted, and that would represent the system of accounting.

PERIPHERAL SYSTEMS

The rest of the conditions consist of developing peripheral systems, and the process of mechanizing the mode of gathering the information.

The peripheral systems would consist of a cash receipts system, a cash disbursements system, a payroll system, and a purchasing system. These would constitute the overall design of systems, and there would be other kinds of information involved here for use in agencies that might be statistical, and not necessarily alter the financial accounting matters. But in any event, all of these are put together and added

to would-be budgeting procedures, which are necessary to be followed. In particular the main operating funds of the District would almost always be called a general fund.

SPECIFIC STEPS

So these steps would make up the basic system, and peripheral system. Mechanization process would be to design a computer operation, which would have an input system that would give the District all kinds of information needed—financial and statistical—but when the process is accomplished from all of the flow transactions throughout the year, it would then furnish the basis for ledger account balances, which if done accurately, could then be developed into statements which are in conformance with generally accepted accounting principles.

This is the idea in my view of what is to be done, these specific steps in contrast with the general steps.

The CHAIRMAN. This is very, very useful, and has helped me a great deal, as a layman, because I do not follow all of the terminology that the accountants use, but the sequential steps that you set forth has helped me a great deal.

I appreciate it very much.

Mr. OLIVER. Thank you.

The CHAIRMAN. Let us call back Mr. Robert MacNaughton of Ernst & Ernst.

Mr. MACNAUGHTON. I think the steps as the GAO has outlined them are good.

I think just one thing, that is the step on people that I have talked about.

Until such time as you kind of put together what it takes in the way of people, and education to make an accounting system work, it is very difficult to do the rest of these things. So I would like to suggest, in addition to these, and these are excellently done, that almost immediately we start putting together some little history of what cities, States, industrial companies, universities, accounting firms do in the way of their own personnel policies and education of their own people.

This can be done. I think it should be at our fingertips. We cannot start to ask a city to do something just brand new when they do not have the trained people, and I say that in a general way, we cannot ask them to start something new, and say here it is, with the people you have, but instead let us try to do something with it.

TIMETABLE

I would like to suggest one step concurrent with these other things. That is, that there is a lot of work to be done here.

You must have a timetable, as you put forth in the bill, that is, you must follow through on the timetable.

New York has already fallen behind rather rapidly.

I think the next step that has to be done, certainly can be done by more than one firm.

The CHAIRMAN. Are you talking of what I call phase 2, or what I call phase 3?

Mr. MACNAUGHTON. The next phase, whatever that is, that you are talking about.

I think it is 2 that you are talking about.

I think there are so many things that have to be done, so many little facets of it, there is more than one group that can do it.

If one group does it, they talk about 6 months—they cannot get it done in 6 months.

The CHAIRMAN. That was the figure given us by Mr. Staats.

Mr. MACNAUGHTON. He had to reach for a figure. That I believe is the most optimistic figure you could get in order to get something started.

I think this is trying to be realistic about this whole thing.

I have been up to my ears in so many of these, that you must have a realistic timetable, and you cannot use people just starting in the business.

You need people that have been with public accounting firms for a while to get this job done.

I think if I were to ask anybody that is going to pick people to do this, to use more than one firm.

I think the time schedule would fall behind if you do not do that.

Thank you.

The CHAIRMAN. Thank you very much. I appreciate it.

Mr. MACNAUGHTON. Thank you.

The CHAIRMAN. Our next witness is Mr. Stephen D. Harlan, managing partner of Peat, Marwick, Mitchell & Co.

Mr. Harlan, you can highlight your testimony for us, and the entire text will be printed in the record.

STATEMENT OF STEPHEN D. HARLAN, MANAGING PARTNER, PEAT, MARWICK, MITCHELL & CO.

Mr. HARLAN. Mr. Chairman, members of the committee, Peat, Marwick, Mitchell & Co. is pleased to have this opportunity to give testimony on these two bills which provide for financial management improvement for the District of Columbia government.

PEAT, MARWICK, MITCHELL & CO. EXPERIENCE

Peat, Marwick, Mitchell & Co. is a large international public accounting firm with 100 offices and over 900 partners in the United States.

We have had a great deal of experience in providing audit and consulting services to State and local governments.

My name is Stephen D. Harlan and I am managing partner of Peat, Marwick, Mitchell & Co.'s Washington office.

I am accompanied today by Mr. Robert L. Sullivan, principal-in-charge of our public sector consulting practice, and Mr. Robert J. Palmer, principal-in-charge of consulting to our local government and private sector clients in the Washington Metropolitan Area.

Peat, Marwick, Mitchell & Co. has helped many State and local governments move from good intentions to actual change, including the Commonwealth of Virginia, the State of Maryland, and the District's immediate neighbors: Montgomery, Prince Georges, and Fairfax Counties.

We believe that the way implementation is attempted in the District is critical to success.

I would like to point out that we have also worked in areas for the cities of San Antonio, Fort Lauderdale, Miami, and Indianapolis. We are currently installing a management system in these areas, where all of these are systems we have developed and are transferable from city to city.

MANAGEMENT INFORMATION SYSTEM

The CHAIRMAN. A management information system: Does that encompass books and records kept in accordance with generally accepted accounting principles? Are those coequal, or is a management system something less than that?

Mr. HARLAN. It is directed to producing information that will conform accounting information that would conform with generally accepted accounting principles.

The management information system you are referring to is one that we call a matrix type system, one transaction goes to wherever it needs to go in with the set of books, with the output, with the cash disbursement, cash receipts, or payroll, whatever, it is all a part of the output of that system. So they do comply with generally accepted accounting, and they are auditable, and in fact in most of these places, the counties, not the States, are being audited now.

Mr. Chairman, in summarizing our points, we really targeted in on the Senate bill, because we think that is the bill that has more detail.

SEPARATES AUTHORITY AND RESPONSIBILITY

There are five main points, first, the bill separates authority and responsibility for systems planning and design from responsibility for systems implementation and operation.

This division of authority and responsibility for development of financial management systems does not adequately involve the financial system user; namely, the District government.

Our experience of government, in lack of development by the systems user leads to lack of understanding of the purpose of the systems, lack of commitment by the user of the systems, inability to maintain and update the system, and lack of commitment by the user to support the system.

We recommend greater participation in design and requirements definition by the District and a stronger technical review by the General Accounting Office along the lines of the House bill.

ORGANIZATIONAL AND SYSTEM DEVELOPMENT APPROACH

The second point we would like to make is the organizational and system development approach proposed in the Senate bill is a high-risk approach.

It calls for development and implementation of 10 major systems plans, all of which are to move forward at the same time under the direction of a lead contractor.

This approach is cumbersome and expensive. It will require so much activity and detail to be coordinated at the same time that the prospect

of accomplishing the milestone dates incorporated in the bill is unlikely.

Perhaps the most important point is that it spreads the District's limited resources of qualified systems and financial management personnel over too many areas, diluting their effectiveness.

It is far better that these valuable resources be concentrated on the highest priority tasks where they can have the greatest effect, and where they can be molded into a cadre of knowledgeable staff that can lead the development of other systems.

There have been several places where this high-risk approach to organization and system development has been followed.

These include recent projects for the State of Tennessee and the municipalities of Charlotte, N.C., and Wichita Falls, Tex.

After large expenditures of time and money, these cases have resulted in frustration, lack of progress, and extensive project redirection.

CONCENTRATE ON HIGH-PRIORITY TASKS

The lesson learned from these experiences has been that it is important to concentrate on high-priority tasks, achieve early success, and to build on this success.

The CHAIRMAN. Let me see if I understand what you are saying.

Did you participate in the work in the State of Tennessee, and in Charlotte, N.C. and Wichita Falls, Tex.?

Mr. HARLAN. No; we did not. We were observers. We do have some knowledge and experience by virtue of what happened.

The CHAIRMAN. Is this what you are telling us, that before getting into the totality, the designing and implementing new systems for every department, and the overall system for the city itself, that there is some necessary nitty-gritty groundwork that has to be done before you leap into that project?

Mr. HARLAN. Yes, and we think that there are some high priority systems that should be addressed before the others are addressed, namely, the central core financial management system and personnel on payroll systems.

The CHAIRMAN. Were you present here this morning when Mr. Staats testified?

Mr. HARLAN. Yes.

The CHAIRMAN. How does what you are saying to us now square with the approach he described in his testimony?

Mr. HARLAN. I think it is pretty four square quite honestly. After having read, I think I understand the first five items on page 23. One way to accomplish these five items in a proper sequence, might be to include them in their requirements definition in the development of the financial management system itself.

These things are very, very important—very, very basic—and you cannot design a system without doing this. So to make certain they could be written into that initial phase, and have an output, but then have the contractor do this in the design of the system.

The CHAIRMAN. Did you bring with you, or do you have available at the table the Arthur Andersen executive summary?

Mr. HARLAN. I brought it with me.

The CHAIRMAN. On pages 33 and 34, the plan of action of the Andersen executive summary, again using layman's terms: Are you suggesting that to start up so many projects that are listed on page 33, at the same time, is too massive an undertaking?

Mr. HARLAN. We are saying it is one that is very risky, and that may well indeed be too massive an undertaking. The particular high priority projects should be started, and brought to an early completion before we start a lot of other projects.

We think that a track record of a demonstrated success, an ability to perform, an ability to train, an ability to motivate the District and recognizing that this is the way to go is really key to a couple of points. Involve the District, and the first point we want to make is that these folks that will make the system work have to be part of the development to design the system and they have to feel a winner's successful attitude to build that track record with success.

The CHAIRMAN. For frame of reference purpose, use the chart on pages 33 and 34. Which of the high priority items as you see it should be gotten underway immediately?

Mr. HARLAN. Senator, I think 1 through 7 are essential. Andersen points out—what he states is well taken—that the beginning installation of the financial management system the core system is essential. Then building on that—the next one—the payroll personnel system. I will not start it at this time, I will try to get the financial management system brought up, but that would be the next one, based on my understanding.

The other systems on page 34, some are scheduled to begin now, but we would counsel that they be delayed until personnel can be trained.

The CHAIRMAN. One of them, No. 10: Install water, sewage billing information system, the Andersen people when they testified, they said that is what is called a systems bust.

You know, for a year and half, water bills did not go out.

Mr. HARLAN. I picked that up in item one. Item one had that sewer billing in it.

The CHAIRMAN. I get you. You are right. It is also included in item one.

Let me ask you this, you are recommending on page 33, those are indeed very important priority items, and the ones indicated, July 1976, you agree those are the ones that ought to be worked on right away?

Mr. HARLAN. Exactly.

The CHAIRMAN. And on page 34—the water system you might delay a bit, the starting of those items?

Mr. HARLAN. Yes; I would delay until there has been some apparent success and apparent training.

We have been talking about human resources training of personnel. I think we have to build that cadre before we can expect to expand it throughout a large complex like the city.

The CHAIRMAN. That makes some sense to me.

For example, year-end financial closings, if they cannot learn and master that, there is no sense in going on to something more elaborate and sophisticated. Payroll and personnel systems, if that cannot be put in place, again, there is no sense in moving onto something yet more sophisticated.

Mr. HARLAN. Exactly.

TRANSFERABILITY OF SYSTEMS

Mr. Chairman, the third point we would like to make, is that we believe the bill could be strengthened by requiring that impressive advances that have occurred in the state of the art in governmental financial management information systems design be taken into account.

That is what Mr. Staats was saying this morning, the transferability.

These advances and the accumulation of know-how by other governments and municipalities have great potential for transferability to the needs of the District.

Transferability of systems and experience provides the possibility of high-dollar savings and better prospects for quick and successful results.

The District cannot afford to reinvent the wheel, the second time I have heard that this morning, in developing its financial management system or to be a training ground for contractors interested in gaining experience in governmental financial information systems design.

I guess our third point is really answering the point of the question you asked me, we believe there is a lot of good knowledge out there, there is a lot of success out there, there are systems that are transferable, systems where there has been a lot of work done, we can capitalize on those, so we heartily endorse Mr. Staats' position.

LEAD CONTRACTOR

The fourth point, the Senate bill provides that there be a lead contractor, who, in addition to developing the financial management systems improvement plan and reviewing the work of other contractors, will conduct a balance sheet audit of the District government as of September 30, 1977, and a full audit for the following 2 fiscal years.

The requirement that the lead contractor conduct these three audits only adds to the nature of the organizational approach which we addressed earlier, and it compounds the task of finding the triple-threat contractor who can do all of the tasks better than any team of contractors.

We question whether the benefits which the bill perceives of assigning all these responsibilities to the lead contractor, are not outweighed by greater benefits of dividing these tasks between at least two contractors. Greater benefit may be achieved by contracting separately for the audit and system design.

The CHAIRMAN. Mr. Staats testified on phase 2, it is his opinion one firm ought to do that.

You would disagree?

Mr. HARLAN. Perhaps I misunderstood what Mr. Staats was saying, but it is my recollection, he was saying one firm would do phase 2 and phase 3, part of it.

I do not know if he got into phase 4. I heartily agree on phase 2 and 3, they go hand in hand with one contract.

The CHAIRMAN. Phase 2—his testimony was one firm should do that.

You disagree on phase 2, that is the implementation of the five points on page 23 of his report?

Mr. HARLAN. No, I believe the same firm that does the financial management information systems design implementation should do that as well.

The CHAIRMAN. And then when we get to phase 3, a more elaborate system, then you would suggest that be broken up so at least two firms work on that?

Mr. HARLAN. Really, our point here, Senator, is that an audit not be done necessarily by the same firm that does the financial management information systems design.

The CHAIRMAN. You are saying that if our bill is construed to require the same firm, and I guess it is, that it does phase 2, it also does phase 4, you do not think it is right.

Mr. HARLAN. We do not think it is right.

The CHAIRMAN. All right. Go ahead.

WEALTH OF EXPERIENCE

Mr. HARLAN. Finally, our fifth point, as we have pointed out, there is a wealth of experience in financial management systems development that has been accumulated by the Federal Government, States, municipalities, and contractors.

Those are the highlights we wish to make on the proposed legislation, and I would be glad to respond to any questions.

The CHAIRMAN. I guess we covered this, I take it then the points 1 through 5 in the February 27 report, you think are a fair general summary of what is needed for phase 2?

Mr. HARLAN. Yes, sir.

The CHAIRMAN. And points 6-9 on page 24, are a decent representation of what ought to be encompassed in phase 3?

Mr. HARLAN. Yes.

The CHAIRMAN. If you have any matters that you wish to add to those, we would appreciate having your comments in writing.

Mr. HARLAN. We would be happy to.

The CHAIRMAN. Thank you so much.

Mr. HARLAN. Thank you.

[The prepared statement of Mr. Harlan follows:]

STATEMENT BY
PEAT, MARWICK, MITCHELL & CO.
DELIVERED TO THE
SENATE COMMITTEE ON THE
DISTRICT OF COLUMBIA
ON FINANCIAL MANAGEMENT
SYSTEMS IMPROVEMENT
IN THE
DISTRICT OF COLUMBIA GOVERNMENT

June 28, 1976

delivered by

Stephen D. Harlan
Managing Partner,
Washington Office



Peat, Marwick, Mitchell & Co.

STATEMENT FOR THE HEARING RECORD, JUNE 28, 1976

Mr. Chairman, members of the Committee, Peat, Marwick, Mitchell & Co. is pleased to have this opportunity to give testimony on these two bills which provide for financial management improvement for the District of Columbia Government.

Peat, Marwick, Mitchell & Co. is a large international public accounting firm with 100 offices and over of 900 partners in the United States. We have had a great deal of experience in providing audit and consulting services to state and local governments. My name is Stephen D. Harlan and I am managing partner of Peat, Marwick, Mitchell & Co.'s Washington office. I am accompanied today by Mr. Robert L. Sullivan, principal in charge of our public sector consulting practice, and Mr. Robert J. Palmer, principal in charge of consulting to our local government and private sector clients in the Washington Metropolitan Area.

Peat, Marwick, Mitchell & Co. has helped many state and local governments move from good intentions to actual change, including the Commonwealth of Virginia and the State of Maryland and the District's immediate neighbors; Montgomery, Prince George's, and Fairfax Counties. We believe that the way implementation is attempted in the District is critical to success.

This morning we will direct our comments principally to the proposed Senate bill since it contains greater detail on the present thinking of the Congress concerning steps to be taken to improve financial management and auditing in the District. We applaud both these bills for the vigorous plan of action that they set forth. We believe, however, that the final bill can be strengthened if it takes into account some of the valuable lessons that have been learned in development of governmental financial management information systems.

The observations that we would make regarding the proposed Senate bill are the following:

- . First, the bill separates authority and responsibility for systems planning and design from responsibility for systems implementation and operation. It assigns authority to the Temporary Joint Committee on Financial Oversight of the District of Columbia for contracting to systems development contractors, and it delegates development, review, and approval of systems plans and designs to a "lead contractor" and the General Accounting Office. The District Government is responsible for implementation and operation of the system using the contractors retained by the Joint Committee.

This division of authority and responsibility for development of the financial management system does not adequately involve the final system user--namely, the District Government. Lack of involvement by the District Government in definition of systems requirements and preliminary systems design violates one of the principal findings of a recently completed survey by the General Accounting Office. This survey, entitled "Lessons Learned about Acquiring Financial Management Information Systems," is an exhaustive, government-wide review of the history of successes and failures in developing financial management information systems in the Federal Government. It finds, and our experience confirms, that lack of involvement by the system user results in inadequate understanding of the purpose of the system, inability to maintain and update the system, and lack of commitment by the user to support the system. We recommend greater participation in design and requirements definition by the District and a stronger technical review by the General Accounting Office along the lines of the House bill.

- Second, the organizational and system development approach proposed in the Senate bill is a high-risk approach. It calls for development and implementation of ten major systems

plans, all of which are to move forward at the same time under the direction of a lead contractor. This approach is cumbersome and expensive. It will require so much activity and detail to be coordinated at the same time that the prospect of accomplishing the milestone dates incorporated in the bill is unlikely. In addition, and perhaps most important, it spreads the District's limited resources of qualified systems and financial management personnel over too many areas, diluting their effectiveness. It is far better that these valuable resources be concentrated on the highest priority tasks where they can have the greatest effect, and where they can be molded into a cadre of knowledgeable staff that can lead the development of other systems.

There have been several places where this high-risk approach to organization and system development has been followed. These include recent projects for the State of Tennessee and the municipalities of Charlotte, North Carolina, and Wichita Falls, Texas. After large expenditures of time and money, these cases have resulted in frustration, lack of progress, and extensive project redirection. The lesson learned from these experiences has been that it is important to concentrate on high-priority tasks, achieve early success, and to build on this success.

- . Third, the bill could be strengthened by requiring that impressive advances that have occurred in the state of the art in governmental financial management information systems design be taken into account. These advances and the accumulation of know-how by other governments and municipalities have great potential for transferability to the needs of the District. Transferability of systems and experience provides the possibility of high-dollar savings and better prospects for quick and successful results. The District cannot afford to reinvent the wheel in developing its financial management system or to be a training ground for contractors interested in gaining experience in governmental financial information systems design. The District and the Congress should consider consulting with other organizations, such as the Municipal Finance Officers Association, to obtain an overview of the impressive work that has been done throughout the country. The work that has been done, the contractors involved, and the potential for transferability of this experience to meet the needs of the District should be important elements in the process of deciding how and with whom to proceed with improvement work in the District.
- . Fourth, the Senate bill provides that there be a "lead contractor" who, in addition to developing the financial management

systems improvement plan and reviewing the work of other contractors, will conduct a balance sheet audit of the District Government as of September 30, 1977, and a full audit for the following two fiscal years. The requirement that the lead contractor conduct these three audits only adds to the cumbersome nature of the organizational approach which we addressed earlier, and it compounds the task of finding the "triple-threat" contractor who can do all of the tasks better than any team of contractors. We question whether the benefits which the bill perceives of assigning all these responsibilities to the lead contractor, are not outweighed by greater benefits of dividing these tasks between at least two contractors. Greater benefit may be achieved by contracting separately for the audit and system design.

All qualified CPA firms understand and are capable of evaluating systems of internal control, the adequacy of audit trails, and other factors affecting the reliability of financial data. This understanding is part of the normal audit process and, indeed, is required by professional standards. However, CPA firms vary widely in their experience and capacity to develop and implement large-scale, computer-based financial management information systems. In fact, many

non-CPA consulting firms have impressive records in this latter area.

In our view, the Congress and the District might obtain more benefit from their investment of resources if they select their auditor based on considerations of audit qualifications, audit experience, and price of the audit. The system development contractors should be selected on the basis of their record of successful development and implementation of governmental financial management information systems.

- Finally, as we have pointed out, there is a wealth of experience in financial management systems development that has been accumulated by the Federal Government, states, municipalities, and contractors. The Congress and the District should assess and draw upon this experience in approaching improvement work in the District. The Senate bill does not appear to provide for this assessment and, particularly, with regard to selection of contractors, does not provide a mechanism for evaluating contractors' relative merits. Such a mechanism, we believe, would be a process of competitive bids in which contractors' relevant experience, staff qualifications, innovativeness of approach, and --most important--record of success, would be compared and evaluated.

Recently, the National Association of State Purchasing Officials, under the sponsorship of the Council of State Governments, conducted a massive research study of governmental purchasing practices in all 50 states and the territories. In the summary to their study they state and I quote:

Responsible purchasing is fundamental to responsible government and, in contrast to industrial or private buying, the price of goods purchased is not the overriding indicator of performance. More important in public purchasing is how the price is obtained.

The General Accounting Office, in its survey of "Lessons Learned about Acquiring Financial Management Information Systems" to which I referred earlier, concludes that the competitive bidding process best serves the government in obtaining the most qualified contractors at the best prices and terms to the government. We recommend that the final bill provide for selection of contractors on the basis of open and free competitive bidding.

We thank you, Mr. Chairman, for the opportunity to make these remarks and we will be pleased to answer any questions you and the other members of the Committee may have.

The CHAIRMAN. Our next witness is Mr. William C. O'Malley, managing partner, Washington office, Arthur Young & Co.

Welcome to the committee, Mr. O'Malley.

STATEMENT OF WILLIAM C. O'MALLEY, MANAGING PARTNER, WASHINGTON OFFICE; ACCOMPANIED BY NEIL TIERNEY, PARTNER; AND WILLIAM KIMSEY, ASSOCIATE, ST. LOUIS OFFICE, ARTHUR YOUNG & CO.

Mr. O'MALLEY. Thank you, Mr. Chairman. I have with me Mr. Tierney, a partner, and Mr. Kimsey.

ARTHUR YOUNG & CO., EXPERIENCE

Mr. Chairman: Let me first extend my appreciation for inviting us to attend and to set forth our views on the survey of the financial status of the city of Washington. I have with me today Neil Tierney, a partner of Arthur Young here in Washington. Mr. Tierney has had extensive experience in the Government sector with the General Accounting Office, the Civil Aeronautics Board, and other agencies in various financial management positions. Neil now heads our governmental service practice on the national scene. Also here is Bill Kimsey, another associate with Arthur Young in our St. Louis office who has had extensive experience in municipal finance. Bill is now occupied with an engagement on behalf of the city of St. Louis which we would like to discuss momentarily.

I believe the chairman and the members of the committee are to be commended for the priorities which they have established in identifying the status of financial affairs here in Washington. The Arthur Andersen people should also be commended. Their report is comprehensive and the findings are well documented. A great deal of effort was obviously expended by the firm in a thoroughly professional effort. Before proceeding further, however, I must caution that there has been only a short period between release of the report and these hearings today. While we have committed a team of recognized firm experts to thoroughly analyze all of the supporting volumes, we are not prepared at this moment to pass professional judgment on the approach to each identified problem area. With respect to the systems of accounting which have been recommended however, the overall technical approach appears sound and we are pessimistic perhaps only to the point of an ambitious timetable set forth for implementation of the system.

OVERALL APPROACH AND SETTING OF PRIORITIES

We do agree that a system of accounts must be established, the record must be auditable and outside borrowing capacity can be enhanced with certified financial statements. We have a major concern, however, which relates to overall approach and the setting of priorities. We are troubled by the fact that even the most sophisticated and integrated computerized system of accounting available to mankind cannot cure the most pressing financial problems facing the city—several cited directly by Arthur Andersen.

These problems include processing of bills, collection of receivables, employee coding errors, delinquent reporting, and the like. These are problems of compliance with management directives which should and must be cured independent of the system of reporting. To be more specific, we know for example that cases were cited in the report wherein efforts were not made to collect receivable balances long outstanding. A sophisticated computer printout will identify customers with an aging of amounts, but the very basic problem is getting someone into motion to collect the cash.

GIVE FIRST PRIORITY TO COST-BENEFIT APPROACHES

Our basic difference in approach would be to give first priority to cost-benefit approaches which can be put into effect right away—ahead of the systems installation. We have done this work in other cities and we can demonstrate in hard fact that resource management analysis results in increased productivity, reduced employee headcounts, and large financial savings—now. As a byproduct of such work, the quality of financial and operations people are measured, while results and compliance are tested. We believe that it is absolutely essential that people demonstrate thorough results. That they are ready for more complex accounting mechanisms.

You will recall from the Andersen report that a new computerized customer billing system in the water and sewer department is floundering badly. This can be the result when management or supporting personnel are not ready for a new direction.

At this point I will ask Mr. Tierney to discuss more specifically our ideas for cost-benefit work.

Mr. TIERNEY. An alternative, with excellent short range cost-benefit potential, would be to immediately introduce into the city's operating departments and agencies a cost-benefit approach—a proven means to improve the productivity and to control costs of Government. While a system will provide the process for collecting and summarizing data: A cost-benefit approach will lay the foundation to instill personnel and organizational disciplines; and introduce the necessary concerns for valid data.

The benefits from a proven cost-benefit approach need not await the design and implementation of the recommended systems. Utilizing available data, current organizational structures, and existing functional responsibilities assignments, many cities have realized such benefits in the short range as: Improving operating methods and systems reducing operating costs; and improving the accuracy and management utilization of data.

These benefits have resulted from: (1) review of work methods, (2) utilization of existing equipment, (3) analyses of current operating systems, and (4) the creation of simple management reporting systems to monitor the workloads, group performance, and data collection.

In 1976, the city reported that it began the development of a performance-monitoring system and that simultaneously productivity improvement demonstration projects were to be carried out. We recommend that these efforts be considerably strengthened and im-

mediately supplemented with accepted cost-benefit management techniques that have produced savings and permitted budget reductions and reallocations to be made by many cities.

In summary, the disciplines cost-benefit approach that could be applied to operating departments and agencies and suborganizations would include: (1) An operating review of all work performed by these entities; (2) a methods analysis and improvement effort to identify better methods, eliminate unnecessary and duplicative operations, reorganize work to minimize peakload effects; (3) activity measurement; personnel budgeting; and (4) management reporting to monitor group performance and workload.

We do believe that an alternative exists that is capable of producing realizable cash savings while concurrently instilling the performance criteria and management disciplines necessary for the successful implementation and operation of future systems.

Should the committee desire, the names of several city governments who have successfully applied proven cost-benefit efforts to their operations can be supplied. We would, however, like to provide you with the details and results of one such effort. For this I would like to introduce my colleague, Mr. William Kimsey, who is presently involved in a similar type study.

ST. LOUIS AUDIT

Mr. KIMSEY. We are nearing completion of the special audit of the city of St. Louis which was conducted by a team of four certified public accounting firms with Arthur Young & Co. having overall responsibility for the coordination of the work.

The audit covers all city departments including 19 separate audit entities at a total cost of approximately three quarters of a million dollars.

The original intent and goal was to perform a financial audit of the municipal government's financial statements. Soon after the work was commenced, however, the magnitude of the city's accounting and financial reporting deficiencies began to surface and it became apparent that we would be unable to express an opinion that the financial statements were fairly presented in conformity with generally accepted accounting principles.

We emphasized the cost-benefit concept in our revised approach to the audit of the city. The resulting scope of work, in addition to reporting in detail on the city's accounting, auditing, and reporting deficiencies, placed heavy emphasis on a study of and recommendation for improvement of the city's systems of internal accounting and administrative procedures.

The reports disclosed voluminous conditions in the city's accounting and administrative systems where controls should be strengthened and increased operational efficiencies can be achieved.

The vast majority of the recommended improvements have the following characteristics which we believe are highly desirable: (1) They can be implemented without the need for additional or different city personnel; (2) they can be implemented in the very short-term future with immediate resulting benefits; and (3) the overall implementation and operational costs are far exceeded by cost savings or increased revenues which, for the most part, are of a recurring nature.

Specific examples of our detailed recommendations include:

(1) Modern and efficient methods for cash management—these procedures alone will pay for the entire audit and will increase the city's interest earnings on IPLE funds by more than \$1 million each year.

(2) Improved controls over the city's accounts receivable and billing procedures—\$5 million additional revenue from the city's four hospitals alone.

(3) Establishment of control features over the collection of certain city taxes—\$2 million annually.

(4) Procedures to reduce losses from parking and traffic violations \$1–\$2 million annually.

(5) Methods of controlling revenues from the rental of city property and revenue from concessionaires—principally at Lambert, St. Louis International Airport.

(6) Purchasing, competitive bidding, and overall control procedures for municipal construction projects.

Many of these improvements are totally unrelated to new computerized systems.

Both St. Louis newspapers have repeatedly endorsed the audit approach. We will present to the committee one of the editorials from the St. Louis Globe Democrat which estimates that the audit recommendations may produce annual savings as high as \$20 million.

In summary, we believe we have developed a method of dealing not only with the accounting and financial reporting problems of our cities, but cost-justified, commonsense, businesslike procedures, and management processes as well.

[The editorial referred to follows:]

GLOBE-DEMOCRAT PUBLISHING CO.

12th at Delmar, 63101. Published Daily, Monday through Friday, and Weekend 342-1212

G. DUNCAN BAUMAN, Publisher

GEORGE A. KILLENBERG, Managing Editor

MARTIN L. DUGGAN, Editorial Page Editor

BEN MAGDOVITZ, Advertising Director

The Globe-Democrat is an independent newspaper printing the news impartially, supporting what it believes to be right and opposing what it believes to be wrong without regard to party politics.

\$10 MILLION DOWN THE DRAIN

It is a pity that the late Carl R. Williams could not have lived to have received the full recognition he deserved for spearheading the drive for the state audit of St. Louis city offices.

By now it is evident that the South Side Republican committeeman and contractor who died recently after open heart surgery performed a tremendous public service by pushing for this audit despite heavy criticism from city Democrats.

With the announcement of the latest audit findings by State Auditor Lehr, the savings and new revenues that should accrue to the city due to recommendations by the auditors come to more than \$10 million a year.

At least \$2 million is being lost in a disorganized city license system and the city may be losing \$1 million annually because the municipal court system has "simply lost control" of both parking and traffic violation tickets.

Here's a brief boxscore on some of the major audit findings to date:

(1) The loss of \$2 million in recent years at Lambert-St. Louis International Airport due to waste and inefficiency;

(2) Major inadequacies in financial management of the city's hospital system have cost the city as much as \$5 million a year;

(3) Loose controls over rentals and concessions at Kiel Auditorium have caused the city a \$200,000 yearly loss of revenue;

(4) The city's failure to collect towing commissions due it could have cost the city \$33,000 in one year;

(5) Better use of its idle funds by the city could have netted more than \$750,000 in additional interest, and vigorous collection of parking fines could have boosted revenue

by another \$300,000;

(6) \$2 million a year is being lost from poor license collection practices and

(7) \$1 million is going down the drain annually from city courts loss of control over parking and traffic tickets.

It should be pointed out that Auditor Lehr praised License Collector Benjamin L. Goins for doing a good job of producing revenue for the city in areas where Goins has full control.

Lehr said responsibility for loose license tax collections must be shared by Comptroller John F. Bass and the Merchants and Manufacturers Tax Equalization Board and not just pinned on Goins. If the three parts of the collection system would work together, "it would greatly improve collections," the auditor said.

Indicative of the chaos in the city's traffic ticket system, is the fact that auditors say an estimated 15,000 traffic tickets, where the minimum penalty is \$22, are being held in a "defendant not found" file.

Loose handling of cash by two of the five courts in the city's judicial system also was criticized. Auditors found that Court of Criminal Corrections Clerk James P. Lavin had accumulated more than \$40,000 in bail bond funds which were being kept in his safe and which they said should have been invested to earn interest.

It appears before the audit reports are completed, the savings and new revenues that will be achieved from the complete audit could reach \$15 million to \$20 million a year, which is about 10 per cent of the city's total yearly budget. This makes the audit one of the best investments the city has ever made.

The CHAIRMAN. In the cities that you described: How many of those cities have annual audits?

Mr. O'MALLEY. Actually, that is quite unusual, and we find cities that are not audited. But we do prepare an audited financial statement for Buffalo and Houston, and we have recently been retained to do that for the city of Donaldson.

There are others, of course, but of the very large cities, I think those are the ones we can mention.

TIMETABLE

The CHAIRMAN. Mr. Staats testified as to a timetable.

Give us the benefit of your critique: What part of the timetable do you disagree with, or what part of this approach do you disagree with?

Mr. O'MALLEY. I will agree with Mr. MacNaughton's earlier statement in response to Mr. Staats' comment. Six months getting people up and ready, I think is optimistic. While I think this will be an ongoing type of thing, I would be very surprised if many of the agencies were prepared to take on comprehensive systems of accounting within a period of 6 months.

The CHAIRMAN. Six months was not to have an entire set of new systems in place.

Mr. O'MALLEY. I think he was referring to having some comfort that the people were ready to handle these kind of systems, if they were to be installed.

The CHAIRMAN. He thought the first five points of his February 27 report could be accomplished in 6 months.

You tend to disagree with the 6-month period?

Mr. O'MALLEY. I kind of disagree with that. Because of the importance of the education of the people, which I think will take longer. I also disagree with that because I think one of the major elements of this initial study is to evaluate the people, and how they are able to take on this system's work, and what I would refer to as a productivity analysis, or resource management analysis.

Mr. Chairman, that completes our statement. We would be most happy to answer any questions that you may have.

IMPROVEMENT OF THE FISCAL BOOKKEEPING

The CHAIRMAN. Mr. O'Malley, do you think five items spelled out on page 4 of Mr. Staats' testimony are useful items insofar as the improvement of the fiscal bookkeeping of the District of Columbia?

Mr. O'MALLEY. Yes, I would agree with those.

We would also identify improvement in business practices, which would result in significant cost-benefit savings with those items.

The CHAIRMAN. Now, how does the testimony of the three of you jive with the first five points that are set forth in the February 27 GAO report? Would those five points cover that, or should those five points be added to?

Mr. TIERNEY. I believe we would generally agree with Mr. Staats' statement, Mr. Chairman, that it should be a phased approach, that the first five steps we would concur would be an initial phase.

I think the GAO report goes a little further than was discussed, in that it sort of gets us back to the basics. That is what we were talking about for the past several minutes.

SIXTH POINT

The CHAIRMAN. Should we add a sixth point? Spell out something further in the first five, saying that prime attention should be given to improvements in the system that will create a cost-benefit situation?

Mr. TIERNEY. Yes, I certainly believe so. I think the city would miss a large benefit if that was ignored.

We must do the work. We will do a large portion of it anyway, and with a slightly different emphasis, one not really directed solely toward a systems approach, would give us a payoff.

NUMBER OF FIRMS

The CHAIRMAN. If I am correct in listening to Mr. Staats' testimony: He thought that one firm should do the phase 2 part—that is the first five points.

I believe the Peat, Marwick people did agree with that.

What is your position on how many firms should do phase 2—that is the first five points?

Mr. TIERNEY. We believe one firm should do phase 2, but that phase 2 should be expanded to include productivity and other cost-benefits that could be realized.

TIMETABLE

The CHAIRMAN. Do you think Mr. Staats' estimate that this could be done in 6 months is a fair estimate, or is that too optimistic?

Mr. TIERNEY. A lot of it could be. I think very critical large departments could be reviewed and maybe they could take the worse case and proceed with that to build a track record.

TOP PRIORITY ITEMS

The CHAIRMAN. Do you have a copy with you of the Andersen executive summary?

Mr. O'MALLEY. I have one in my briefcase.

The CHAIRMAN. Turn to page 33, the chart that is on that page.

Would those items set forth on that chart be your top priority items?

Mr. O'MALLEY. Number 1, absolutely yes. But again, our real emphasis would be on the productivity review of the various departments, as an additional element of the work.

The CHAIRMAN. Should we set forth in a bill legislative productivity guidelines, or should we leave that up to the General Accounting Office with their expertise to determine where the cost-benefits are?

Mr. TIERNEY. We believe the overall criteria could be included in the legislation.

Subsequently many of the cities have actually incorporated these savings into the next year's budget, so there is a realization of the cost-benefits of these efforts.

We, in resource management productivity efforts, would place emphasis on No. 2 as well—as received in a lot of testimony this morning the training of the staff to be receptive and be in a state to operate the systems.

The CHAIRMAN. Just glance down that list: Would those be some top priority items, or would you add some if you are talking about cost-benefit, that could be added to any of those points? Those important and fundamental things that should be undertaken and undertaken promptly?

Mr. O'MALLEY. Yes, the first five, and you could even go down to six, but you have a required waiting time to get a good response on the status of those departments before you move onto step No. 7.

If I really understand completely the timetable that has been established by the Andersen people, that item No. 7, the timetable is pretty early to get going on that.

I think that difficulty they were having with their water and sewer system is just a clear example of what can happen when you get started too fast on some kind of mechanical process before you know the people are ready for it. But some kind of language could be introduced in the bill for productivity work. I think we could work on that and give you something in that respect.

The CHAIRMAN. Why don't you? I have asked this of each of the firms: In the next day or so, I know that is sort of rushed, but we think time is of the essence, lay something out for us.

Mr. O'MALLEY. We will do that today.

The CHAIRMAN. Give us your critique. In essence, I am asking for your critique of all nine points of Mr. Staats' February 27 study, and then whatever critique you care to make of page 33 of the Andersen report.

Thank you, Mr. O'Malley, gentlemen. Thank you very much.

Mr. O'MALLEY. Thank you.

The CHAIRMAN. Our next witness is Mr. Gerald Polansky of Touche, Ross & Co.

STATEMENT OF GERALD POLANSKY, TOUCHE, ROSS & CO.

Mr. POLANSKY. I am Gerald Polansky, partner in charge of the office of Touche, Ross & Co., and on my left, Mr. William Beech, a partner in my office.

TOUCHE, ROSS & CO. EXPERIENCE

The CHAIRMAN. Give us a brief summary of the governmental expertise of Touche, Ross & Co. of cities, counties, and so forth?

Mr. POLANSKY. All right.

We are an international firm of over 500 partners and 5,000 staff.

We were involved very early in New York City, and continued to be involved in New York, especially in the definition of accounting principles. We were involved in St. Louis, and we have been involved extensively in Detroit, Mich.

We were auditors for that city. We participated in a total review of all city government operations and management reporting. In this immediate area, we are current auditors for Prince Georges County,

for the Montgomery County School System, and the Washington Suburban Sanitary System.

Mr. Beech on my left is presently involved in the major project in helping the commission and their water system.

We will by tomorrow noon supply in writing to you our review of what we have heard this morning, particularly with respect to Mr. Staats' points, but let me make a couple of comments here briefly.

The points articulated on pages 23 and 24 of the GAO report, points 1-5, which would be your phase 2, we are in agreement with those.

TIMETABLE

We believe though that the phase 2 might take more than 6 months if as part of that, it is a requirement to inventory existing systems around the country of cities that might be similar to the District.

SIMILARITY OF CITIES

The CHAIRMAN. I can see why we could not inventory every city in the country.

Obviously that would take a good deal of time. Is not there some state-of-the-art information generally available? Are there some cities so totally dissimilar that a system of city X in no way is useful for city Y?

Mr. POLANSKY. Cities are not totally dissimilar, Senator.

Our experience has found that it is the level of documentations surrounding the systems that causes the contrasts between cities.

Every city has a sewage system, has a garbage collection system, or whatever. So one's immediate thought is to say they are similar. However, there are documentation levels that are different from city to city.

You can transport the state-of-the-art, you can transport the experience, and you can transport the knowledge.

To pick a system up from city X, and move it totally into city Y, may not be practicable though, unless you understand the levels of documentation that city X has used, and the level of documentation available, or that could be made available in city Y.

The CHAIRMAN. Certain principles and certain precepts are available, but cities are not identical in terms of the persons on board?

Mr. POLANSKY. That is right.

We believe that points 6-9, on page 24, are a natural extension of the design of the implementation stage.

NUMBER OF FIRMS

The CHAIRMAN. Should one firm do phase 2, that is points 1-5, or should that be a consortium?

Mr. POLANSKY. I think our judgment is that one firm should do phase 2, points 1-5.

The CHAIRMAN. Phase 3 though, is a far more elaborate undertaking, and that could be done by a number of firms?

Mr. POLANSKY. That could be done by several, yes, as long as there was emphasis on what we would call the integration of systems.

It is alluded to in points 6-9 but with several firms. You have provided for some of that in the legislation, by referring to a GAO over-

view and approval, I believe, and the lead contractor having some responsibility. But all systems, regardless of how many people are involved, and this may be outside organizations, it may be task forces within the District, whatever, all of them should be brought together into one integrated system that can then be put into an ultimate financial statement of the District of Columbia, which is the objective, one that is auditable and that has credibility.

With respect to points 1-5 of the Comptroller General's testimony this morning, you already discussed briefly one of those, and that is the transportability of systems.

Points 1 and 5 are essentially the same.

The CHAIRMAN. We are talking about the testimony on page 24?

Mr. POLANSKY. Yes.

The number of agencies systems which need little or no improvement, and to the extent to which portions of existing systems could be used.

Those are essentially the same.

We have already discussed the documentation levels.

TRAINING

I think an important point is that designing and implementing the District of Columbia Government systems must be done with people that do have the experience and the knowledge. I agree with most everything said here this morning in this respect. You cannot do an efficient job with an inefficient client.

You have to have somehow an understanding, and elevate their people to an understanding of knowing what needs to be accomplished, and having the capability to carry out the implementation part. That is where the training becomes very important.

You cannot just design something and go away and leave it.

Essentially the Comptroller General's five points, except for the issue of, which I think can be drawn upon by the use of the skills developed in other cities, but I do not believe that that should be misconstrued though as to mean a total transportability.

As I said, we will provide additional comments by noon tomorrow.

I am prepared to answer questions.

The CHAIRMAN. I do not have any more questions, because we have covered the points I wanted to raise in terms of Mr. Staats' testimony.

If you have anything that you wish to add to that in writing, we would like to have it in terms of those nine points.

I am not trying to make those as sacred as the Ten Commandments, but we are trying to strive for some goals in the legislation and certain objectives, and if you would care to add to those, we would like to have them.

Mr. POLANSKY. Thank you.

The CHAIRMAN. Our next witness is Robert M. Cockrill, partner in the firm of Coopers & Lybrand.

STATEMENT OF ROBERT M. COCKRILL, PARTNER, COOPERS & LYBRAND

Mr. COCKRILL. My name is Robert M. Cockrill, partner in the firm of Coopers & Lybrand.

The CHAIRMAN. Could you give us some of the experience your firm has had?

COOPERS & LYBRAND EXPERIENCE

Mr. COCKRILL. We have served counties and cities throughout the country—which range from small cities to large ones.

At the moment some of the top ones are Phoenix, Oakland, Jacksonville, Norfolk, Portland, Fairfax County, Harris County, Wayne County outside of Detroit, the Dade County school district, and also the New York Board of Education.

ANNUAL AUDIT

The CHAIRMAN. Put aside the school districts: Do any of those counties and cities have an annual audit?

Mr. COCKRILL. Yes; Portland, Norfolk, Honolulu, Jacksonville, Oakland, and Phoenix.

The CHAIRMAN. So they have in place overall systems, et cetera, that are being utilized and make it possible for an outside firm to audit?

Mr. COCKRILL. Some of them have systems in place that are auditable.

Some do not. In that connection, I would like to point out to you, that our firm recently completed a rather extensive survey of 47 of the largest 64 cities in the United States, analyzed the financial systems, and their financial reporting and disclosure, which are critical matters today.

We found in that connection, that of the 47 cities only 8 have received an audit without exception. I think this is indicative of the problems we witness here.

The CHAIRMAN. How many did you survey?

Mr. COCKRILL. Forty-seven out of 64.

The CHAIRMAN. Eight out of the 47 had clean opinions?

Mr. COCKRILL. Yes.

The CHAIRMAN. And only 26 received an actual independent audit?

Mr. COCKRILL. Yes.

The CHAIRMAN. That is an annual audit, and only eight can get clean letters?

Mr. COCKRILL. That is right.

The CHAIRMAN. What good is an annual audit of an inadequate system?

Mr. COCKRILL. You do the best you can within the compliance of county principles. You find, invariably, it is impossible to do the audit.

I suppose some of the things as found here in the District by Arthur Andersen and GAO, clearly indicates the seriousness for a clean system that can be audited and that will produce the necessary information.

The CHAIRMAN. Go ahead.

TRANSFERABILITY OF SYSTEMS

Mr. COCKRILL. I want to take some exception, if you will, I question the phrasing, as I understand it here this morning from General Staats.

I think that I do not want to use the word tried, but I will say it is

less than profound to take what he would consider to be conditions precedent to making an audit, or the designing of it, if you will.

Look at the Andersen report—he has done a highly credible job in response to the first one.

The second one is expensive beyond means. I agree with Mr. Polansky in his comments about the false assumption that there could be an automatic transferability of systems.

Automations vary. Systems do vary, people vary, and the value of seeing how many systems that can be transferred—

The CHAIRMAN. Is not there some body of information that is transferable?

Mr. COCKRILL. There is a body of knowledge that is vested in those systems which can be analyzed. You can design a system with the different specific needs. But I do not think it is possible to take a system off the shelf and put it into place.

Good evidence of that is the fact that there is a very large organization called the "Municipal Financial Office"—which is an association of America and Canada.

They communicate regularly. If one city had a system that was transferable, it would have been done, but the needs are too great. The problems we witness are so extensive, on the face of it, it is a false assumption.

With regards to the Federal payroll, as an indication here, the Federal agencies, certainly there is knowledge around as to how to develop a payroll system. But within the Federal departments themselves, there is little consensus in that regard. When you have the compounding features of the District of Columbia systems—teachers, policemen, Federal, and the supportive people—I do not think there is any doubt, given a look at the Federal agencies, that you can say, here is a system, let us put it in place with the District government.

It will not work.

With regard to that portion of systems that can be salvaged: I think that should be followed into any effort, as indicated by the Arthur Andersen report, and I do not see the need of spending more money to satisfy page 24 of General Staats' comments.

With respect to page 23 and 24: It is my view that while all those things have to be done, they are routine, they are basic to any systems effort, and I think as do some others, they tend to be too narrow in scope.

The assumption here is that the sole problem is information about financial concerns. While it is certainly large, and of great magnitude, there is a very serious matter afoot here in the District with regard to productivity and staff utilization. I actually support the comments of Mr. Tierney and Mr. O'Malley.

I think it is critical, and in the comments which I have supplied for the record, I allude to that point.

I suppose in summary, I could say I tend to follow the recommendations of Arthur Andersen, in their approach to it, I think it makes good commonsense, and, therefore, would tend to support the manner in which they have proposed things proceed.

COST-TYPE CONTRACT

One final matter, Mr. Chairman, if I might. So far this morning, I am in the minority here with regard to views—I personally would

like to take exception, or express disagreement—of General Staats when he alludes to a fixed-price contract. For good and substantial reasons, it is evident on the face of many studies made over the years that the reasonable and sensible way to enter into a fixed-price contract is that you must know what is to be produced, you must know the ballgame, what the problems are, and can readily satisfy it.

In this instance there are too many unknowns to expect a firm to undertake an engagement of that sort, with the many unknowns that are present. I think it will tend to inhibit competition.

I think the more sensible way to go about it, and which gives a handle on it, is for the GAO, the Mayor, the Council, is to have a cost-type contract.

At any time they can stop the work if they are dissatisfied. But it tends, quite frankly, to give a flexibility of professional freedom, if you will, to the firms who will be engaged.

I think it would be grossly unfair to straddle the firms with a fixed-price contract in an environment where you are working with quicksand.

The CHAIRMAN. I do not think the bill is written in terms of a fixed-price contract.

Mr. COCKRILL. No; it is not.

The CHAIRMAN. If we put a ceiling in we could go two ways. We could have a ceiling up to x millions of dollars, or such moneys as may be necessary. But the dollars we have been mentioning here may mean so much for phase 2, so much for phase 3, or some outside figure.

Mr. COCKRILL. My only point is that a fixed-price contract is not the better part of wisdom.

The CHAIRMAN. I understand that.

The nine points, those on pages 23 and 24 of the GAO study: Are they a fair representation of what you think is needed?

Mr. COCKRILL. I frankly think the nine points are out of sequence. Some are really needed and some are not.

The CHAIRMAN. Would you care to spell that out for us, in writing, if you could?

Mr. COCKRILL. Yes; I intend to provide a copy tomorrow.

The CHAIRMAN. That would be great.

Now, do you have a copy of the Andersen executive summary?

Mr. COCKRILL. No; I do not.

The CHAIRMAN. If you will, look at the table on pages 33 and 34 of the Andersen report. Take a few minutes to look at the table.

As I understand it, and I have only read the executive summary, the first part, page 33 deals with the scale of financial management systems, and the next one on page 34 would be those addressed to more specific functional areas. I would think that certainly page 33 makes sense.

Mr. COCKRILL. It does to me with a cursory look, frankly.

The CHAIRMAN. So the items on page 33, certainly 1-6, are the top priority items?

Mr. COCKRILL. Sure, it has to be done.

The CHAIRMAN. Ultimately we get down to item 7, and then the payroll system, that is top priority?

Mr. COCKRILL. I certainly admit that, but the audit is not part of the financial management system.

The CHAIRMAN. They have a much delayed date on that—even in the Andersen report.

Mr. COCKRILL. That is correct. I do not know why the other systems have to be in with that.

There are other financial systems very critical to the District of Columbia operation.

I understand the payroll is important, but financial management covers a lot of things, so I might question eight and nine being in there.

The CHAIRMAN. I see.

Mr. COCKRILL. With respect to the others, I think they make sense, they are distinctive in and of themselves, and they could be handled in that fashion.

The CHAIRMAN. Thank you very much. We appreciate any comments you have on those other points.

Mr. COCKRILL. Thank you.

[The prepared statement of Coopers & Lybrand follows:]

COOPERS & LYBRAND

IN PRINCIPAL AREAS
OF THE WORLD

1800 M STREET N.W.
WASHINGTON, D. C. 20036
(202) 223-1700

June 25, 1976

Honorable Thomas F. Eagleton
Chairman
Committee on the District of Columbia
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

We appreciate the opportunity to comment upon the proposed legislation designed to provide the District's Government with the financial systems, procedures and controls pre-requisite to successfully performing an audit and rendering an opinion in accordance with generally accepted auditing standards. If enacted, that legislation would also enable the development and implementation of a host of financial, accounting and reporting systems integral to informed day-to-day management and administration of the D.C. Government.

Our firm fully supports the goals and objectives of the bill and believes that such legislation is long overdue. No sizeable city, especially those with the magnitude and complexity of D.C. operations, should be permitted to prolong the unfortunate state of financial management in which the District finds itself. Otherwise, the credibility and accountability of responsible city officials are seriously impaired. As a result, the necessary support and confidence of taxpayers and bond-buyers inevitably diminishes -- and to the detriment of local citizens. When that occurs, the purposes of government are ill-served.

We have read with interest the Arthur Andersen report of its analysis of D.C. financial affairs. Its call for significant improvements in financial planning, reporting, accounting, controls and operating procedures appears wholly justified. It also makes quite clear that full and reliable financial disclosure has not been the normal D.C. practice.

In this connection, however, it is worth noting that less than full and factual disclosure is not a phenomenon peculiar to the District Government. Our own firm, in a joint undertaking with the University of Michigan, has just completed a major study of 47 of the largest 64 U.S. cities. (A copy of the completed report will be provided the Committee.) We found that, in most cases, there are urgent needs either for improved or new financial and accounting systems if the public is to be informed accurately on the status of local government fiscal affairs. Similar to D.C. also, the need for annual financial audits by independent public accountants is extensive.

There is wide-spread concern today over a range of problems at municipal levels of government dealing with financial viability and the dependability of published information. This is evidenced by efforts underway not only in Congress but also by the American Institute of Certified Public Accountants, the Municipal Finance Officers Association, the Association of Government Accountants and the National Council on Governmental Accounting to effect higher standards and more reliable practices in the areas of accounting, auditing and disclosure. Several partners in Coopers & Lybrand participate extensively in these efforts and are contributing significantly to the improvements sought by dedicated professionals throughout the country. This legislation would add needed strength and support to the growing demands.

In supporting your moves we also recommend that a provision be added in the bill to provide for implementing those management techniques required to integrate a structured approach to assessing the economy, efficiency and productivity of D.C. Government organizations. Installing improved financial systems, controls and reports should be complemented by cost effective operations, including the critical matter of staff utilization. Should you desire, we would be pleased to provide the Committee with information on our firm's recently developed in-depth, formalized operational auditing approach to several critical areas of local government operations. We will also be pleased to provide information on productivity studies we have made to local governments. These efforts are responsive to the Comptroller General's requirements as established in the GAO standards for auditing government program functions and operations. We believe we are in the forefront of such activity.

In closing, we wish to strongly endorse the direction you and your fellow Committee Members are taking to bring about more responsible financial management practices in the D.C.

Government. As D.C. taxpayers we also share your deep concern. Because our experience enables us to understand the District's problems, we would welcome the opportunity to participate in their resolution.

We appreciate your invitation to submit this statement and trust that our support will be helpful.

Very truly yours,

Coopers & Lybrand

RMC:lmo

The CHAIRMAN. I appreciate the comments of all of those who have testified here today. The suggestions have been very useful, and I am sure many of them will be incorporated in the legislation.

I intend to recommend to the committee that we report out a bill along the lines of S. 3608, later this week.

It is imperative that this work be started as soon as possible to establish a basis for sound financial management in the District of Columbia.

The committee stands adjourned.

[Whereupon, the committee was adjourned.]

[Letters replying to requests of the chairman follow:]

COOPERS & LYBRAND

IN PRINCIPAL AREAS
OF THE WORLD

1800 M STREET N.W.
WASHINGTON, D.C. 20036
(202) 223-1700

June 29, 1976

Honorable Thomas F. Eagleton
Chairman
Committee on the District of Columbia
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your request for our views of the position of Mr. Staats as set forth on page 4 of his prepared statement to your Committee on June 28, as well as the suggested sequence of tasks shown on pages 23 and 24 of the GAO report dated February 27, 1976.

As I understand the position of Mr. Staats, he seeks a better definition of the scope of work to be undertaken in D.C. and considers it necessary to gather certain information regarding the transfer of systems used in other cities or federal agencies. It appears to me that the Arthur Andersen report is sufficiently definitive to proceed with the necessary contractual effort. I therefore believe it would be an unnecessary expenditure of funds to proceed with a further, largely duplicative six-month effort at an estimated cost of between \$1 and 1.5 million. There would be a questionable return on the investment in my view.

With specific reference to page 4 of Mr. Staats' statement, the Arthur Andersen report sufficiently addresses item 1 -- at least the major systems. As the contractual effort proceeds, it would be a normal outgrowth of the effort to detect additional systems needs.

Regarding items 2 and 3, I question the worthwhileness of devoting any extensive effort at determining the transferability of existing systems. I am convinced that, in the final analysis, it would be found that no system is transferable in toto. The simple point here is that what is necessary to serve D.C. is the knowledge and experience of individual consultants assigned to the engagements. It would seem that if it were a simple matter to pick up a system from one city and transfer it to another, it would be a routine practice throughout the country. Such is not the case.

With respect to item 4, it is not clear to me what system is referred to. The item speaks to "developing a system which can be adapted to several District agencies." I do not know whether it is a system for health care, safety, hospitals, etc. Regarding the 5th and final item, the determination as to what part of the systems can be salvaged would be a natural part of the contractual effort.

Pages 23 and 24 of the GAO report present nine sequential tasks which are quite obviously necessary as part of the total undertaking. One might say that they are "givens". However, recognizing that the statements are quite general in nature, it is questionable as to whether or not tasks 1 through 5 can be properly accomplished for the numerous agencies of the D.C. Government in a six-month period. It also appears that tasks 6 and 7 properly belong with the first five as a major, related segment of the broad undertaking.

Finally, as I stated to the Committee, I would urge an effort at tackling the very serious problem of staff utilization and productivity. These have to be critical matters to D.C. management.

I appreciate the invitation to submit these comments and hope they will be of some help.

Very truly yours,



Robert M. Cockrill

RMC:lmo

ERNST & ERNST

1225 CONNECTICUT AVE., N. W.

WASHINGTON, D. C. 20036

June 30, 1976

The Honorable
Thomas F. Eagleton
Chairman,
Senate Committee on the
District of Columbia
Washington, D. C. 20510

Dear Mr. Chairman and Members of the
Committee:

Re: Senate Bill 3608

I appreciated the opportunity to submit comments relevant to Senate Bill 3608 at your recent hearing. At your request I would like to offer these additional ideas.

The GAO report of February 27, 1975, Chapter 5, sets forth a suggested sequence of tasks necessary to identify the financial information requirements of the various users of reports of the District government which has been defined by you as Phase II. I agree that, as a first step, these five tasks, in their broad outlines, are necessary and desirable to determine the revisions and redesign efforts that might be required to provide useful and meaningful information.

Because of the magnitude of this assignment however, and the importance of accomplishing the total task of Phase II, that of designing and implementing the financial information system in a timely manner, we believe that the completion of these first five tasks can be best accomplished through the utilization of the specialized talents of several firms in the Washington area. The suggestion that only one firm work on this phase was made at the hearing. People, however, with several years experience working at this point in the study can be the key to the success of Phase II.

The Honorable
Thomas F. Eagleton

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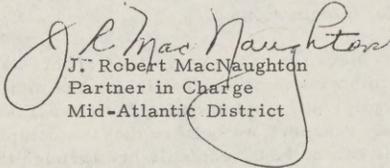
June 30, 1976

Timeliness is important, but of equal importance to the successful completion of any management system, whether in the public or private sector, depends to a large degree on the interest, motivation and efforts of the people who will be responsible for maintaining the system both during and after installation. There are many enthusiastic people of varying levels of expertise working in the accounting department of the District of Columbia. The implementation of a new financial management system in the city will provide new and challenging career opportunities for these people. To prepare them for these opportunities and to assist them in developing and/or strengthening their personal skills, an educational/training program should be initiated as soon as possible.

Such a program should consist of courses generally commensurate with the educational and work experience of each employee and should range from basic bookkeeping courses and machine dexterity for less skilled employees to more sophisticated courses in accounting, data processing and management techniques for the more senior and skilled employees. The early initiation of such a program will not only enhance the implementation and ongoing maintenance of the new system, but will also create an environment which will maximize the benefits of this proposed management information endeavor.

I hope these comments will be of help to you and I will be pleased to discuss them with you at your convenience.

Sincerely,


J. Robert MacNaughton
Partner in Charge
Mid-Atlantic District

THE QUALIFICATIONS OF OUR FIRM

Ernst & Ernst is one of the three largest international accounting firms in the United States. We have 111 offices in this country and 141 offices in 63 other countries. Our clients include nearly 900 companies registered with the Securities and Exchange Commission.

The scope of our governmental auditing and accounting services is extensive. As auditors we serve more than 350 Federal and local government bodies and agencies. In addition, we have performed more than 1,000 consulting engagements for government in the past few years. Our consulting engagements range from assistance in the development of management and operating systems to complex applications of management sciences in critical program areas such as education, environment, health and transportation.

Our Governmental Committee plays an important part in developing and maintaining the technical quality of our services to our governmental clients. The Committee has, as one of its prime functions, the responsibility of keeping all offices informed of accounting and administrative aspects of Federal, state, and local programs and acts as a clearing house for dissemination of information relative to experience gained in governmental engagements. The Committee meets regularly to review all aspects of the firm's governmental practice.

Ernst & Ernst conducts a specialized training program on local government auditing and reporting. The training program is designed to acquaint staff members with governmental accounting and reporting practices and auditing practices.

Some of our partners are active on various American Institute of Certified Public Accountants' governmental committees, subcommittees and task forces. Among them are the Federal Government Executive Committee, the Subcommittee on Federally Assisted Programs, the Subcommittee on Relations with the General Accounting Office, the State and Local Government Auditing Subcommittee, and the Task Force on Federal Government Consulting. We have assisted professional associations in training and other programs such as the Association of Government Accountants and the Municipal Finance Officers Association.

A full-time staff headquartered in our Washington office coordinates our many services to Federal, state, and local governments and assists our various offices and the Governmental Committee. This group maintains day-to-day contact with officials of Federal agencies and also analyzes pertinent legislation for its impact upon our practice and our governmental clients.

Ernst & Ernst has developed extensive capabilities in auditing computerized systems through AUDITRONIC 32, a copyrighted and sophisticated system for IBM 360 and 370 installations. The system is easy to use by auditors and includes advanced statistical sampling techniques. It is available to supplement a client's own computer audit programs for maximum efficiency.

SELECTED GOVERNMENT AUDIT CLIENTS OF ERNST & ERNST

New York City Educational Construction Fund
New York City Housing Development Corporation
New York State Project Finance Agency
New York State Atomic & Space Development Authority
New York State Housing Finance Agency

New York State Facilities Development Corporation
New York State Bridge Authority
New York State Thruway Authority
New York State Environmental Facilities Corporation
Town of Harrison, New York

Town of Mount Pleasant, New York
Village of Portchester, New York
Village of Scarsdale, New York
City of Portland, Maine
City of Bridgeport, Connecticut

Town of Darien, Connecticut
City of Stamford, Connecticut
Greater Hartford Transit District
Rhode Island Bridge and Turnpike Authority
Delaware Valley Regional Planning Commission

City of Winston Salem, North Carolina
Richland County of South Carolina
Genesee County of Michigan
City of Louisville, Kentucky
State of Kentucky Department of Revenue

City of Albuquerque, New Mexico
Colorado Department of Agriculture
State of Denver Compensation Insurance Fund
City of Des Moines, Iowa
Illinois Department of Transportation

State of Illinois Auditor General
City of Springfield, Illinois
City of Fort Worth, Texas
City of Arlington, Texas
Dallas County Commissioners Court

City of Scottsdale, Arizona
Arizona Auditor General's Office
City of Tuscon, Arizona
Greater Cleveland Regional Transit Authority
United States Postal Service
Washington Metropolitan Area Transit Authority

EXPERTISE--MANAGEMENT CONSULTING SERVICES

Management consulting services have been an integral part of our practice since our founding in 1903. These services--which are a natural outgrowth of our auditing activities--cover all industries, government enterprise, and almost every aspect of business management.

We have full-time specialists in organizational planning, personnel management, financial planning and control, revenue and taxation, management sciences, operations management and control, data systems, planning and development and general management.

Each year, over 2,500 organizations engage us for consulting assignments ranging from advising and assisting management with complex problems to providing detailed assistance on projects.

It is our practice during an audit to use members of our management consulting staff to review and analyze the adequacy of a client's major systems and procedures and to assist in our internal control analysis where their specialized skills are appropriate.

Management sciences is an example of the interplay between auditing and management consulting services in our firm. For some years, we have been using statistical sampling extensively to audit accounting records, including tests of accounts receivable, transactions, inventories and deposits. We have used variables estimation and attribute sampling techniques, selecting the most appropriate technique for the given situation. In evaluating variables, we have used ratio and difference estimation and simple extensions. Because we are deeply committed to expanding the use of statistical sampling in auditing, we have developed computerized statistical programs which are part of our Auditronic 32 Systems.

Many of our consulting engagements have involved developing and using statistical analysis methods. Statistical techniques employed include sampling, discriminant analysis, and simulation.

Our firm has been assisting clients in the use of computer simulation techniques for over ten years. Computer simulation is a technique which permits the user to define a computer workload (group of computer programs) and the hardware/software environment of that workload to determine the amount of processing time required. This technique has been used to assist our clients in areas such as performance improvement, long range planning, equipment selection, software selection, systems design, feasibility studies and operations audits.

We have performed an extensive number of engagements for our governmental clients in the areas of financial planning and control, data systems and revenue and taxation. A description of our capabilities in these technical areas as well as some typical engagements follows:

FINANCIAL PLANNING AND CONTROL

Most state/local governments are faced with an urgent need to modernize their financial management systems, procedures and controls to meet the management information needs of governmental officials in an environment characterized by innovative, costly and complex governmental programs.

Many governments still use financial planning and management procedures which were, in fact, outmoded at the turn of the century. Traditional input-oriented line-item budgeting practices, for example, are not adequate. The budget is the basis for financial control in government and, when adopted, is the authorization for expenditure as well as the basis for establishing accounting procedures, records and reports.

Organizational units must expand governmental budgets and financial management procedures and controls from the traditional line-item format to focus on outputs, or programs, as well. This is mandatory to enable a governmental agency to plan and allocate its resources to provide maximum levels of public services possible within revenue limitations, and based on some system of priorities.

Ernst & Ernst consultants have the combination of practical experience and knowledge of government accounting and budgeting necessary to develop and help install the accounting, budgeting and financial management information system which will meet the information needs of an agency's legislative and executive branches, and comply with appropriate legal and statutory requirements. We can help small and large agencies alike with problems involving: basic line item accounting procedures, program accounting and budgeting, performance budgeting, planning-programming-budgeting systems (PPBS), capital budgeting, cost accounting, financial forecasting, and a wide range of general government and specialized program areas.

Some of the more important kinds of financial planning and management services are discussed in more detail below:

Program Accounting/Budgeting

Introducing an output-oriented financial planning, budgeting and management process requires program accounting. This involves developing a program structure for each department or agency which identifies the specific programs of public service provided, enables costs to be compiled and governmental activities to be planned, managed and evaluated in terms of the specific services provided constituents. This process is also referred to as program budgeting.

Implementing program accounting in most state/local governments can be a comparatively simple matter of adding several digits to the agency's present coding structure which already identifies object of expenditure by organizational unit, revenue source, appropriation, etc.

Program accounting gives an agency the ability to plan and manage its resources better. It should be recognized that it is the process which is important, not the format of the budget document. This format depends on how appropriations are made, which might be dictated largely by constitution, charter, or statute. Changes in traditional practices can be best accomplished by introducing program accounting and by an effective job by the executive branch in its budget planning and justification in terms of programs and needs.

Performance Budgeting

Performance budgeting is a concept familiar to many public officials, and is used primarily to focus on planning and evaluating the efficiency of organizational units, using techniques developed largely in the public sector.

A performance budgeting system can be installed for selected activities without developing a comprehensive agency-wide program accounting structure.

Performance budgeting poses many advantages to the public administrator. As the costs of providing many public services continue to increase, the need increases for positive programs for planning, evaluating and controlling personnel needs and related costs compared to actual workload processed or services rendered.

A performance budgeting system focuses on efficiency, not effectiveness, and usually involves:

Reviewing procedures and staffing, and classifying workload by activities or functions performed.

Selecting work units for each measurable function.

Establishing appropriate (cost) centers, e. g. , responsibility accounting.

Developing staffing standards or yardsticks in terms of man-hours required to process each work unit.

Developing and installing a performance reporting and evaluation system--to compare actual hours vs. standard hours "earned" by the work actually accomplished.

Preparing manuals showing methods for projecting budgetary requirements based on forecasts of the probable volume of work for each function.

Management action to resolve the problems which result in poor performance.

Planning-Programming-Budgeting Systems (PPBS)

PPBS is the term used to describe the financial management process pioneered and publicized by the Federal government and represents a systematic approach to financial planning and management which, in theory, is intended to optimize the allocation of scarce resources among competing programs.

PPBS is a multi-year financial process in which the key elements-- planning, programming and budgeting--are linked together in a systematic approach.

Planning involves establishing objectives and evaluating alternative ways of accomplishing them. It is done on a multi-year basis.

Programming defines the public service programs required to attain desired goals and objectives. Emphasis is shifted from inputs (resources) to outputs (programs)--from how much an agency is spending to the specific services to be provided.

Budgeting establishes the cost of carrying out each program in terms of capital and operating budgets which reflect the personnel, facility and other costs involved. Budgeting also includes budget execution, which is that phase of the financial management process which concerns establishing budgeting controls for monitoring expenditures and accomplishments.

The budgetary philosophy underlying PPBS is in stark contrast to traditional line-item, object financial management practices. A PPBS system builds on and expands, rather than replaces, the practices.

An effective PPBS requires introducing:

Program accounting to provide the basis for planning and management in terms of programs, or outputs.

Responsibility accounting (cost centers), through which it is possible to plan, manage and evaluate performance by organizational unit or area of supervisory responsibility.

Computerized Information Systems which provide required data and information.

PPBS also contemplates the use of a systematic approach in planning, analysis, evaluation and decision-making which uses the management sciences.

Financial Management Information Systems

The concepts underlying PPBS set forth a systematic approach to financial planning, programming and budgeting. Many governmental agencies, however, must necessarily focus their attention on how to improve and/or integrate better their existing systems to meet operational needs better.

Budgeting, revenue and expenditure accounting, payroll, accounts payable and receivable, cash management, purchasing, inventory management--these are the significant financial systems through which management is exercised.

Where information needs in these areas have been adequately defined, the integration of existing procedures into a unified system can be easily accomplished and is primarily a data processing problem.

In other instances, however, it might be necessary to analyze and determine the government's basic financial information needs, and to develop a system which will meet these needs at all levels of management. Program accounting and responsibility accounting concepts must be introduced to provide the necessary basis for planning and control.

Developing a financial information system requires an integrated approach which takes into account:

Resources required (inputs) to accomplish public service programs, e. g. , men, money, materials and supplies, facilities and equipment.

Specific public service programs which are provided, e. g. , programs, sub-programs and activities.

How resources are used in accomplishing public service programs, e. g. , organizational units and cost centers.

Specific information needed by each department or agency, and by the government as a whole, to plan, manage resources, and evaluate accomplishments.

Design and installation of the system or system or systems needed to meet data and information needs.

Training of managers and supervisors in the management use of this information.

Capital Budgeting

The focus of most budgetary systems, procedures and controls traditionally has been on the operating budget. The capital budget has long been treated as a stepchild and may consist of no more than a "laundry list" of projects which the legislative body decides to fund.

An effective financial management or budgetary process must link capital and operating needs together on a planned and coordinated basis. Many public facilities are planned without adequate recognition of the operating costs to be incurred in staffing and providing for the public services for which the facilities are to be constructed.

Developing an effective capital budgeting program requires a public agency to examine the entire process through which public service needs are determined, from the beginning through the actual construction of needed buildings and facilities, including:

The long-range program through which an agency plans to meet present and future public service needs.

Identification of capital outlay (facilities) needed to provide desired levels of public service.

Procedures for identifying, classifying and coordinating proposed capital outlay (facilities) needs, by department and agency-wide.

Procedures for executive branch reviewing, evaluating and establishing capital outlay needs and priorities by department and agency-wide.

Procedures for incorporating proposed capital outlay projects in budget, and for monitoring the financial status of approved projects through completion.

Procedures for legislative branch review and analysis of capital projects.

Procedures for monitoring the completion status of all phases of a capital project (from initial programming, through lease acquisition, preliminary design, working drawings, construction, etc.) necessary to manage properly the capital outlay program.

Implementing an effective capital budgeting program requires (1) the close cooperation of the various departments and agencies of the executive branch of government in developing necessary systems and procedures, and (2) development of workable policies and procedures between the executive and legislative branches of government which culminate in capital appropriations and necessary financing methods.

Typical engagements in financial planning and control services have been:

•Ernst & Ernst was engaged to develop improved budgetary, accounting and financial systems, procedures and controls required to meet the current and project requirements for financial management purposes on a state-wide basis. This involved:

- Formulating overall recommendations dealing with basic concepts, systems and procedures for financial planning and management.
- Developing a budgetary and financial management reporting system to meet the requirements of both the department of finance and the individual state program agencies, and providing documentation and audit trails for effective internal audit and external post audit.
- Determining revisions required in organizing and administering budgetary and accounting activities, together with recommendations regarding centralizing or decentralizing these activities.
- Developing a program for introducing new or improved methods of program accounting on a planned and coordinated program budgeting basis (PPBS).
- Preparing preliminary budgetary, accounting and financial management manuals.

Our specialists later were retained to help the state implement the program.

•Our consultants were retained by this eastern city of 400,000 population to help develop and implement a comprehensive, city-wide capital outlay programming and budgeting system. This engagement was completed by a task force of both city and consultant personnel under direction of an experienced Ernst & Ernst project director and involved:

- Reviewing the existing capital budgeting system and procedures.
- Reviewing existing and proposed capital projects of each department/agency.
- Identifying classification of all projects by category, based on characteristics.
- Establishing departmental capital outlay programming and coordination procedures.
- Establishing capital improvement project selection and evaluation criteria.
- Establishing project planning, scheduling and management criteria and procedures.
- Developing capital improvement budgeting and monitoring procedures; designing an information system to provide required information and reports on project financial and completion status.
- Preparing an operating manual covering the entire program as it involves the executive and legislative branches.

•We provided direction and help during the past two years to a large county in developing and implementing a comprehensive administrative services information system as a key component of the county's overall planning-programming-budgeting system. The administrative services information system comprises the following sub-systems: accounting information system; material resources management system; and personnel resources management systems.

The objectives of our assignment were to:

- Develop a program/cost accounting system that would provide necessary expenditure and cost information and controls, and be compatible with PPBS and line item/object of expenditure accounting needs.
- Develop systems needs and specifications which identify the information needs and/or data base required in the administrative services information system.
- Establish priorities and develop a comprehensive plan for scheduling and controlling the detailed systems design and implementation of the various systems and sub-systems composing ASIS.

To accomplish these objectives, our specialists:

- Analyzed and evaluated the present accounting and financial management system.
- Reviewed cost information requirements for the PPBS and line-item budget control.
- Developed accounting systems concepts for salaries and employee benefits; services, supplies and other charges; fixed assets and capital projects, and applied overhead.
- Coordinated conceptual design work with the other information requirements activities being conducted concurrently by the county.
- Prepared plan for detailed system design and implementation of the cost accounting system.

•We were retained by this large city to analyze extensively the accounting system and related procedures. Over a period of several years, we helped develop and install a modernized accounting system and adapt procedures for centralized data processing. This assignment, one of the most extensive our accounting system and data processing specialists have undertaken, encompassed all aspects of budgetary accounting, cost accounting and financial forms, procedures and controls, and resulted in an annual savings of several hundred thousand dollars.

•This assignment, jointly-sponsored by a city and county, involved comprehensive analysis of certain city, county or jointly operated agencies for the purpose of establishing fair and equitable bases for allocating revenues and program costs between the city and county. The study was conducted in three phases:

- An analysis of program benefits, and allocation of program net costs to residents of the city and of the county excluding the city.
- An analysis of tax revenues contributed to each government by residents of each study area.
- A comparative analysis of program costs and revenues, and development of recommended cost allocations between city and county governments.

The scope of the study included 39 departments or agencies in the fields of health, public safety, welfare, transportation, parks and recreation, and general government. While this study was not directed to management information needs as such, recommendations were also submitted concerning the need for better information over revenues and program costs, and for the systems needed to provide this information to management on a timely basis.

•We assisted a school district in securing funds to establish an inservice academy. After funds were obtained, we assisted in the development of the academy.

•Our firm evaluated revenue and expense forecasts of county schools and developed a sound planning amount for purposes of settling labor disputes. We evaluated each major item of revenue and expense and presented an objective opinion as to the reasonableness.

•We extended our present study program budgeting system to include financial accounting and reporting and program activity statistical information and reporting for this large city in the Midwest. An analysis of alternative program planning, accounting and evaluation systems was made. The existing systems and procedures in the Department Consumer Sales, Weights and Measures; the Department of Streets and Sanitation; and the Bureau of Forestry, Parkways and Beautification were used as a basis for making recommendations about alternative approaches to design concepts.

•We prepared a fiscal manual for third party contractors using general revenue sharing funds for a large city.

•We reviewed and critiqued the implementation of wage and salary plan recommended in a prior engagement. We noted differences between current practices and those recommended in our study. We compared current management organization with that set out at the time of study in a Midwestern city.

•We assisted in selecting equipment for an in-house EDP facility recommended by our firm in a prior feasibility study for a city. We prepared a Request for Proposal, reviewed vendor proposals and recommended the best computer configuration. We assisted in planning and guiding computer conversion and installation and provided systems design assistance.

•We were asked by a regional transit authority of a large metropolitan area to develop a system for recording accounting information by the eight commuter railroads which was required in order to prepare purchase of service agreements between the railroads and the Authority. The scope of the engagement included the development of the following as engagement output: the design of a chart of accounts, the determination of the basis for the types of expenses, a determination of disallowable expenses, methods of allocation; the design of a format for submission by the railroads for cost reimbursement and the preparation of an audit program. Our approach to the engagement included visits to each railroad, analysis of their present accounting systems and their data, and finally, the development of the accounting and information system in accordance with the specific output requirements previously identified.

•A county government asked our assistance to determine the basis of computation for their annual required contribution to a state employee retirement system.

We assisted the county by conducting a study to determine the scope and detail of data and information available in the State Comptroller's organization concerning actuarial valuation and the accessibility of such records.

•A metropolitan district's trustees requested our assistance to advise them on general accounting matters. We were asked to design the accounting records for a donated estate so that they are maintained in a uniform manner with existing facilities records. We also reviewed the existing encumbrance, cash receipts, and cash disbursements systems and financial report formats and provided findings and recommendations as a result of our review.

•We revised the liability estimation model developed in a prior engagement to reflect new legislation for this governmental client. We developed a preliminary system design for computerized system to process claims and estimated the liability of this client.

•We reviewed and appraised the accounting system and developed an accounting procedures manual, revised chart, and text of accounts, documented the revised system and assisted in implementing the revised system for a quasi public state agency. Our approach included interviews with key agency personnel, documentation of the system, evaluation of the system, development of necessary modifications and presentation of recommendations for approval to management. Following approval, the procedures manual was developed and conversion to the revised system begun.

•We were asked to determine improvements needed in departmental fiscal systems, procedures, and organization so that accounting and management controls comply with statutory requirements and information needs for sound administrative practices of this city government department. We examined all functional areas which comprise the department except the Internal Audit and Management Audit groups. Specific program areas of the Department we reviewed included Budget Administration, Property Control, Purchasing, Capital Budgeting, Data Processing Accounts Payable and Receivable, and Cash Management. By starting with a brief organizational review, we interviewed Department employees and collected data on functional objectives and processing in each program area. We analyzed each program area to determine improvements needed in controls and processing methods. We wrote a report of our findings and recommendations to be reviewed by the Chief Administrative Officer and members of the Finance Committee of the City Council.

•We assisted a state commission in preparing an accounting and management system to manage Environmental Protection Agency and Department of Housing and Urban Development planning grants. This included preparation of a chart of accounts, designing of a bookkeeping system, determination of an indirect cost rate, and generation for a report. We reviewed the internal controls and all applicable requirements both internal and external. We also designed the system elements as appropriate and prepared system and procedures manual.

•We developed an accounting procedures manual for the Treasurer's office in the capitol city of a Midwestern state. The manual, a looseleaf form with tabular separations for procedures described, did not address the processing or handling of every exception situation. The descriptions were generally oriented toward outlining only the principal tasks necessary to complete processing of recurring, routine transactions and the individual to be contacted for assistance in handling them. The manual included:

- A glossary of frequently used municipal accounting terms, including items unique to the city.
- Brief descriptions of the duties and responsibilities of key personnel in the City Treasurer's office.
- Illustrations of source documents with accompanying instructions for completing them.

•For a Midwestern port authority, we developed a computer-based cash management and planning model to be used to project cash availability under various property leasing and debt refunding assumptions.

•For this large village in New York State, we designed an accounting system making maximum use of automation, existing forms and available staff to absorb the system within the existing facilities and organization. We created the forms and procedures necessary and documented our work with a procedures manual and assisted the village in implementing the system.

DATA SYSTEMS

Governments face ever-increasing problems of efficiently processing the data and information necessary to plan, manage and control their programs and operations. In smaller governments, this information can be handled efficiently through manual systems and/or mechanized systems using bookkeeping machines, microfilm and comparable equipment. Efficiently processing large amounts of data, however, requires introducing more sophisticated data systems, including large-scale, on-line computer systems. In fact, most state/local governments use computerized cost systems to some extent.

In smaller governments, this might be limited to using a local service bureau. In larger governments, data processing support might be provided all departments and agencies by a large, centralized service organization with modern, high-speed computers operated on a random-access, on-line basis, and using terminals in operating departments. In some governments, individual departments might operate their own computer facilities, and real problems might exist with the need and justification for individual installations.

All governments, however, face common problems with all data systems. A government must:

Identify its basic data and information needs.

Design a system which will process data and provide required management information quickly and economically.

Establish specifications for the optimum configuration of hardware needed.

Select and install the hardware.

Perform necessary programming.

Install and "debug" the system so that it meets system and operational requirements.

Train management personnel in interpreting and using the data and information the system provides.

To meet these specific needs, Ernst & Ernst provides a broad spectrum of consulting help in connection with data systems, including:

Feasibility Studies. These include analyzing an agency's basic information needs; determining how these needs can best be met; developing system specifications; estimating costs vs. benefits for the system alternatives available. This information is presented in a report to the client with appropriate findings and recommendations.

Equipment Selection Analyses. These involve evaluating the various configurations of hardware and equipment conceivably available in relation to desired operating characteristics, volumes, costs, performance, support, reliability and other criteria. The results of these analyses would be a ranking by key criteria of each item of hardware or equipment, together with specific recommendations for the configuration best suited to meet the client's needs.

Systems Design. A typical systems engagement includes data and information needs (if no feasibility study was involved); determining optimum means of processing information; and developing flow charts for proposed systems, including block diagrams which can be used for coding.

Systems Implementation. In many engagements, our data systems specialists provide guidance and help to client personnel during conversion and changeover--the period during which systems are being programmed, installed and debugged.

Programming Support. We encourage the client to provide coding/programming support services, wherever possible. We can, however, make available the services of our district and national office programming personnel to perform or help perform necessary coding and programming activities on engagements for which we have completed the system design. It is our policy not to undertake contract programming engagements.

Data System Capabilities

Ernst & Ernst has developed strong capabilities in the data systems and computer field and has provided consulting services in this specialized field to hundreds of clients--in government, and in business and industry. Besides auditors who are experienced in EDP, we have more than 100 data system specialists located throughout the firm who devote full time to this field.

Ernst & Ernst developed the original concepts of integrated data processing, which were published by the American Management Association and were generally accepted as the standard of the time. Members of our data processing staff serve on committees of the American National Standards Institute, whose purpose is to develop language, transmission code and other standards for the EDP industry.

Our data systems consultants are not just data handlers or automation specialists, but management information specialists. We require that each data systems consultant be thoroughly familiar with the type of governmental agency and program area in which he is expected to provide consulting service.

National Data Systems Support Group

To support our district and local office data systems specialists, our firm has a national data processing research and development group. This group, in our National office, comprises a cadre of highly trained

specialists in systems/data processing and skilled programmers with diverse programming language abilities. The combined skills of this group encompass such major areas of computer technology as:

- Telecommunications
- Data base design and management
- Real-time processing
- Time sharing
- Hardware/software analysis and evaluation
- Management information systems
- Computer operating systems
- Diverse programming languages
- Advanced programming techniques

The basic functions of this group are to:

Conduct research into and develop advanced data processing technology.

Evaluate hardware/software development, and disseminate findings to systems data processing specialists.

Develop and coordinate technical educational programs for our data systems consulting staff.

Develop and maintain a national data systems technical library.

Provide advisory technical assistance in client data processing engagements, and help monitor significant engagements.

Provide programming services for internal projects and/or selected engagements where Ernst & Ernst has designed the system. These services include program coding, testing, debugging, and installing.

EDP Standards

For a number of years, Ernst & Ernst has maintained an EDP Standards Manual. This manual, continually updated, enables us to maintain uniform quality of our EDP consulting throughout the country. Ernst & Ernst has also modified the published A. D. S. (Accurately Defined Systems) technique to reduce the level of detail. This documentation system provides for standardizing data sets within the system; uniquely identifies files, inputs, and outputs; requires decision tables for all computational processes; and uses an indexing and cross-referencing system that virtually eliminates systems flaws and programming defects. This documentation reduces the programming effort to that of coding. Ernst & Ernst has adopted this system nationally and uses it in all systems and software development engagements for clients and in-house projects.

Data Systems and the Management Sciences

Our data systems staff works closely with our management science specialists--and, as appropriate, with our specialists in accounting, engineering, marketing, and other fields--to design and implement computerized systems. We use simulation techniques extensively to determine the adequacy of hardware configurations and systems design in batch, multi- and real-time processing environments. These techniques, which can be applied to any current equipment, provide a basis for optimizing both systems and equipment on a factual and supportable basis, and for developing processing standards and measuring processing efficiency. A major feature of our capability is experience in using a proprietary simulation package to optimize system design and EDP equipment use.

Typical engagements in which we have worked with government clients in the data systems field are listed below:

•We provided extensive direction and help to a large city and a county in integrating their separate financial, accounting and administrative systems into a unified system to meet the needs of a consolidated government, including:

- Developing computer specifications and configuration.
- Evaluating and selecting EDP equipment.
- Training personnel.
- Organizing and operating the EDP center.
- Helping design systems and preparing key procedural manuals.
- Developing internal audit programs for EDP systems.

Later, our specialists helped to establish information needs, design systems and implement computerized systems in a number of specialized areas. The scope of our services has also included:

- Determining information system needs and designing and implementing financial and administrative systems including:
 - General accounting and financial procedures.
 - Computerized payroll system.
 - Specialized accounting systems for the hospitals, water and sewer services and the board of education.
 - Computerized property accounting system, etc.
- Determining EDP needs and establishing a central EDP center.

•Our specialists developed for this state education agency a state-wide master plan for a management information system to serve local school districts and to perform detailed system design of--and help implement and install--the financial management component. The engagement included a state-wide survey of information needs in local school districts, and required a detailed plan for organizing and operating regional data

centers, and an implementation plan (time phased with cost estimates) for the entire program. The system is operational in selected pilot districts, and the system will be implemented in the remaining districts as soon as the legislative body adopts enabling legislation.

•Over the past several years, we have worked with this large Midwestern city to determine management information needs and to design and implement the computerized management information systems needed to meet these information needs. The scope of these engagements included:

- Conducting initial feasibility studies of the potentials for using EDP to perform clerical and accounting functions on a city-wide basis.
- Developing MIS/EDP Master Plan for the city, including all major agencies and activities, to guide systems development and EDP conversion efforts.
- Developing a recommended program for establishing a central EDP facility, involving personnel, facilities, hardware and software needs, and criteria.
- Helping to implement the program.

•In this engagement, we inventoried and analyzed the MIS/EDP applications in all state agencies and developed a recommended EDP Master Plan for (1) developing and implementing the information systems needed to meet information needs at the state and operating agency levels; (2) determining and procuring required hardware, software, facilities and personnel; and (3) developing the organizational structure needed to provide adequate EDP services to departments and agencies.

In a corollary engagement, we were retained to help:

- Determine information system needs and system specifications to provide the government and legislature with essential accounting and personnel information.
- Evaluate costs vs. benefits of alternative information systems, and prepare system specifications for the most advantageous systems.

•In this comprehensive study, our EDP specialists made a detailed study of all EDP functions and activities of a major federal department and its constituent agencies. The scope of this study included:

- Inventorying and analyzing all MIS/EDP applications and hardware in all agencies and operating units.
- Evaluating the MIS/EDP organization and planning capabilities and procedures in each agency and operating unit.
- Developing recommended policies, procedures, guidelines and criteria for planning to meet MIS/EDP needs at the departmental, agency and operating levels.
- Preparing an interim MIS/EDP master plan and implementation schedule.

The scope of this engagement, including six major agencies and bureaus, was particularly significant inasmuch as it involved analyzing MIS/EDP functions of a very large governmental agency operating across the entire country, in which functions range from the use of EDP for largely administrative purposes to a highly computer-mission-oriented operation. While the study focused on planning for MIS/EDP needs at all operating levels, it was necessary for our specialists also to analyze and evaluate the adequacy of program/mission planning and the kind of management information needed for planning, coordinating and managing resources.

•In this large county, the board of supervisors and administrator were unable to obtain timely or meaningful financial reports. Our data processing specialists were called in to study the problem. We found that the basic records concerned were inaccurate and incomplete, and that the accounting system and procedures could not produce the type of management information desired. Existing manual methods could not be improved readily, and the most practical and least costly solution could be attained through the use of a medium-sized computer. Preliminary specifications were prepared, setting forth basic system requirements and other criteria for equipment manufacturers to use in preparing proposals. These proposals were evaluated in relation to the advantages, disadvantages and probable costs and savings of each alternative approach. The county later selected and installed a medium-sized, punch-card computer system. Our services were used further in the transition from manual to mechanized procedures, in a complete reorganization of the county auditor's office, and in the modernization of the basic accounting system.

•In this large state, 19 separate punch-card and computer installations were operated by a wide range of state agencies. Ernst & Ernst was retained to study this problem and determine whether these operations could be consolidated economically to effect savings, provide better service, and permit the use of more advanced equipment. The results of our study indicated that a savings potential of approximately \$500,000 per year could be achieved through establishment of a centralized data processing department, and making related changes in organization, staffing and procedures of the agencies concerned.

•We assisted a county bureau of support for a city in implementing an automated alimony and support option. The following efforts were required:

- Assisted in developing program specifications.
- Designed manual portion of the system and coordinate the design of necessary forms.
- Prepared procedures manual covering manual tasks.
- Advised in design of work stations.

◦We determined the best configuration of computers for a law enforcement system of a large city involving mobile computer terminals and for the city's management system. We evaluated lease vs. purchase vs. rental of planned computers. We developed a three-year implementation plan for both systems. This involved using CASE simulation.

◦We provided consulting assistance to a large city's traffic court during the testing and parallel operation of a traffic and ordinance computer system. We assisted in training of personnel, preparation of system implementation, preparation of test data, preparation of additional documentation, preparation of needs survey information and conversion from manual to computerized system.

◦We reviewed the data processing system and submitted recommendations to the school system for:

- Selection of EDP equipment.
- Reorganization of data processing activity.
- Identification of subsystems to be designed by order of priority to meet the University's accounting and administrative needs.

◦We conducted a reconnaissance survey of the fiscal impact of state actions on local government. An inventory of existing parts of state-local fiscal information systems and the determination of needed additions was made.

◦We identified system enhancements which will effect the type of equipment needed to automate a city's basic accounting systems. We also assisted the city in selecting equipment which has the capabilities of meeting the system requirements. This included the following efforts:

- Reviewed current systems of budgetary accounting, miscellaneous accounts receivable, income tax and payroll.
- Identified enhancements which should be included in the revised systems.
- Developed specifications for competitive bidding.
- Analyzed proposals and prepared report outlining findings and recommendations.

◦Our firm assisted and counseled in the development and implementation of the financial system on a Texas Instrument #980 computer for a city. This included revision of chart of accounts and departmental numbers, general ledger, subsidiary ledgers and operating profit and loss by department and fund. It also included conversion of present to proposed chart of accounts numbering.

◦We assisted in converting a manual capital projects system to a computer operation to eliminate duplication of city and school records

and to permit timely and more comprehensive reporting. This engagement included the entire accounting and budgeting process. It required redesigning of the capital projects system, revision of present chart of accounts, evaluation of various budgetary reporting systems and defining of required program changes. We also assisted in converting from the manual to an automated system.

◦We were requested to reorganize the personnel, better utilize automation, improve communications between departments and formalize management performance reporting in the tax department of an Eastern city. Among our tasks were automation in areas we thought necessary, reorganization of functions and determination of appropriate staffing levels for effective jobs, design of management reports to measure performance.

◦We reviewed the systems design for computerized management system to ascertain if the internal controls were adequate and applications designed in accordance with the standards of this municipal entity in Florida. We assessed the system and the effectiveness of internal controls and audit trails and made recommendations for possible improvements.

◦The Comptroller's office of a Mid-Atlantic state designed an EDP system to process employer withholding tax payment. The Comptroller asked us to assist him as he felt we could be independent and would greatly enhance the probability of a successful system implementation since a great deal of animosity had developed between the EDP department and the department charged with responsibility for processing the payments.

REVENUE AND TAXATION

Many states and local governments face almost insurmountable obstacles in attempting to increase their revenues to meet demands for public service, or even to keep pace with the increased costs of existing services. This problem is particularly acute for the larger, highly urbanized states, cities and counties.

In many instances, governments, private developers, and other organizations must determine the probable impact on tax revenues resulting from specific development programs and projects. What are, for example, the short-term and long-term consequences of a downtown renewal project which removes valuable property from the tax rolls, yet involves the future construction of new revenue producing projects? What will be the tax and revenue impact of anew industrial park; of an extensive property reappraisal program; of the city's assumption of a privately owned transit system; or of introducing a tax on income?

Ernst & Ernst specialists provide a wide range of management consulting services in helping state/local governments to cope more effectively with problems involving revenue forecasting, fiscal capacity and local tax efforts; in analyzing the impact of new or increased taxes on residents and business and commercial concerns; in improving tax assessment and collection procedures, including delinquent taxes; in analyzing revenues contributed vs. public service received, etc.

In undertaking these assignments, we use the services of tax and management consulting specialists. Our tax specialists are thoroughly familiar with the legal and other requirements involved in taxation at the state/local levels, as well as with pertinent federal requirements.

Our management consulting specialists bring to bear a diversity of technical skills in forecasting revenue needs and potentials; in analyzing financial and economic impact in terms of costs vs. benefits resulting from new taxes or changes in existing taxation policies and practices; in developing simulation models of revenues and costs; in mechanizing and streamlining revenue/tax billing, collection and processing systems and procedures; in input-output economic analysis; or in cost-benefit analyses of the equity of existing taxation policies in relation to the services received vs. revenues contributed by category of taxpayer, location, etc.

At the state level, assignments are undertaken for the legislative branch, a department of revenue, the state budget officer, or a department of finance, depending on the purpose of the engagement and where authority and responsibility is vested. At the local level, studies are performed for city councils, county boards of supervisors, tax assessors, treasurers, finance directors and other officials who have responsibilities for revenue and/or taxation matters.

Typical engagements in which we have worked with government clients in revenue and taxation are listed below:

•We were retained to study revenue sources and the feasibility of establishing a sales tax in this medium-sized city and the adjoining unincorporated area for which certain governmental services were provided through a large school district. Our analysis revealed the inequity of the existing tax structure and the need for an additional revenue source. A sales tax was recommended and a program for equitably developing and applying this tax on an area-wide basis was evolved. Our recommendations were accepted and implemented by both agencies concerned.

•Our specialists provided extensive help to this Eastern state during a period of several years with a multiplicity of revenue and taxation matters, including:

- Estimates of the impact on state revenues if the sales tax were eliminated on machinery and equipment used in manufacturing.
- Analysis of alternative ways of collecting license fees of motor carriers using the state's roads and highways.
- Feasibility study of building a simulation model to forecast income and sales tax revenues.
- Studies of the feasibility of computerizing the state's systems for income, sales, gasoline, admissions, alcoholic beverage, license, payroll tax billing, collection, accounting, reporting, and administration.
- Assistance in designing and installing data systems in the foregoing areas.

•A major Midwestern city imposed a new tax on gross payroll, in which tax collections were to be apportioned between the taxpayer's city of residence and the city in which he worked. Our specialists designed the basic tax forms, records and procedures for reporting and collecting the payroll tax; apportioning collection between participating municipalities; tax billing and collecting for self-employed personnel; and annual tax filing and reporting. These procedures were adopted for computer processing, and our data systems specialists provided guidance and help in systems design, conversion, programming and installation.

•In this assignment, our specialists analyzed local taxation policies and practices, and prepared projections of probable additional revenue contributions resulting from increases in present taxes, or through the imposition of new taxes, including consideration of a gross payroll tax on earnings of all individuals residing or working in the city. The scope of this study also included an analysis of the increased revenues to be realized and the added costs involved in collecting and accounting for the revenue.

•This assignment was performed for a state research council and involved a comprehensive analysis of the burden of all state and local taxes on manufacturing corporations located in seven of the nation's largest metropolitan areas. This study involved developing profiles of several representative, "typical" manufacturing organizations for analysis purposes. The taxation policies and practices of each of the seven metropolitan areas were analyzed, and a study approach developed through which it was possible to project the probable total state and local burden imposed on each "typical" corporation in each area. This type of information is extremely useful to a government, or to a business or industry which is dissatisfied with taxation levels or is considering relocation.

•The legislature of this Southern state directed the governor to develop a comprehensive real property tax reform program for presentation to legislature at its next legislative session. The purpose of real property tax reform is to eliminate or minimize the many inequities in the present structure and improve the efficiency of tax administration, while not imposing an undue tax burden on particular classes of taxpayers and/or taxing jurisdictions.

Ernst & Ernst was retained by the governor's office to (1) identify the various studies and analyses which must be undertaken and completed in order to provide the data and information on which to base meaningful real property tax reform legislative proposals; (2) identify the kinds of resources required to perform these studies and the probable level of effort and costs thereof; and (3) provide the state with a proposed organizational and project plan for planning, scheduling, managing and accomplishing all required work so as to meet desired project deadlines.

Ernst & Ernst was subsequently retained to perform that phase of the project which analyzed and evaluated the respective role and responsibilities of the state and local governments in property tax administration.

•We investigated ways in which alternative state and local tax policies for this Southeastern state could be used to condition:

- Aggregate rate of economic growth.
- Industrial composition of growth.
- Spatial distribution of growth.

This work included the following efforts:

- Comprehensive review of state tax policy.
- Comparison with other selected states.

•We developed a project work plan and schedules for all necessary consulting work required in developing a real property tax reform program for a large Mid-Atlantic state.

•In one state, a number of the state common school districts had not passed their "special" levies. Instead, they were pressuring the state legislature to provide funding in addition to that which they already had provided. In an effort to determine the "real" need for these extra funds, the legislature accomplished a major financial analysis and systems review of certain school districts. We assisted the state legislature by:

- Reviewing and analyzing cost elements and methods of accounting for costs in the common school programs with particular attention paid to overlap and duplication among programs financed from local, state and Federal funds.
- Developing and documenting improved techniques for the preparation and monitoring of Common School Budget Programs.

ELMER FOX, WESTHEIMER & Co.
CERTIFIED PUBLIC ACCOUNTANTS

1511 K STREET, N. W.
WASHINGTON, D. C. 20005
202-393-6080

June 30, 1976

Honorable Thomas F. Eagleton
Chairman, Committee on the District of Columbia
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This letter responds to your kind invitation of June 23, 1976, to submit our views on bills (S.3608 and H.R. 11009) to provide improvements in the financial management of the District of Columbia Government and for independent audits of the District's finances in the future.

We are well aware that such legislation is needed and that either bill would contribute substantially to the necessary improvement of financial management in the District of Columbia Government. In our first-hand working relations with the District over past years, it became evident that uniform and formalized accounting and reporting systems were essential.

Each bill has been carefully analyzed and is summarized in the appendix to this letter for convenient reference. The pending legislation recognizes the following imperatives for a successful program of improvements.

- Involvement of officials of the Federal and District of Columbia Governments at the highest level.

- A systematic review of existing conditions and practices with resultant plans for needed improvements which in the aggregate will reach all financially relevant matters.

- Ample allowance of time and funds required for so urgent, large, and complex an undertaking.
- An insistent requirement for training employees and for total implementation of plans.
- Time scheduling and progress reporting.
- Independent audits as soon as circumstances permit and continuing annually.

We are pleased that both bills accommodate the assembly of several consulting firms to provide the professional resources to perform the work. In this way, it will be possible to apply diversified talents and experience to diversified problems and circumstances. Properly coordinated, the versatility and specialization of several firms should become a strong complementary force to meet this financial crisis. And the smaller consulting firms will be able to make their contributions as well as the larger firms.

There will be some diversity of viewpoint and conclusion, we anticipate, and a free exchange of ideas among participating consultants should be most useful in arriving at satisfactory solution.

In view of the exploratory nature of the work and the consequential uncertainties as to cost, it might be considered most practicable to make an initial appropriation of some 5 million dollars at as early a date as you find to be feasible and to declare in the Committee report that future appropriations will be recommended on the basis of the first year's experience.

It should be recognized that the improvement program is a three-year undertaking.

We would like to conclude by reiterating the essentiality of the training of District employees and the importance of providing for direction of implementation of each system or part of a system by the designing consultant.

The opportunity to submit these comments is deeply appreciated.

Sincerely,

Elmer Fox, Weatherman Co.

APPENDIX I

H.R. 11009, An Act to provide for an independent
audit of the Financial condition of the government
of the District of Columbia.

H.R. 11009 would, in brief, provide as follows:

- Subsequent to appropriate executive and legislative conferences, regarding the scope of one or more contracts for the design and implementation of financial planning, reporting, and control systems, the selection of a contractor to perform each such contract, and the schedule for completion, the Comptroller General shall enter into one or more contracts.
- Each contractor shall have access to the records of the District of Columbia.
- Each contractor shall make quarterly reports.
- Upon completion of the design of any financial system, the contractor shall submit a report containing recommendations for such changes as should be made before an audit can be conducted in order to render an opinion that the financial statements of the District present fairly the financial position of such funds and also a schedule for implementing the changes.
- The Mayor with the assistance of the concerned contractor shall implement the changes recommended.
- After implementation, the Council shall provide funds for an audit of the first full year by an independent certified public accountant to determine that financial statements fairly present the financial position. This shall be repeated every three years thereafter. The results of each audit shall be submitted to designated bodies and officials.

-- For each of the fiscal years 1977, 1978 and 1979, there is authorized to be appropriated to the Comptroller General \$750,000 for such contracts, to be available until expended.

-- The Council shall make available matching funds to the Comptroller General.

Passed the House of Representatives May 24, 1976.

APPENDIX II

S.3608, A Bill to provide certain improvements in the financial planning, reporting, accounting, control, and operating procedures of the government of the District of Columbia.

S.3608 would, in brief, provide as follows:

- There is established a Joint Committee.
- After appropriate consultations, the committee shall select persons to develop and assist in implementing plans to improve the financial planning, reporting, and control systems for the District. (The bill lists ten plans relating to financial management, including management, payroll, water-sewage charges, purchasing, property accounting, real property improvement, welfare payments, human resources, health care, and traffic tickets).
- Each contract shall provide a training program for concerned D.C. operating personnel.
- Upon selection by the Joint Committee of each person to develop and implement a plan, the chairman of the committee shall enter into a contract with that person.
- The contract shall include the scope of work, amounts to be paid, and schedule of completion.
- The contractor shall upon completion of a plan, or other work, submit such plan or other work together with a schedule for implementation to the Comptroller General.
- No plan shall be submitted to the Comptroller General unless such plan has been submitted to the lead contractor responsible for the development and implementation of a financial management improvements plan, for recommendations to be submitted to the Comptroller General.

- The Comptroller General within sixty days following receipt of a plan, after appropriate consultation, shall be authorized to approve, disapprove or modify such plan. By the end of the 60 day period, the Comptroller General shall submit the plan to the Congress.
- Each plan approved or modified by the Comptroller General shall become a part of the financial procedures of the District.
- Each such plan shall be implemented by the Mayor with the assistance of the responsible contractor:
- The joint committee is directed to cause to be undertaken by a certified public accountant a balance sheet audit of the financial position of the District as of September 30, 1977, as follows:
 - 1) assets, liabilities, surplus, deficit;
 - 2) exclude revenues and expenses, changes in fund balances, statements of changes in enterprise funds; and
 - 3) exclude property and equipment
- The joint committee shall cause to be undertaken an audit of the financial position for the fiscal year commencing October 1, 1977 and the next fiscal year, as follows:
 - 1) assets, liabilities, surplus, deficit;
 - 2) revenues and expenses, changes in funds and enterprise funds; and
 - 3) exclude property and equipment (if necessary).
- The contractor shall have full access to the records of the District.

- For the fiscal year beginning October 1, 1979, and each fiscal year thereafter, the District shall conduct an audit of its finances by a certified public accountant.
- The Mayor and his successors shall provide for successive audits.
- There is established an Audit Control Commission of the District with specified membership and functions.
- The costs of contracts for development and implementation of financial plans shall be an obligation of the District. All assistance provided by the Comptroller General shall be on a reimbursable basis.
- There is authorized to be appropriated to the District not to exceed \$20,000,000.
- Thirty days after completion and implementation of all plans and final payment of all contracts, the joint committee shall cease to exist.

Alexander Grant
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INTERNATIONAL FIRM
ALEXANDER GRANT TANSLEY WITT

June 29, 1976

Senator Thomas F. Eagleton,
Chairman
United States Senate Committee
on the District of Columbia
6222 Dirksen Building
Washington, D.C. 20510

Attention: Mr. Robert Harris, Staff Director
and General Counsel

Dear Mr. Chairman:

As you requested, we present in this letter brief comments on the nine points contained in pages 23 and 24 of the General Accounting Office report of February 27, and the five points contained in the Comptroller General Staats' prepared statement of June 26. We shall also expand upon our testimony of June 26 and comment upon some of the issues raised in the testimony of some of our colleagues from other firms of Certified Public Accountants.

- We agree with the nine points in the GAO February 27 report and believe, along with you and others, that the first five could logically comprise "Phase II", the remaining four becoming "Phase III".

These nine tasks should not, however, be regarded as the only tasks to be addressed. For instance, one worthwhile task would be a survey of D.C. financial management personnel to identify training needs and establish a training program to prepare these people for more specific training as systems are designed. Another task would be to strengthen and support the internal audit function in the D.C. Government. Yet another would be the design of systems for evaluation of productivity and efficiency.

1776 K STREET, N. W. WASHINGTON, D.C. 20006 (202) 296-7800

Senator Thomas F. Eagleton

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June 29, 1976

- The five points contained in the Comptroller General's prepared statement can be taken, as a whole, as a very worthwhile admonition against unnecessary duplication of effort. One should not expect too much, however, in the salvaging of existing systems, multiple uses of identical systems or the transporting intact of systems from municipalities or from Federal agencies.
- D.C. budget, financial and general management personnel, including the Council and the Auditor, must play an active role in Phase II and III. Change is much more readily accepted by those who have participated in its making.
- Phase II would probably be best handled by one contractor. Also, with the possibility of as much as 30,000 hours of professional effort, it would seem that a nine month or one year time frame would be more realistic than the six months mentioned.
- In Phase III, priorities should be arranged so as to provide an "early victory" in establishing and implementing one or more of the systems. This will give needed impetus to the entire effort.
- The proposed bill appears to call for Phases II and IV to be handled by the same contractor, and we understand that this will be changed. We believe that the most objective, impartial audit will result from Phase IV being performed by a contractor who did not participate in any of the first three phases.
- All the proceedings thus far seem to restrict potential contractors to firms of Certified Public Accountants. Several of the larger management consulting firms could also provide talent needed by this effort. Alexander Grant & Company has enjoyed success in working jointly with Booz-Allen & Hamilton, Inc. in similar efforts.

Alexander Grant
A COMPANY

Senator Thomas F. Eagleton

- 3 -

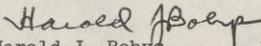
June 29, 1976

- Fixed price contracts for systems design and implementation are not in the best interests of the client. For creative effort in a largely unknown environment, a cost type or labor hour contract would be far preferable. Labor hour bid prices can be better evaluated and labor hour contracts can be more effectively administered.

Alexander Grant & Company appreciates this further opportunity to share our views and thoughts. We will be happy to discuss any of these matters at your convenience.

Very truly yours,

ALEXANDER GRANT & COMPANY


Harold J. Bobys
Managing Partner

HJB/wkp

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

1101 FIFTEENTH STREET, N.W.

WASHINGTON, D. C. 20005

June 30, 1976

Honorable Thomas F. Eagleton
Chairman
United States Senate Committee
on the District of Columbia
6222 Dirksen Building
Washington, D. C. 20510

Attention of Mr. Robert Harris,
Staff Director and General Counsel

Dear Mr. Chairman:

COMMENTS AS REQUESTED DURING HEARINGS
ON S. 3608 and H.R. 11009

As you requested during the hearing on June 28, 1976, we have reviewed the comments made by the Comptroller General and the attachment to his remarks, the GAO Report to the House Committee dated February 27, 1976, and offer observations grouped as follows:

- I. Observations regarding the Comptroller General's testimony of June 28, 1976
- II. Observations regarding suggested priorities, items 1 through 5, contained in Chapter 5 of the February 27, 1976, GAO Report
- III. Observations regarding suggested priorities, items 6 through 9, contained in Chapter 5 of the February 27, 1976, GAO Report.

I. Comptroller General Staats testified as to the reasonableness of the cost estimate contained in S. 3608:

- a) we agree that a cost estimate cannot be developed with any reasonable degree of accuracy without additional information

- b) we agree that the factors enumerated to clarify an estimate are pertinent but were not intended to be all-inclusive; for example,
- it may be feasible to centralize certain of the District's financial management functions, thereby having an impact upon the number of systems to be developed;
 - criteria for uniformity in system design should be developed and used; the extent to which this would impact upon the cost of development should be analyzed
- c) the Federal government has assisted in funding several systems development efforts which were specifically designed to be transferable to other cities; the District should assess the feasibility of utilizing these systems
- d) the District should investigate the possibility of using "packaged" systems which have been used successfully by other cities. For example, we have experience in using a package called ARMS, proprietary software developed by Sartoris Corp. which has been, or is being, implemented in
- Dallas, Texas
 - Houston, Texas
 - Milwaukee County, Wisconsin
 - Dade County, Florida
- e) the District should consider the feasibility of joining with a major metropolitan area, such as Metropolitan Dade County, Florida, to share the cost of designing and implementing financial management systems. This would not only speed the effort, but also would reduce the cost to each city.
- f) the District should investigate the transferability of systems developed for Federal agencies, such as the Procurement Accounting and Reporting System developed jointly by Haskins & Sells and the U.S. Department of the Navy
- g) the fund structure should be studied to determine whether significant changes should be made to conform with generally accepted accounting principles, and/or to make the system more beneficial to the users of the system's data.

Honorable Thomas F. Eagleton

3

II. GAO Report dated February 27, 1976, Chapter 5, regarding priorities 1 through 5:

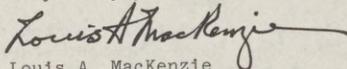
- a) in general, we agree with these priorities
- b) we would place one item, not mentioned, as the top priority item
 - prepare a time-phased development plan, in sufficient detail to identify project tasks, which can be used as a benchmark against which to measure progress.

III. GAO Report dated February 27, 1976, Chapter 5, regarding priorities 6 through 9:

- a) a more specific way to identify the types of things to be done would be in a series of individual elements of the total:
 - determine what the fund structure should be in order to conform to Generally Accepted Accounting Principles (GAAP)
 - develop a chart of accounts for each fund that was determined to be necessary
- b) the above items make up a basic accounting system. The balance of the development effort is pointed toward subsystems to gather the information that will flow into the chart of accounts of each fund. Those subsystems would be made up of cash receipts system, cash disbursement system, payroll system, purchasing system, encumbrance system, budgeting procedures, etc.
- c) thinking of systems development in these simplified terms permits benchmarks to be established for measuring progress.

We appreciate the opportunity to provide comments. Should the staff desire to have further discussion of any of the above matters, please contact Mr. F.J. Thomason, Partner in Charge of our Governmental consulting group, at 872-1980.

Very truly yours,



Louis A. MacKenzie
Managing Partner -
Washington Office

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

1025 CONNECTICUT AVENUE, N. W.

WASHINGTON, D. C. 20036

June 30, 1976

The Honorable Thomas F. Eagleton, Chairman
Committee on the District of Columbia
U. S. Senate
Washington, D. C. 20510

Dear Senator Eagleton:

Information set forth herein is submitted in response to your request for response from each of the public accounting firms in attendance at your Committee's hearing on Bills S. 3608 and H. R. 11009 held Monday, June 28, 1976.

Peat, Marwick, Mitchell & Co.'s (PMM&Co.'s) response is provided in two parts:

- an assessment of excerpts of Government Accounting Office (GAO) suggestions included in its report dated February 27, 1976, and its testimony presented June 28, 1976; and
- observations and comments on points made during the June 28, 1976, hearing.

With respect to the excerpts from GAO material, the following is offered:

1. PMM&Co. concurs that a logical next step identified as a Phase II of the overall effort to improve D. C. Government financial management systems would encompass Requirements Definition as suggested by Tasks 1 through 5 as set forth in the GAO report of February 27, 1976. Having explicit definition of these needs would facilitate the specific identification of tasks to be accomplished during the Phase III - System Design and Implementation effort.

This definition is essential to the scoping of the level of effort required to accomplish the overall task and would provide a basis for establishing specific milestones against which to measure

The Honorable Thomas F. Eagleton
June 30, 1976
Page 2

progress toward the ultimate objective of having a system that can be audited. Tasks 6 through 9 are appropriate elements of the effort envisioned for the Phase III effort.

2. PMM&Co. believes that the factors identified on page 4 of the GAO testimony on June 28, 1976, are key to the definition of the effort necessary to achieve the objectives of both bills. PMM&Co. has had extensive experience in the transfer of systems and believes that an explicit assessment of this avenue to improving the D.C. Government's financial system's capability should be explored before embarking on a "new" system design effort.
3. PMM&Co. believes that one contractor working with D.C. Government personnel can accomplish the scope of a Phase II effort encompassing the tasks outlined in the GAO material. However, the same contractor that performs Phase II need not also perform Phase IV (the audit phase) for the reasons we set forth in our testimony. As presented in our written statement submitted June 28, 1976, it is PMM&Co.'s view that the effort undertaken should initially be directed toward high-priority items such as the development of the central system and phasing the subsequent efforts later in time. This approach would allow the effective utilization of both contractor and D.C. governmental resources. This time-phased approach would also allow the effort to be accomplished without a lead contractor.

The following highlights PMM&Co.'s observations and comments on points made during the June 28, 1976, hearing:

1. PMM&Co. would like to reinforce Mayor Washington's point that the D.C. Government have a significant role in the design/development of the system, as well as in its implementation. We would also like to call to your attention that part of our written statement of June 28, 1976, which addresses the experience of both the GAO and PMM&Co. relative to the involvement of the system user in the design and development of systems.
2. Some of those giving testimony disagreed with the GAO and discounted the potential for transferability of systems to meet the needs of the District. PMM&Co. believes that transferability of systems exhibits great potential for saving dollars and time while meeting system improvement objectives. PMM&Co. has had extensive experience in transferring systems. Within the past 6

The Honorable Thomas F. Eagleton
June 30, 1976
Page 3

years, PMM&Co. has accomplished more than 25 successful engagements involving the transfer of governmental financial management accounting systems.

Virtually all of the cities and counties where we installed such systems are now being audited. Exhibit A provides a listing of those governmental entities for which PMM&Co. has accomplished work in transferring accounting systems.

Based upon this experience, it can be said that transferring systems would, by reducing the cost of design and development, permit more funds to be directed to the training and development of personnel to operate the system. Transferred systems, based on our experience, are easier to implement than new designs. PMM&Co. firmly believes that an explicit assessment of the potential for transferability of systems currently existing within the D.C. Government or with other entities will identify significant benefits for the D.C. Government Financial Management Systems Improvement Program.

As can be seen from Exhibit A, there are a number of FAMIS systems in the immediate area. There is a wealth of already trained talent that could be called upon from a user's point of view to help in the District of Columbia effort.

PMM&Co. would be pleased to meet with you or your staff to answer any questions or to provide additional information that may facilitate your deliberations on the issues associated with improving D.C. Government financial management systems.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.



Stephen D. Harlan, Partner

SDH:cem

1 Encl.
a/s

EXHIBIT A

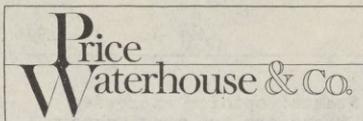
PEAT, MARWICK, MITCHELL & CO.
 ENGAGEMENTS INVOLVING THE
 TRANSFER OF ACCOUNTING SYSTEMS

FINANCIAL ACCOUNTING MANAGEMENT INFORMATION SYSTEM (FAMIS)

Fairfax County, Virginia	San Juan, Department of Housing
Indianapolis, Indiana	Oklahoma City, Oklahoma
Montgomery County, Maryland	City of Miami, Florida
Ft. Lauderdale, Florida	San Antonio, Texas
St. Petersburg, Florida	State of Maryland
Hillsborough County, Florida	D. C. Department of Transportation
Pensacola, Florida	ACTION
Escambia County, Florida	Consumer Products Safety Commission
New Castle County, Delaware	Social Rehabilitation Service
Michigan Cancer Foundation	National Highway Traffic Safety Administration

ACCOUNTING RESOURCE MANAGEMENT SYSTEM (ARMS)

Sacramento County, California
 San Diego County, California
 Pima County, New Mexico
 Solano County, California
 Burrough of Anchorage, Alaska
 Santa Clara, California



OFFICE OF FEDERAL SERVICES
1801 K STREET, N.W., WASHINGTON, D.C. 20006 • 202-331-8855

June 29, 1976

The Honorable Thomas F. Eagleton
United States Senate
Washington, D.C.

Dear Senator Eagleton:

We have been closely following the efforts of you and your Committee to initiate the vital task of improving the accounting and financial reporting practices of the District of Columbia. We would like to take this opportunity to comment for the record on the pending legislation -- S. 3608 and H.R. 11009.

Price Waterhouse & Co. is an international public accounting firm with over 5,000 employees and 69 offices in the United States. We have been providing audit and management advisory services to government clients at all levels across the country since the early part of this century. Our audit clients include Bridgeport, Connecticut; Battle Creek, Michigan; the County of Monroe, New York and component parts of the cities of New York, Los Angeles, Chicago, St. Louis and Dallas. In the past several years we have performed major systems development projects for the states of New York, California, Illinois and Wisconsin.

Our systems work for large cities and counties includes scores of engagements but is underlined by our recent work for the City of Memphis, Tennessee, where we developed a centralized financial system and the related computer systems and participated in the necessary orientation and training of staff. These computer systems would be adaptable for use in the District and we believe speed the process of implementation of the necessary systems refinements.

In general, we believe that a major overhaul of the District of Columbia's accounting and financial reporting system is urgently needed for the District to effectively manage the resources available and for the Congress to effectively measure its annual payment to the District. The implementation of such a major systems project is extremely complicated and will require the full support of not only the Congress but all levels of management and staff of the District government.

We concur with Comptroller General Staats' opinion expressed during the hearings on June 28 that while there are too many unknown factors for a meaningful cost estimate to be made, the \$4.5 million authorized by H.R.11009 will not be sufficient to accomplish the task at hand. We also strongly support your view that ongoing evaluation of the progress of the system's work and early and thorough training of District personnel are crucial to the ultimate success of this project.

While we generally agree with the plan outlined in S.3608, we believe the following points are worthy of further consideration.

1. Scope of Work Needs Refinements

We believe that the systems development and implementation tasks outlined in the bill need additional refinement and analysis to insure that they are workable projects and to better define the scope of each project. Thus, we support the Comptroller General's position that an additional period of study is required and are in accord with the five suggested tasks outlined on page 23 of the GAO's February 27, 1976, report. We also agree that, as in any project of substantial proportion, there is a danger of either doing work in areas where none may be needed or inventing new systems when workable systems may already have been developed elsewhere. Accordingly, we agree that Comptroller General Staats' suggestions on page 4 of his prepared testimony would add a useful dimension to the preliminary scoping phase that might ultimately result in lowering the total cost of the project.

After the scoping phase is completed, the steps recommended for overhaul of the District's financial management and related systems may need to be reanalyzed in the light of the results of the preliminary work.

2. Early Management Training Imperative

During the course of the scoping phase as recommended by Comptroller General Staats, serious consideration should be given to identifying those areas where management training at an early date could enhance the District's ability to implement systems improvement. Insofar as possible, training of District personnel should be an ongoing part of the systems development project and care should be taken to set priorities so that a basic foundation can be laid for District personnel before they are confronted with new systems. Moreover, we have found that people respond much

June 29, 1976

more quickly and effectively when they understand the importance of what they are doing and how it fits into the whole rather than simply being taught a set of isolated tasks.

3. Centralized Financial System Must Be Workable

It has been our experience that while it is theoretically possible to centralize financial information processing for a given entity, to attempt to do so for an organization as large and as functionally diverse as the District government could result in an overly cumbersome and unworkable system. During the scoping phase an attempt should be made to identify those agencies having unique requirements and/or a volume of information to be processed which would not be compatible with the overall central system design.

4. Audits Should Be Conducted On A Fund-By-Fund Basis

We believe that a full audit of the District resulting in an unqualified opinion for fiscal year 1978 is an ambitious and perhaps unreachable goal. A more practical solution in fiscal 1978 and perhaps fiscal 1979 would be to approach financial statement auditing on a fund-by-fund basis recognizing that clean opinions could be provided for certain funds. However, because of incomplete systems work other funds and accounts of the District might still be unauditible. This is another area where results of the scoping phase may occasion re-evaluation.

5. Lead Firm Should Not Perform Systems Design Work

S.3608 calls for the selection of a contractor to develop the financial management systems improvement plan and monitor and coordinate all related systems work. In addition, this contractor would automatically be awarded the initial audit work. We believe that contractor selection would be broadened and the monitoring of contract performance improved if this lead firm by virtue of its project management responsibilities played no role in the actual development and implementation of plans.

We appreciate the opportunity to place our views on the proposed legislation on record and hope that our comments prove useful to you and the Senate District Committee.

Yours very truly,

Price Waterhouse + Co.

TOUCHE ROSS & CO.

1900 M STREET, N. W.
WASHINGTON, D. C. 20036

June 29, 1976

Honorable Thomas F. Eagleton, Chairman
Committee on the District of Columbia
6222 Dirksen Building
Washington, D.C. 20510

Dear Senator Eagleton:

As was requested during the Senate Committee hearings on the District of Columbia of June 28, 1976, we are pleased to submit our comments pertaining to the following:

- The Report to the House Committee on the District of Columbia by the Comptroller General of the United States, dated February 27, 1976 - specifically pages 23 and 24.
- The prepared statement of the Comptroller General of the United States before the committee hearings indicated above - specifically page 4.
- The Senate bill which has been introduced to provide for financial management systems improvement work in the District of Columbia Government.

We have, in addition, included comments pertaining to our qualifications as a Firm.

GAO REPORT - February 27, 1976 - Pages 23 and 24

We would concur that the tasks indicated by numbers 1 through 5 are necessary and proper. As was suggested at the hearing, these tasks should be accomplished by one firm and could be identified as Phase II of four phases within the thrust of the proposed legislation.

Although a time frame of six months was suggested as being adequate to carry out your defined Phase II, we believe it is not possible at this time to establish a precise timetable for completion of Phase II. A six months duration may be totally unrealistic, for example, if, as was suggested at the hearing, a determination of the availability and applicability of developed systems from other cities or from Federal agencies is included within the scope of Phase II.

TOUCHE ROSS & CO.

Honorable Thomas F. Eagleton
June 29, 1976
Page Two

The remaining tasks numbered 5 through 9 are a natural continuation of the work needed to design and implement the required systems and would be included within the definition of your Phase III.

Statement of the Comptroller General - Page 4

In our judgement, the factors treating with the use which can be made of systems already developed for other cities or for Federal agencies need to be approached with caution. It has been our experience that features of developed systems may, in fact, be applicable to several entities. However, seldom is a total system applicable, and the modifications required can be as costly and time consuming as the development process. It has been our experience that the levels of documentation of a developed system, if available, vary greatly between entities. More often than not, the knowledge of a system resides in the people managing those systems and not in the manuals and paperwork supporting various systems.

The Senate Bill as Introduced

We are in basic agreement with what appears to be the overall thrust of the bill. We would, however, like to address two items for consideration.

1. The projects to be accomplished, as indicated, on pages 3 and 4, have as their objective the development of needed systems leading to a position of auditable financial statements. The area of operations management has not been addressed, however. The development of good efficient, effective systems has an obvious return but the return from improved operations could be even greater and can be measured. A project to improve operations would include, proper resource allocation, proper organizational structure, elimination of overlapping functions, work simplification, and determination of proper service levels, to name a few.
2. Ten separate projects are identified within the bill and it can be presumed that more than one contractor will be involved, and there could be as many as ten separate contractors. This could create a unique problem from an implementation point of view. Each contractor will have a different approach to the documentation of a system and it is not entirely clear that each individual system must be integrated into the whole system. We would suggest that a standard of documentation be established across all systems so as to provide the necessary basis for maintaining the systems which will reside within the existing organization after development by the contractor.

TOUCHE ROSS & CO.

Honorable Thomas F. Eagleton
June 29, 1976
Page Three

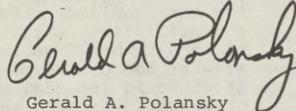
In addition, the systems must be integrated to make best use of the resources available. For example, data from one system must be available to meet the requirements of the other systems, file structure and field definition must be uniform, etc. Without such caution, ten separate but not integrated systems could be developed, and without proper documentation would be difficult to maintain in the future.

Firm Qualifications

Touche Ross & Co. is an international public accounting and management consulting firm with more than 500 Partners and 5,000 employees located in 60 major cities including the District of Columbia. Touche Ross has gained a significant volume of experience in recent service to our clients in local government organizations. These engagements have included audits, financial planning and control systems, and large scale systems development and implementation projects. Some of our more recent experience would include engagements with New York City, City of Chicago, City of St. Louis, Prince George's County, Washington Suburban Sanitary Commission, and the Montgomery County School System.

We appreciate the opportunity to comment both orally and in writing and stand ready to provide assistance to you and your Committee and the District of Columbia Government in whatever way we can.

Sincerely yours,



Gerald A. Polansky
Partner-in-Charge

GAP:vc

ARTHUR YOUNG & COMPANY

JUL 1 4 43 PM '76

1025 CONNECTICUT AVENUE, N. W.
WASHINGTON, D. C. 20036

June 30, 1976

The Honorable Thomas F. Eagleton
United States Senate
Dirson Senate Office Building
Washington, D. C.

Dear Senator:

Thank you for providing us with the opportunity to testify on Senate Bill 11009 -- Improvements in the financial planning, reporting, accounting, control, and operating procedures.

I have enclosed a written copy of the testimony that was provided by Messrs. O'Malley, Kimsey, and me.

Also, you requested suggested wording to the proposed bill to cover the alternatives that we believe could result in a positive cost-benefit return to the City. Accordingly we would like to propose the following revision to Section 2.(a):

"Sec. 2.(a) For the purpose of meeting the responsibilities imposed by the Constitution on the Congress with respect to the District of Columbia, it shall be the function of the joint committee, after consultation with the Comptroller General, the Mayor of the District of Columbia, and the Chairman of the Council of the District of Columbia, to select such qualified persons as the joint committee may determine necessary for the development of certain plans on behalf of the government of the District of Columbia (including assisting in the implementation thereof) for the purpose of improving the financial planning, reporting, and control systems of such government. Among the plans to be considered for development and implementation are the following:

- (1) operating department/agency organizational review and activity measurement and assessment plan
- (2) comprehensive methods and cost/benefit analysis and improvement plan;"

The Honorable Thomas E. Eagleton
United States Senate
June 30, 1976
Page Two

As mentioned in our testimony, we take no issue with the demonstrated need for the systems, but it does appear something else is needed since new systems alone will not correct the identified problems.

We do appreciate this opportunity to assist you in your deliberations.

Very truly yours,

ARTHUR YOUNG & COMPANY

Cornelius E. Tierney
Cornelius E. Tierney
Partner

Attachment: Copy of testimony:
William C. O'Malley
Cornelius E. Tierney
William L. Kimsey

COMMENTS ON REPORT ON
D. C. GOVERNMENT'S ACCOUNTING AND
FINANCIAL MANAGEMENT PRACTICES

William C. O'Malley
Partner
Arthur Young & Company

Mr. Chairman, let me first extend my appreciation for inviting us to attend and to set forth our views on the financial status of the city of Washington. I have with me today Neil Tierney, a partner of Arthur Young here in Washington. Mr. Tierney has had extensive experience in the government sector with the Government Accounting Office, the Civil Aeronautics Board and other agencies in various financial management positions. Mr. Tierney now heads our governmental service practice on the national scene. Also here is Bill Kimsey, another associate with Arthur Young in our St. Louis Office who has had extensive experience in municipal finance. Bill is now occupied with an engagement on behalf of the city of St. Louis which we would like to discuss momentarily.

You inquired as to our Firm's credentials to which I am pleased to respond. We have performed extensive audit and systems analysis work for several large cities, counties and states. A separate submission has been prepared which will be attached to our statement for the record listing the several municipal clients represented by Arthur Young. I should also note that two of the three cities cited as having top financial systems, Houston and St. Louis, are clients of the Firm.

I believe the Chairman and the members of the Committee are to be commended for the priorities which they have established in identifying the status of financial affairs here in Washington. The Arthur Andersen people should also be commended. Their report is comprehensive and the findings are well documented. A great

deal of effort was obviously expended by the Firm in a thoroughly professional effort. Before proceeding further, however, I must caution that there has been only a short period between release of the report and these hearings today. While we have committed a team of recognized firm experts to thoroughly analyze all of the supporting volumes, we are not prepared at this moment to pass professional judgment on the approach to each identified problem area. With respect to the systems of accounting which have been recommended however, the overall technical approach appears sound and we are pessimistic perhaps only to the point of an ambitious timetable set forth for implementation of the system.

We do agree that a system of accounts must be established, the record must be auditable and outside borrowing capacity can be enhanced with certified financial statements. We have a major concern however which relates to overall approach and the setting of priorities. We are troubled by the fact that even the most sophisticated and integrated computerized system of accounting available to mankind cannot cure the most pressing financial problems facing the city, several cited directly by Arthur Andersen.

These problems include processing of bills, collection of receivables, employee coding errors, delinquent reporting and the like. These are problems of compliance with management directives which should and must be cured independent of the system of reporting. To be more specific, we know for example that cases were cited in the Report wherein efforts were not made to collect receivable balances long outstanding. A sophisticated computer print-out will identify customers with an aging of amounts, but the very basic problem is setting someone into motion to collect the cash.

Our basic difference in approach would be to give first priority to cost benefit approaches which can be put into effect right away, ahead of the systems installation. We have done

this work in other cities and we can demonstrate in hard fact that resource management analysis results in increased productivity, reduced employee headcounts, and large financial savings - now. As a by-product of such work, the quality of financial and operations people are measured, while results and compliance are tested. We believe that it is absolutely essential that people demonstrate through results that they are ready for more complex accounting mechanisms.

You will recall from the Andersen Report that a new computerized customer billing system in the Water and Sewer Department is floundering badly. This can be the result when management or supporting personnel are not ready for a new direction.

At this point I will ask Mr. Tierney to discuss more specifically our ideas for cost benefit work.

COMMENTS ON REPORT ON
D. C. GOVERNMENT'S ACCOUNTING AND
FINANCIAL MANAGEMENT PRACTICES

Cornelius E. Tierney
Partner
Arthur Young & Company

An alternative with excellent short range cost-benefit potential would be to immediately introduce into the City's operating departments and agencies a cost-benefit approach-- a proven means to improve the productivity and to control costs of government. While a system will provide the process for collecting and summarizing data, a cost-benefit approach will lay the foundation, instill personnel and organizational disciplines and introduce the necessary concerns for valid data.

The benefit from a proven cost benefit approach need not await the design and implementation of the recommended systems. Utilizing available data, current organizational structures, and existing functional responsibilities assignments, many cities have realized such benefits in the short range as:

- . Improving operating methods and systems
- . Reducing operating costs
- . Improving the accuracy and management utilization of data

These benefits have resulted from the (1) review of work methods, (2) utilization of existing equipment, (3) analyses of current operating systems, and (4) the creation of simple management reporting systems to monitor the work loads, group performance, and data collection.

In 1976, the city reported that it began the development of a performance monitoring system and that simultaneously productivity improvement demonstration projects were to be

carried out. We recommend that these efforts be considerably strengthened and immediately supplemented with accepted cost-benefit management techniques that have produced savings and permitted budget reductions and re-allocations to be made by many cities.

In summary, the disciplined, cost-benefit, approach that could be applied to operating departments and agencies and sub-organizations would include:

- . An operating review of all work performed by these entities
- . A methods analysis and improvement report to identify better methods, eliminate unnecessary and duplicative operations, re-organize work to minimize peak load effects
- . Activity measurement
- . Personnel budgeting
- . Management reporting to monitor group performance and workload

We do believe that an alternative exists that is capable of producing realizable cash savings while concurrently instilling the performance criteria and management disciplines necessary for the successful implementation and operation of future systems.

Should the committee desire, the names of several city governments who have successfully applied proven cost-benefit efforts to their operations can be supplied. We would, however, like to provide you with the details and results of one such effort. For this I would like to introduce my colleague, Mr. William Kimsey, who is presently involved in a similar-type study.

COMMENTS ON REPORT ON
D. C. GOVERNMENT'S ACCOUNTING AND
FINANCIAL MANAGEMENT PRACTICES

William L. Kimsey
Principal
Arthur Young & Company

We are nearing completion of the special Audit of the city of St. Louis which was conducted by a team of four Certified Public Accounting firms with Arthur Young & Company having over-all responsibility for the coordination of the work.

The audit covers all City Departments including 19 separate audit entities at a total cost of approximately 3/4 of a million dollars.

The original intent and goal was to perform a financial audit of the Municipal government's financial statements. Soon after the work was commenced, however, the magnitude of the City's accounting and financial reporting deficiencies began to surface and it became apparent that we would be unable to express an opinion that the financial statements were fairly presented in conformity with generally accepted accounting principles.

We emphasized the cost-benefit concept in our revised approach to the audit of the City. The resulting scope of work, in addition to reporting in detail on the City's accounting, auditing and reporting deficiencies, placed heavy emphasis on a study of and recommendation for improvement of the City's systems of internal accounting and administrative procedures.

The reports disclose voluminous conditions in the City's accounting and administrative systems where controls should be strengthened and increased operational efficiencies can be achieved.

The vast majority of the recommended improvements have the following characteristics which we believe are highly desirable:

- 1) They can be implemented without the need for additional or different City personnel
- 2) They can be implemented in the very short-term future with immediate resulting benefits
- 3) The overall implementation and operational costs are far exceeded by cost savings or increased revenues which, for the most part, are of a recurring nature.

Specific examples of our detailed recommendations include:

- 1) Modern and efficient methods for cash management. These procedures alone will pay for the entire audit and will increase the City's interest earnings on idle funds by more than \$1,000,000 each year.
- 2) Improved controls over the City's accounts receivable and billing procedures -- \$5,000,000 additional revenue from the City's four hospitals alone
- 3) Establishment of control features over the collection of certain City taxes -- \$2,000,000 annually
- 4) Procedures to reduce losses from parking and traffic violations \$1.2 million annually
- 5) Methods of controlling revenues from the rental of City property and revenue from concessionaries principally at Lambert, St. Louis International airport and
- 6) Purchasing, competitive bidding, and overall control procedures for Municipal construction projects.

Many of these improvements are totally unrelated to new computerized systems.

Both major St. Louis newspapers have repeatedly endorsed the audit approach. We will present to the Committee one of the Editorials from the St. Louis Globe Democrat which estimates that the Audit recommendations may produce annual savings as high as \$20,000,000.

In summary, we believe we have developed a method of dealing not only with the accounting and financial reporting problems of our cities, but cost-justified, common-sense, business-like procedures and management processes as well.

GLOBE-DEMOCRAT PUBLISHING CO.

12th at Delmar, 63101. Published Daily, Monday through Friday, and Weekend 342-1212

G. DUNCAN BAUMAN, Publisher**GEORGE A. KILLENBERG, Managing Editor****MARTIN L. DUGGAN, Editorial Page Editor****BEN MAGDOVITZ, Advertising Director**

The Globe-Democrat is an independent newspaper printing the news impartially, supporting what it believes to be right and opposing what it believes to be wrong without regard to party politics.

\$10 MILLION DOWN THE DRAIN

It is a pity that the late Carl R. Williams could not have lived to have received the full recognition he deserved for spearheading the drive for the state audit of St. Louis city offices.

By now it is evident that the South Side Republican committeeman and contractor who died recently after open heart surgery performed a tremendous public service by pushing for this audit despite heavy criticism from city Democrats.

With the announcement of the latest audit findings by State Auditor Lehr, the savings and new revenues that should accrue to the city due to recommendations by the auditors come to more than \$10 million a year.

At least \$2 million is being lost in a disorganized city license system and the city may be losing \$1 million annually because the municipal court system has "simply lost control" of both parking and traffic violation tickets.

Here's a brief boxscore on some of the major audit findings to date:

- (1) The loss of \$2 million in recent years at Lambert St. Louis International Airport due to waste and inefficiency;
- (2) Major inadequacies in financial management of the city's hospital system have cost the city as much as \$5 million a year;
- (3) Loose controls over rentals and concessions at Kiel Auditorium have caused the city a \$200,000 yearly loss of revenue;
- (4) The city's failure to collect towing commissions due it could have cost the city \$33,000 in one year;
- (5) Better use of its idle funds by the city could have netted more than \$750,000 in additional interest, and vigorous collection of parking fines could have boosted revenue

by another \$300,000;

(6) \$2 million a year is being lost from poor license collection practices and

(7) \$1 million is going down the drain annually from city courts loss of control over parking and traffic tickets.

It should be pointed out that Auditor Lehr praised License Collector Benjamin L. Goins for doing a good job of producing revenue for the city in areas where Goins has full control.

Lehr said responsibility for loose license tax collections must be shared by Comptroller John F. Bass and the Merchants and Manufacturers Tax Equalization Board and not just pinned on Goins. If the three parts of the collection system would work together, "it would greatly improve collections," the auditor said.

Indicative of the chaos in the city's traffic ticket system, is the fact that auditors say an estimated 15,000 traffic tickets, where the minimum penalty is \$22, are being held in a "defendant not found" file.

Loose handling of cash by two of the five courts in the city's judicial system also was criticized. Auditors found that Court of Criminal Corrections Clerk James P. Lavin had accumulated more than \$40,000 in bail bond funds which were being kept in his safe and which they said should have been invested to earn interest.

It appears before the audit reports are completed, the savings and new revenues that will be achieved from the complete audit could reach \$15 million to \$20 million a year, which is about 10 per cent of the city's total yearly budget. This makes the audit one of the best investments the city has ever made.

COUNTY AND MUNICIPAL GOVERNMENT CLIENTS OF
ARTHUR YOUNG & COMPANY

Alameda County, California	Cook County, Illinois	Indianapolis, Indiana
Anaheim, California	Costa Mesa, California	Inkster, Michigan
Anchorage, Alaska	Covington, Ohio	Jackson County, Missouri
Arcadia, California	Cowlitz County, Washington	Jacksonville, Florida
Arlington, Texas	Cranston, Rhode Island	Johnson County, Texas
Baltimore, Maryland	Culver City, California	Joplin, Missouri
Baton Rouge, Louisiana	Cypress, California	Jordan, Utah
Berea, Kentucky	City of Denver, Colorado	Josephine County, Oregon
Berkeley, California	County of Denver, Colorado	Kansas City, Missouri
Bethel, Alaska	Detroit, Michigan	Kent, Washington
Beverly Hills, California	Denver, Colorado	King County, Washington
Birmingham, Alabama	Eik Grove, Illinois	Kotzebue, Alaska
Boston, Massachusetts	Eules, Texas	Laguna Beach, California
Brea, California	Eureka City, California	Lake Havasu, Arizona
Bryan, Ohio	Flint, Michigan	La Puente, California
Buena Park, California	Fort Worth, Texas	Long Beach, California
Buenaventura, California	Fountain Valley, California	City of Los Angeles, California
Buffalo, New York	Fresno County, California	County of Los Angeles, California
Canton, Ohio	Gary, Indiana	Los Gatos, California
Cherokee County, Texas	Genesee County, Michigan	Lucas County, Ohio
Chicago, Illinois	Gilroy, California	Madison, Wisconsin
Cincinnati-Hamilton County, Ohio	East Greenwich, Connecticut	Maricopa County, Arizona
Clackamas County, Oregon	Gross Pointe, Michigan	Marin County, California
Clay County, Florida	Harper Woods, Michigan	Marion County, Indiana
Clifton, New Jersey	Homert, Alaska	Marshall, Missouri
Cocoa, Florida	Hopkins, Minnesota	McKlenburg County, Texas
Columbia County, Oregon	Houston, Texas	Mecklenburg County, North Carolina
Columbus, Ohio	Humboldt County, California	Millburn, New Jersey
City of Contra Costa, California	Imperial Beach, California	Milwaukee, Wisconsin
County of Contra Costa, California	Imperial County, California	Mobile, Alabama

COUNTY AND MUNICIPAL GOVERNMENT CLIENTS (Continued)

Moundsville, West Virginia	San Bernardino County, California	Washington County, Utah
Muskegee County, Oklahoma	San Buenaventura, California	Washington, D.C.
Napa County, California	San Diego, California	Wayne County, Michigan
New Orleans, Louisiana	San Francisco, California	Wichita, Kansas
New Trier, Illinois	San Jose, California	Williamsport, Pennsylvania
Newark, New Jersey	St. Clair County, Illinois	Worcester, Massachusetts
New York, New York	San Juan Capistrano, California	
Orange County, California	Santa Ana, California	
Pawtucket, Rhode Island	Seattle, Washington	
Philadelphia, Pennsylvania	Sharon, Massachusetts	
Pima County, Arizona	Sheboygan, Wisconsin	
Pittsburgh, Pennsylvania	Solano County, California	
Pomona Valley, California	Sonoma County, California	
Port Arthur, Texas	Springfield, Illinois	
Portland, Oregon	Stanislaus County, California	
Portland, Maine	Tallahassee, Florida	
Providence, Rhode Island	Tampa, Florida	
East Providence, Rhode Island	Terre Haute, Indiana	
Riverside County, California	Titusville, Florida	
Sacramento County and City, California	Toledo, Ohio	
East St. Louis, Illinois	Tulsa City and County, Oklahoma	
St. Louis City and County, Missouri	Ventura County, California	
	Waco County, Texas	
	Walled Lake, Michigan	

ARTHUR YOUNG & COMPANY

515 OLIVE STREET
SAINT LOUIS 63101

June 30, 1976

Mr. Robert Harris, Staff Director
and General Counsel
Committee on The District of Columbia
United States Senate
Washington, D. C. 20510

Dear Bob:

Enclosed for your information is a copy of an article in the June 7, 1976 edition of Business Week which discusses the use of volunteers from the business community in helping to solve some of the problems of our cities. The article closely coincides with the concept of outside assistance embodied in some of Senator Eagleton's questions to Joseph Danzansky during the hearings on S.3608.

Many thanks for your cooperation and assistance on Monday.

Best regards,



William L. Kimsey

cc: George W. Lehr

MANAGEMENT

Business volunteers: A boon to government

New York City's school system has enough crayons on hand to last 84 years and enough chalk for the next two decades, which may say something about the city's management and help explain its financial plight. But chances are that the city never would have discovered its long position on these pedagogical necessities were it not for the work of a task force from the Economic Development Council of New York City Inc., an independent, non-profit group of businessmen that tackles urban problems. Using volunteers from the business community, the EDC since 1970 has organized task forces that have studied the city's court system, human resources department, and middle income housing projects, as well as its public schools. Its efforts have resulted in annual savings to the city of approximately \$50 million.

This new business-government combination is not confined to New York. Indeed, state and local governments across the country are increasingly looking to businessmen for help in solving complex management problems. Although governments have traditionally turned to businessmen as full-time appointees or part-time consultants in the past—or hired professional consulting firms—never has the idea of mobilizing small armies of executives into volunteer task forces been so popular. "Anybody can do a state study on a straight consulting basis," says Warren J. King, a Chicago consultant who specializes in organizing volunteer task forces. "But what firm has 75 specialists to put on a study?"

Paying off. Companies, for their part, concerned with skyrocketing tax bills and antibusiness public opinion, are pouring thousands of man-hours and millions of dollars into volunteer efforts. The results are paying off with well-documented savings to the tax payers. "If we can help to keep government costs from increasing substantially, then we can keep corporate and

personal taxes from increasing, too," declares Edward M. King Jr., a program control manager at General Electric Co. in Philadelphia. King, an acting member of Pennsylvania Governor Milton J. Shapp's cabinet, is trying to implement 412 recommendations from businessmen that could save the state some \$370 million annually.

Businessmen's organizations are affecting governments in other ways, too. In Colorado a business task force on regulatory matters is credited with helping to pass a pioneering "sunset

Volunteer task forces to deal with big problems rapidly gain popularity

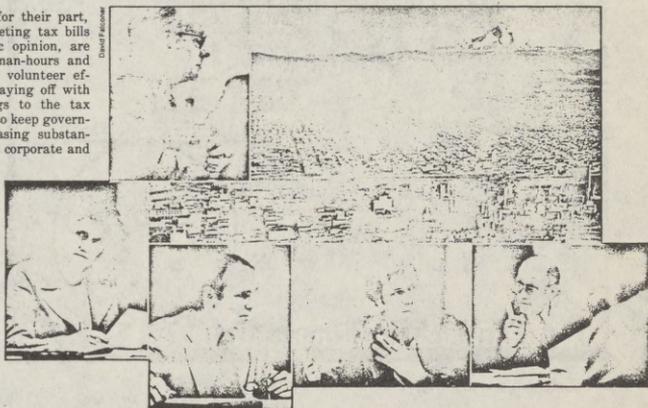
law" requiring certain state agencies to go out of business unless they are periodically renewed by the legislature. In Massachusetts, where many budget deficits have been swept under the rug, a businessmen's group helped with passage of an "open budget act" that forces legislators to be candid about the state's fiscal matters.

Although business task forces have been used before in response to specific crises and/or scandals, now they have been "institutionalized," according to Edward K. Hamilton, a former deputy mayor of New York and now a teacher of public management at Stanford business school. Hamilton points out that New York's EDC had little effect until 1969, when it became a permanent organization with a full-time staff of 10 and an annual budget of

\$1.2 million coming from corporate and foundation contributions.

Venturing forth. Groups elsewhere are similarly being institutionalized. In Oregon, for example, there is the Foundation for Oregon Research and Education (FORE), which was founded in the 1960s when student unrest was making the state's system of higher education a target of conservative businessmen and legislators. FORE now has an annual budget of \$115,000 and 270 corporate backers. Initially it studied the university system but has since tackled other specific problems, such as incidental fees and capital equipment replacement. One result is that the system has switched from renting to owning computers, for an annual savings of \$1 million. Just last month the state board of higher education adopted 30 out of 40 FORE recommendations on Oregon's 13 community colleges, including one to rent instead of constructing new facilities. And FORE is now moving into the local government arena in Portland, where Lawrence L. Rennett, retired board chairman of White Stag Mfg. Co., a subsidiary of Warnaco Inc., heads a task force looking into the city's handling of federal grants.

Pennsylvania's first experience with a business task force was in 1972. It delved into every agency and department of the executive branch resulting in annual savings of about \$120 million, according to the Pennsylvania Economy League. As a result, Governor Shapp authorized a second task force



Eying the Portland scene, a FORE task force group headed by Lawrence Rennett (top inset) studies federal grant programs. The others are (from left) Melissa Morris, Donald Jacobson, Ray Honerlah, and Bill deWeese.

MANAGEMENT

last year—a 16-week, \$1 million study involving 54 executives and managers from the state's companies. This one was aimed at improving efficiency in the state's education, welfare, health-care, and financial management. After the 200-page report was presented to Shapp last October, Edward King, a member of the task force, was brought in from GE to implement its recommendations.

Investment boost. The problems tackled by the volunteers can range from mundane cost-cutting to handling the most sensitive policy issues. In Pennsylvania, where the focus has been on controlling government spending, volunteers looking at higher education found that the state had been advancing subsidy payments to vocational and intermediate schools semiannually. By switching to monthly payments, the team concluded, the state could increase its investment income by \$2.4 million a year. In California, the business-backed San Francisco Planning & Urban Renewal Ass. (SPUR) produced a 100-page analysis of the city's transit system that led the city's board of supervisors to grant the agency its first full budget in 10 years.

In Colorado a business advisory panel to the Social Services Dept. is trying to make sense out of a sprawl-

ing organization that is state-supervised but administered by the counties. Says adviser William G. Purdy, a retired general manager of Martin Marietta Corp.'s Denver division: "It is one of the most complex management problems I have seen."

However complex the problems, implementing the solutions can be not only difficult but also frustrating.

A business task force in Pennsylvania produced savings of \$120 million

Hamilton lists three essentials for success:

- "The support has to be as strong during the meat of its work as it is in the beginning.

- "The volunteers have to understand that government is an entirely different world.

- "The bureaucracy under study has to be willing to yield."

The last condition is often the biggest problem, since, as Hamilton points out, "There are several rigid bureaucracies in the country where outside approaches can never work. They swallow volunteers without a trace." Oregon's FORE attacks this problem by recycling its study groups into implementation committees, charged

with translating recommendations into results. "We don't just publish a study and let it rest," says Wilson H. Hulley, FORE's executive director.

Lapsed. Politics, too, can work against the success of a task force. Although EDC in New York never goes into an agency uninvited, it was frustrated in trying to streamline the city's human resources administration when the mayor's office changed in 1974. Many of EDC's recommendations had been implemented by administrator Jule Sugarman for an annual operating savings of millions of dollars, according to an EDC spokesman. But Sugarman left when Abraham D. Beame succeeded John V. Lindsay, and the "task force concept lapsed," says this man.

An important side effect of volunteer work on government problems is the education it provides the business community. Purdy in Colorado observes, "It took several months for the issues between us to get worn down." Now, he says, the group is committed to sticking with the current director of the agency until the solutions are found. And in Oregon, Portland lawyer John D. Mosser, a member of the state's board of higher education when FORE was conducting its first studies, says the volunteers "got a real understanding of how the system works." ■

The results of the \$250,000 Longest Ball Challenge:

- Titleist — no show
- BlueMax — no show
- Royal — no show
- Wilson — no show
- Maxfli — no show
- Titleist DE — no show

TOP-FLITE 1

Top-Flite is the Longest Ball

QUESTIONS

BOARD OF EDUCATION OF THE DISTRICT OF COLUMBIA
PRESIDENTIAL BUILDING

415 TWENTH STREET, N.W.
WASHINGTON, D.C. 20004



11 30 AM '76

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June 29, 1976

DWIGHT S. CROPP
EXECUTIVE SECRETARY

DAVID A. SPLITT
GENERAL COUNSEL

The Honorable Thomas F. Eagleton
Chairman, United States Senate
District of Columbia Committee
United States Senate
Washington, D. C.

Dear Senator Eagleton:

As a member of the District of Columbia Board of Education with two years services on the Finance Committee, I have a particular interest in the Bill - S.3608, which you had introduced to help improve the financial planning, reporting, accounting control and operating procedures of the District of Columbia Government. I attended your hearing on June 28, 1976, but did not have advance notice of it in order to prepare and present testimony. I would therefore like to offer the attached comments on the legislation and request that they be made available to the other members of the Committee as part of the record.

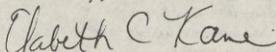
My comments fall into three categories:

- 1) Support for the commitment of funds to implement improvements
- 2) A need to more clearly spell out the role of the Board of Education in carrying out changes in financial management systems; and
- 3) Additional legislative changes needed to fully carry out the improvements recommended by Arthur Anderson and Company.

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I would be happy to discuss this with you or your staff at your convenience. Your great interest in the health and reliability of the financial affairs of Washington is appreciated I assure you by all of us who share a desire to see our City function as an efficient and Democratic servant of its citizens.

Sincerely,



Elizabeth D. Kane
At-Large Representative
D. C. Board of Education

Attachment

Elizabeth C. Kane, D.C. Board of Education At Large
For the Record, Committee on the District of Columbia
Hearing on S. 3608 submitted June 29, 1976

1. SUPPORT FOR S. 3608- COMMITMENT OF FUNDS TO IMPLEMENT CHANGES

S. 3608 is particularly welcome, from the point of view of a member of the Board of Education, because it provides funding for the actual implementation of the recommendations of financial management experts. The school system's management procedures have been studied exhaustively-- by the Nelson Commission, Price-Waterhouse, General Accounting Office on many occasions, and, most recently, Arthur Anderson & Co. Excellent recommendations for improving accounting and other procedures have been made. They have received Board support. Yet many requests by the Board of Education for personnel and funds to put these recommendations into effect have met with resistance or denial by Congress, which still exercises line item control over our budget. The most recent example is the deletion, for the second year in a row, of a facilities planning unit from fiscal 1976 and the transition quarter budgets. Such a planning capability was a specific recommendation of GAO last year. I do not offer this example and comment as any exercise in "finger-pointing;" the time, as many have indicated, has come to concentrate on the positive and the solutions for the future. I do mention it as an example of how very significant is the commitment, in section 5(c) of S. 3608, of up to \$20 million to actually carry out the mandate of section 2(a)-- "the development of certain plans on behalf of the government of the District of Columbia (including assisting in the implementation thereof)."

I would agree with Mr. Coppie that the bill needs to make explicit that the \$20 million is in addition to the sums authorized as the federal

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payment in P.L. 93-198, section 502. In addition, if it is the intent of Congress to permit the purchase of equipment, such as computers, as part of a contract to implement improvements, this fact should also be made explicit in section 2(a).

2. A NEED TO MORE CLEARLY SPELL OUT THE ROLE OF THE BOARD OF EDUCATION

Although the Board of Education is included among the agencies listed in the D. C. Administrative Procedures Act (D. C. Code 1-1502(3)) and is thus included in the definition of "the government of the District of Columbia" in S. 3608 section 6(2), the position of the Board among D. C. agencies is unique. Under existing law (the Home Rule Charter, the Elected School Board Act, the Organic Act of 1908, and other statutes) control over public education in Washington is vested in the 11-member Board of Education. Implementation of Board decisions on expenditures, personnel, rules, and policies is solely the responsibility of the Superintendent of Schools. Under the Home Rule Charter the Mayor and Council may set the total amount recommended to Congress for the budget of the D. C. Schools, but may not specify the programs on which the Board spends such funds. (P.L. 93-198, section 452). The Congress of course may make such specification if it chooses.

This is important in relation to S. 3608 because the Arthur Anderson & Company report, Volume III, examines and makes recommendations on the two sets of financial systems that serve the schools; the internal systems (Divisions of Finance, Food Services, Federal Grants, etc.) which are under

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the control of the Board of Education, and external systems (D. C. Accounting) which are under the control of the Mayor. Among the basic conclusions of Arthur Anderson and Co. are that the D. C. system needs to be made more responsible in supplying information for School System management needs and that the School System must be given greater flexibility in its internal operation. The intent of S. 3608 is, obviously, to carry out the Arthur Anderson recommendations, both those that relate to D. C. Accounting and those that relate to internal school systems. To make this fully possible I would suggest the following changes in language:

Section 2(a) page 3 line 47 insert: "and the President of the D. C. Board of Education."

Section 2(g) page 7 line 167 insert: "With respect to any such plan or part so deemed to be a part of the internal financial planning, reporting, accounting, control, and operating procedures of the Public School System, the Board of Education shall exercise control over its implementation."

These changes are practical as well as legally sound. As the many accountants at the June 28 hearing testified, the value of any accounting system is in direct proportion to the amount of involvement the ultimate users have in its design and implementation. The Board of Education is under Court Order (Hobson v. Hansen) to report its expenses in certain ways. A School Cost Center Reporting Resolution is under consideration by the City Council will require the City to provide information to the schools in a certain format. Provision of the benefits of S. 3608 to public school employees and internal systems and the assurance of compatability with D. C. Accounting systems is facilitated by these changes.

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3. ADDITIONAL LEGISLATION WHICH IS NEEDED

Several of the recommendations of Arthur Anderson & Co. in Volume III, Public Schools, cannot be implemented by any accounting firm or management consultant hired under S. 3608. These changes can be accomplished only by a change in existing legislation. Some can be passed by the Council. Others require Congressional action. Among them are:

(1) A Change in the Fiscal Year.

The report recommends changing the fiscal year for the public schools from Oct. 1 - September 30 to July 1 - June 30, to conform with the school year and routine of system activity (page 46). Congress established the new Oct. 1 - Sept. 30 fiscal year and Congress would have to change it.

(2) Raising the Limit on Reprogramming Authority of the Board.

The report recommends that "Public Schools should be given more latitude in adjusting its spending plan within the limits of its appropriation" to "allow greater flexibility in determining the most beneficial expenditures of these funds to meet changing educational requirements." (p. 47)

In the area of personnel funds in particular it recommends a position obligation system so that "management action can be taken to reprogram funds if desired." (p. 121-122).

Unfortunately, however, management - and Board - action is severely hampered. Under current law Congress set a limit of \$25,000 beyond which Congressional approval was needed for

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any reprogramming. Council action (D.C. Act 1-36) has raised this to \$50,000 -- still avoiding very little of the desired flexibility in a \$200 million budget. A law removing any limit on Board authority to reprogram with proper notice to D. C. Accounting all changes and provision for notifying Congress of actions over \$500,000 would achieve the recommended result.

(3) Repeal Section 736 of P.L. 93-198.

This section calls for an annual independent audit of the accounts and operation of the D. C. Government by the General Accounting Office. Section 455 already provides for the establishment of an internal and independent D. C. Auditor who is to submit yearly reports on his audits to Congress, the Mayor and Council. S. 3608 will establish an independent outside auditor. It seems extravagant to spend public funds on a third audit by GAO, of the same city, to be reported to the same people.

(4) Reducing the Lengthy Budget Approval Process.

The report cites the planning and accounting difficulties caused by the length and nature of the budget approval process (Public Schools, District, Federal Executive, and Congress) (P. 42-45). We are all too well aware that the fiscal 1976 budget, approved by the Board of Education in February, 1975, has at this writing (June 29, 1976) not yet passed the Senate. The problem could be solved by:

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- (a) Amending P.L. 93-198 (the Home Rule Charter), Sections 603(a), 602(c)(1) and the Budget and Accounting Act of 1921 to require that budget acts of the D. C. Council be treated like all other Council acts. That is, upon passage by the Council and signature by the Mayor, the budget act would be sent to the Speaker of the House and President of the Senate, for a 30-day "layover" period. During this period the respective Congressional committees could hold hearings and exercise their traditional review role. The budget act would, like other D. C. Council Acts, become law at the end of the 30 day period unless it was disapproved by a concurrent resolution of both Houses of Congress.
- (b) Amending Section 502 of P.L. 93-198 to require appropriation of the federal payment in the amount authorized here by a date certain before the beginning of the D. C. fiscal year.
- (c) Adding a requirement that the budget for the City be finally approved at least 60 - 90 days before the beginning of the fiscal year. Many states impose such requirements, particularly on school system budgets. Such a law would be a tremendous asset to the ability of the school system in particular.

I realize that these budget suggestions are bold and will require some discussion. However, I believe that the Arthur Anderson & Co. report, and the legislation you have wisely introduced to implement its findings, indicate that the present budget review process has not produced the

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results Congress or D. C. citizens desire. This, in my opinion, is because the control has been emphasized and exercised at the wrong end -- the input end, the budget approval -- and not at the outcome, or audit end. S. 3608 will shift the emphasis substantially in the right direction. I urge you and your colleagues, with the interests of Congress and the District both in mind, to consider legislation such as I have suggested which will properly complete the process.

214 Oneida Street N. E.
 Washington, D. C. 20011
 July 2, 1976

Honorable Thomas F. Eagleton
 Chairman, Senate District Committee
 Dirksen Senate Office Building
 Washington, D. C. 20510

Dear Senator Eagleton:

Reference is made to the appearance of District of Columbia officials, before your Committee, on June 28, 1976 regarding the financial status of the District of Columbia. Of particular concern is your recently proposed bill which would establish a Joint Congressional Oversight Committee to set up a Financial Management System for the District of Columbia. As reported, the Bill would only give consultation rights to the Mayor of the District of Columbia.

We, as concerned citizens who have expressed to you our continuous desire for sound organizational practices in the District of Columbia, see the need for a greater input to such a Committee by the Mayor of our City. As you are aware, the establishment of goals and objectives, implementation of those goals, program accountability and control measures are all established by the Executive Branch, which is headed by the Mayor. He should, therefore, be given the opportunity to participate to the fullest extent, in the design, selection, and implementation of any programs or systems that will affect the lives of taxpayers of the District. Further, we see the need for his concurrence on any systems or programs that will emerge from your Proposed Congressional Committee efforts.

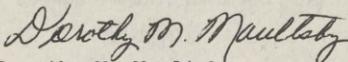
Within the framework of our concern for adequate representation for the citizens of the District of Columbia, we respectfully request the appointment of the Honorable Walter E. Washington, Mayor for the District of Columbia, to the Joint Congressional Oversight Committee, if approved. His tenure should coincide with the Committee's duration.

Also recommended, as a member of the Proposed Committee, is our only elected Representative to Congress, the Honorable Walter E. Fauntroy. We see the need for his full participation since his activities are centered around District of Columbia affairs. His presence would afford representation, on our behalf, at the Congressional level. Mr. Fauntroy's tenure should also coincide with the life of the Committee.

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I am sure I speak for all ANC 4B and other Commissioners as well as organization leaders and citizens, throughout the City, in expressing our concern for the full participation of our elected officials in the planning, organization and implementation of District affairs. Hopefully, in the interest of these residents and their desire for such representation, you will accept our recommendations.

Sincerely,



Dorothy M. Maultsby
Commissioner, ANC SMD 4B11

RESOLUTION REGARDING
THE FINANCIAL MANAGEMENT PRACTICES
OF THE GOVERNMENT OF THE DISTRICT OF COLUMBIA

WHEREAS, the Congress of the United States has seen fit to study the Financial Management Practices of the Government of the District of Columbia; and,

WHEREAS, the Congress of the United States has determined, through study, that the Financial Management Practices of the Government of the District of Columbia need a major overhaul; and,

WHEREAS, members of the Senate District Committee of the Congress of the United States have indicated a willingness, on the part of the Congress of the United States, to share both the blame for and the financial burden of past transgressions regarding the Financial Management Practices of the Government of the District of Columbia, we so support; and,

WHEREAS, a price tag of \$20 million has been mentioned as the cost of overhauling the Financial Management Practices of the Government of the District of Columbia; and,

WHEREAS, at least one Member of Congress has raised some doubt as to whether the entire sum of \$20 million will be made available; and

WHEREAS, there has been no precise definition of what constitutes the \$20 million price tag; and

NOW, THEREFORE, BE IT RESOLVED, that the D.C. Federation of Civic Associations agrees with the thrust of the Congressional Study on the Financial Management Practices of the District of Columbia and

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commends the Congress of the United States for initiating such an action; and,

THAT the D.C. Federation of Civic Associations pledges its support to any sound procedure that ensures the correction of the problems which presently render inefficient the Financial Management Practices of the Government of the District of Columbia; and,

THAT, the D.C. Federation of Civic Associations cautions all involved against the use of anything other than a sound, definitive process of correction, both procedurally and cost-wise.

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