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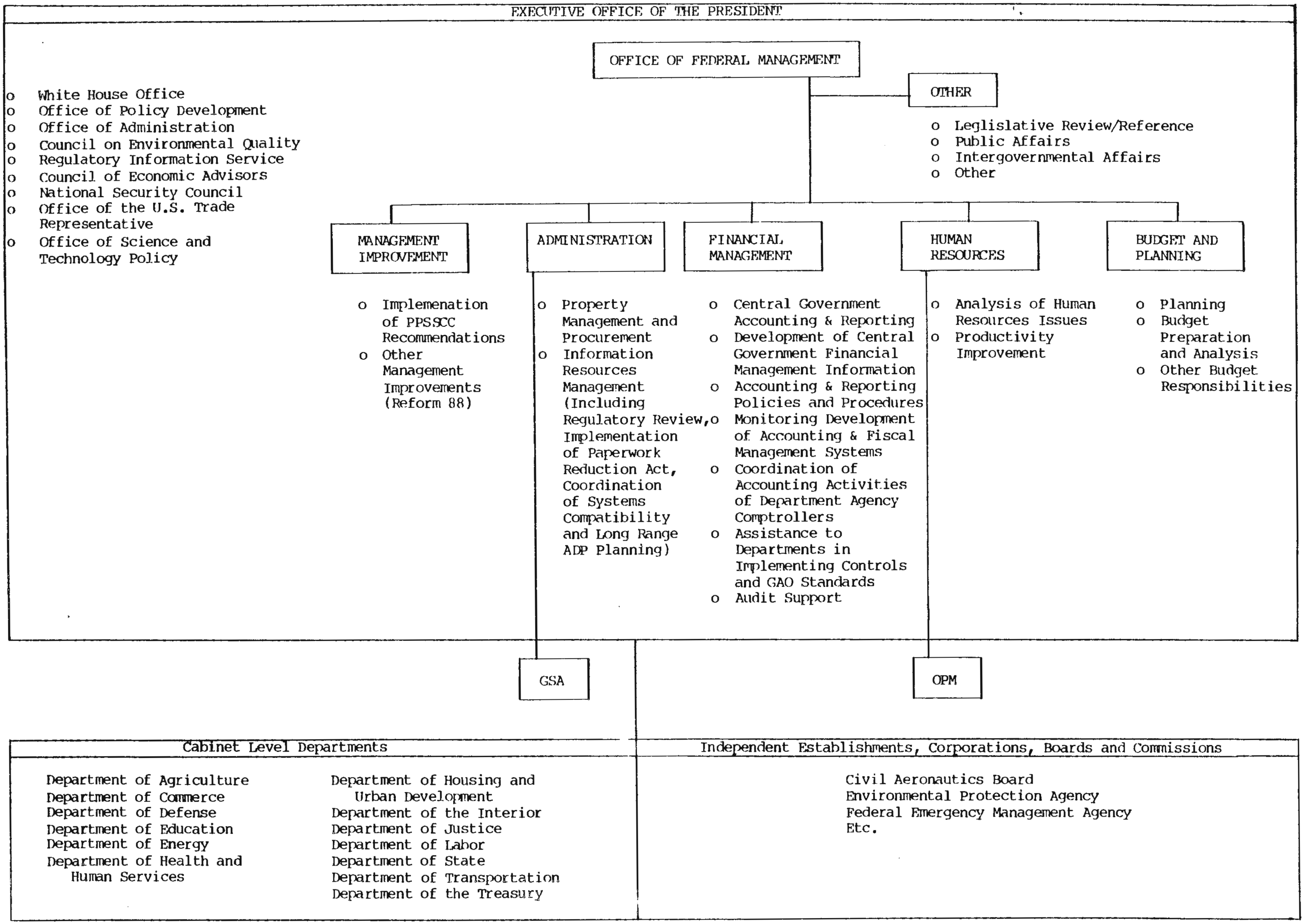
Office of Federal Management
Recommended Functional Organization



Problems of organization and process now hamper effective Government within the Executive Branch because responsibilities for developing and implementing administrative policies are not clearly assigned. Duplications, conflicts and blurred lines of authority are common. For example, the Office of Management and Budget (OMB) and the General Services Administration (GSA) have procurement policy responsibilities. OMB, GSA and the Department of Commerce have government-wide policy-making responsibility for automated data processing.

Just as there is confusion and overlap in terms of assigned responsibility for management policy development in some areas, there is an absence of direction and coordination in other key areas for which no entity has responsibility. No agency is clearly responsible, for example, for developing and coordinating financial management policies. As a result the Government has experienced significant difficulties in establishing procedures for effective cash management, debt and receivables collection, inventory and other asset management, and financial reporting to senior officials.

The overall management function delegated to OMB was originally intended to provide the needed direction and coordination of Executive Branch management activities. PPSS findings indicated, however, that this objective has not been achieved. OMB continues to be preoccupied with the annual budgetary process, which claims most of its resources and drives most other activities. When such opportunities are systematically addressed, the results can be dramatic. Specifically, PPSS has identified a total of $68.940 billion in cash acceleration opportunities over a three-year period, largely accounting for a projected interest saving of some $23.662 billion over the same period.

The PPSS recommendations, centering on creation of an Office of Federal Management, are based on a business-like approach that will create an organization capable of effectively directing and coordinating Executive Branch management activities.

The proposed Office of Federal Management would be responsible for policy development and direction in the areas of financial management, budgeting and planning, human resources, administration (including information resources management, procurement and property management), and management improvement. It would consolidate the current fragmented and overlapping management responsibilities into an organizational structure with clearly assigned lines of authority and specific responsibilities.

OFM would include the budget functions of OMB and serve as the President's management staff for effecting major improvements in processes and systems, communications and information flow. It would establish a unit responsible for systematically identifying and implementing management improvements on an ongoing basis, an essential function for sustaining such improvement and ensuring timely implementation of PPSS recommendations.

GSA and the Office of Personnel Management (OPM) would report directly to OFM for policy direction in carrying out their primary roles of developing and implementing procedures and regulations in their respective areas. Such a reporting relationship is based on the general private sector model that employs a corporate staff to ensure a coordinated administrative structure. This includes having the GSA and OPM transferring to departments and agencies responsibility for all operating functions (such as maintenance of office buildings) that are cost justified.

Currently no central Government organization is responsible for directing and coordinating the Federal Government's accounting and financial reporting activities. This missing link in financial management has been the cause of inadequate agency and government-wide financial accounting and reporting. It has permitted inconsistent application of accounting procedures among agencies and resulted in the inability to extract from systems reliable and useful financial data. Thus, the financial management function of OFM would include the accounting and reporting activities of the Department of the Treasury, OMB, and GSA (for government-wide property reporting).

As matters now stand, in virtually all administrative areas--payroll, personnel, accounting, and asset management, to name a few--departments and agencies have developed independent information systems and related procedures, taking little advantage of the experience or work done by other elements. These methods of development and operation have proven to be inefficient, often counterproductive, and very costly.

In addition to the cost involved, there is frequently no commonality or compatibility of data across departments and agencies, leaving those at senior levels of Government with no practical means of obtaining summarized management and financial information. As a result, it has been exceedingly difficult to extract from existing systems timely financial and management data concerning such matters as collection of amounts due the Government, location and utilization of real and personal property, inventories of supplies and materiel, and even the data processing systems currently in use.

To deal with these problems, OFM would be charged to develop common government-wide ADP software systems and related procedures for use in such administrative areas as payroll, accounts receivable, retirement and pensions, general accounting and accounts payable, and fixed asset accounting. Since there are currently more than 300 payroll systems in use in the Federal Government, PPSS recommended that implementation of a common payroll system receive the highest priority. Benefits of OFM activity in this area would include reduced cost of developmental and duplicative activities by Federal departments and agencies and the advantage of having government-wide information with which to manage more effectively.

Effective planning and management of resources are virtually impossible because of the current one year budget requirement; this annual budgeting and appropriations process focuses concern on only the subsequent fiscal year. As a further consequence, the management of Government assets, in such activities as capital planning and cash management, receives little attention, contributing to problems such as deterioration of facilities and loss of funds through inadequate cash management.

OFM would deal with these problems by issuing mission objectives to departments and agencies, outlining the specific objectives of the Administration in relevant program and administrative areas. Action plans for accomplishing assigned objectives would then be prepared by agencies and monitoring of performance would be integrated with OFM's ongoing budget and management activities. As a means of addressing the many opportunities for improving the effectiveness of the audit function, the OFM would establish an audit support activity to coordinate allocation of audit resources across the Government, develop performance standards and audit programs and guidelines, and provide technical assistance in such audit specialty areas as ADP auditing and statistical sampling.

Other related PPSS recommendations include OFM's institution of a Federal planning and budgeting process for capital expenditures and strengthening the budget process to improve its utility for government-wide management, which would include revising appropriation classifications to better match management needs and integrating the financial management and budget processes. The cumulative effect of the recommendations would be to make possible more rigorous and systematic evaluations of Federal programs to provide results-oriented data for more effective program management.

PPSS also concluded that the current annual budget process hinders agency managers' ability to conduct comprehensive planning and analysis of programs beyond the current fiscal year. PPSS therefore has recommended further study of the feasibility of adopting a biennial budget process so as to provide more consideration of long-term management needs.

Because of the rapid turnover of key executives, a condition endemic to the political process, Government functions lack continuity of management. Key appointed officials change every 18 to 24 months. It is not possible to implement and sustain meaningful management improvement in an environment characterized by persistent changes in management. Private sector profit incentives for superior management performance are not present in Government service, nor has the Government developed its own motivational approaches such as widespread senior level recognition for successful accomplishment of goals and objectives.

To assist in overcoming this built-in disadvantage, PPSS recommended that key OFM officials be appointed on a long-term basis and that they have demonstrated strong management capabilities. PPSS recommended a new "contractual" approach for second-tier OFM officials in the fields of financial management, human resources, administration, budget and planning, and management improvement that would provide the security and tenure necessary to carry out long-term improvements. OFM should also have a role in assisting departments and agencies in selection of key administrative officials, such as assistant secretaries for management, comptrollers, and the like, based on their technical and managerial qualifications to work toward a more cohesive and integrated management team across Government.

In what may be one of the most basic deficiencies of the current structure and the manner in which it permits the Executive Branch to function, PPSS found that communication of Administration and agency objectives, plans and accomplishments is lacking within the Executive Branch. Career professionals and employees are not provided with suitable insights into what their agencies plan to accomplish and, as a result, valuable human resources are wasted on misdirected efforts. Thus, it is recommended that OFM direct a systematic communications program that will ensure positive and direct communication from senior Executive Office and agency officials to Government employees, including the possible use of survey and feedback systems to increase upward communication, and an expanded orientation program for appointed officials to assist them in becoming more effective in their new roles more quickly and easily.

It is apparent that current Federal management activities have evolved over many years with little recognition of the need to provide central guidance and direction to achieve a well-coordinated overall process.

Serious structural and procedural problems in Executive Branch management processes, organization, information flow, budgeting, planning and evaluation procedures, continuity of management, and communication practices are documented in the body of the report. What is needed to deal with them effectively is an entity with a clearcut charter and the continuity of personnel and direction to carry it out.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $12.644 billion--equal to the three-year taxes of 1.9 million median income families.

B. THE FEDERAL SYSTEMS MAZE: HOW TO CHART A PATH

III-B. The Federal Systems Maze: How to Chart a Path

Although there are differences in operating styles and requirements between the public and private sectors of our economy, it is imperative that a business-like approach be taken in the management of the Executive Branch. PPSS conducted its study and developed its recommendations on the principle that private sector approaches can help improve managing the Government's business.

The absence of the right information, at the right time, in the right amounts, to make the right decision, renders the Government incapable of effectively assessing its strengths and weaknesses and achieving any reasonable degree of managerial efficiency. Key information concerning budget, programmatic, managerial, administrative, and financial operations is frequently lacking or, when available, is outdated, incomplete, or inaccurate.

In brief, PPSS identified the following weaknesses inherent in the current management process:

Organization and process--within the Executive Branch, responsibilities for developing and implementing administrative policies are not clearly assigned. Duplications, conflicts, and blurred lines of authority among the various units within the Executive Branch abound. For example, both the Office of Management and Budget (OMB) and the General Services Administration (GSA) have procurement policy responsibilities; OMB, GSA, and the Department of Commerce have government-wide automated data processing (ADP) policymaking responsibilities; and GSA shares real property disposition policymaking with the Property Review Board.

Significantly, there is also an absence of direction and coordination in key areas. For example, no agency is clearly responsible for developing and coordinating financial management policies. The result is that the Government has experienced significant difficulties in establishing procedures for effective cash management, debt and receivables collection, inventory and other asset management, and financial reporting to senior officials.

Management information systems--in virtually all administrative areas--payroll, personnel, accounting, and asset management, for example--departments and agencies have developed independent information systems and related procedures, taking little advantage of the experience or work of other departments and agencies. Joint agency operation of systems or the use of private service bureaus to process transactions are rarely considered. Current methods of development and operations are inefficient, often counterproductive, and very costly.

In addition to the cost involved, there is frequently no commonality or compatibility of data across departments and agencies, leaving the senior levels of Government without a practical means of collecting summarized management information.

Budgeting, planning, and evaluation--planning for future years is largely ignored at both the agency and central Government levels. Identifying, communicating, and monitoring the accomplishments of major Administration objectives is often ineffective.

Evaluation of program results and collection of program data for planning and management purposes are also not carried out in a rigorous and systematic manner. Reliable information is not available to enable the Administration to choose among alternative program options.

The budget is not fully used as a "management" tool by OMB or the departments and agencies. Accounting for actual expenditures is usually a separate process from budget preparation and analysis, and budget appropriation classifications are not related to the needs and practices of agency management. Differing from the private sector, the Government stresses budget preparation, while putting less emphasis on budget execution and control.

Reliance on Federal systems and employees to perform functions which could be performed more efficiently and at less cost by the private sector. Government must perform many activities which only a Government can perform. And PPSS has made numerous recommendations for the more efficient operation of those activities within Government. But, if a Government activity can be performed by the private sector, there is no surer way of ensuring that economies will be realized than by turning to the private sector.

Turning to the private sector whenever practical would result in cutting back the size of Government. The use of private contractors to perform commercial activities could, PPSS estimates, reduce the Federal work force, excluding Postal employees, by more than one-fifth. Added to that, if Government were to discontinue or transfer those services which the private sector is already providing or could provide, another major segment of the Federal work force would be eliminated. Perhaps more properly stated, part of the Federal work force would be transferred to private employment.

The size and complexity of Government is staggering, and many aspects are beyond the capabilities of truly effective management, given the inherent constraints of our form of Government--including national priorities, fiscal limitations, Congressional involvement, and legislative restrictions. Reducing the size of Government would be a major step in promoting a more efficient and more responsive Government. This is what reliance upon the private sector can offer.

Aggressively applying the key elements of the business-like approach recommended by PPSS will:

- create an organization and process capable of effectively directing and coordinating Executive Branch management activities;
- foster the development of management information systems which can provide reliable, timely, and compatible information to senior Government managers;
- redirect and expand the budgeting, planning, and evaluation process;
- overcome the weaknesses inherent in current systems resulting from a lack of management continuity;
- develop mechanisms for effective communication of policies and objectives between the Executive Office of the President and executive departments and agencies;
- turn around the trend of increasing the size of Government and implement the policy of reliance upon the private sector.

The Information Gap

A major deficiency of Federal Government management is the lack of information within agencies and across the Government that is essential for planning and control purposes. The GAO has repeatedly cited inadequate planning, budgeting and financial controls and insufficient user involvement as a fundamental problem.

PPSS recommended that the Government's current information management procedures be restructured and that a four-part approach to closing the information gap be implemented. The center-piece of this is an Information Management Office in the proposed Office of Federal Management and information coordinators in major departments and agencies. Steps needed to close the information gap include assessing the information needs of each department and agency; establishing uniform reporting standards to ensure data accuracy, timeliness, and completeness; upgrading the computer systems used to analyze the data; and effective use of the collected information.

PPSS reviewed issues developed by its Task Forces and noted that cost savings and revenue enhancements of $78.6 billion are possible by correcting some of the Government's information gap problems. Since these problems are pervasive, cost reductions from implementing PPSS recommendations in specific agencies are discussed elsewhere throughout this report; no additional savings are claimed.

As noted at the outset of this report, the purpose of PPSS was to search out waste and inefficiency in the Executive Branch of the Government and to recommend ways in which modern business practices could be put to work to make Government more efficient and effective.

It became immediately apparent that the information essential to this purpose was often not available or was out of date, incomplete, or inaccurate.

Enormous quantities of numbers and other data are generated by the Government, but little of it has been processed and organized for management purposes. For example, within the Air Force Logistics Command, one system generates 500,000 pounds of paper each month, or six million pounds per year, but PPSS found these data of limited value and recommended savings in this one instance of $581 million over three years.

The lack of information, the "information gap," in the Federal Government is widespread. There are two basic aspects to the problem. The first is a major leadership void in the overall management of information. There is no focal point to provide the direction, coordination, and standardization needed to operate effective information systems in the individual agencies. Further, and of a potentially critical nature, there is no central authority integrating individual information systems into a coherent, management information system necessary to support decision-making in the Executive Office of the President (EOP).

Coupled with the leadership void are four barriers which inhibit the development and flow of information:

- o failure to define the information needed to manage the Government;
- o incomplete, inconsistent, and inaccurate data;
- o inadequate computer based systems; and
- o failure to properly analyze or utilize the available data.

The information gap in the Federal Government is so serious that nobody knows, for example:

- o what cash balances are, where they are located, and what total Federal funds have been committed to individual states or localities;
- o where real and personal property is located and what it is being used for; and
- o how much money is owed to the Government by any one individual or corporation and how long it has been outstanding (in fact, definitions of common lending terms such as deliquencies and defaults vary from agency-to-agency, thus precluding meaningful government-wide analysis).

The list could go on and on.

Information gaps of this magnitude are not tolerated in the private sector; any company which did not solve the problem quickly would be out of business in short order. Yet, these gaps persist and grow in the Federal Government.

The cost to the Government of these information gaps can only be approximated. PPSS estimated three-year savings opportunities and revenue enhancements of <u>$78.598 billion by</u>

correcting some of these problems. More importantly, however, the gaps inhibit effective management, fundamental to combatting waste and inefficiency.

PPSS has recommended restructuring the leadership of information management by:

- o creating a Presidential Task Force which would be responsible for setting the goals and commitments of the Executive Branch to overcome information deficiencies;

- o designating an information coordinator in major departments and agencies to facilitate data collection, information processing, and report dissemination; and

- o establishing an Information Management Office in the proposed Office of Federal Management to implement the goals and commitments established by the Presidential Task Force and the Executive Office of the President (EOP).

To proceed with the recommended restructuring, each department and agency needs to assess its information requirements. The private sector has recognized that often a limited amount of carefully selected information can serve to manage essential functions. PPSS found many instances where individual managers in the Government had not recognized this concept and had not identified their most critical information requirements. The situation within agencies ranges from too much to insufficient data. Accounts receivable managers, for example, do not have information on the age of delinquencies to effectively take action on the $37.8 billion of overdue accounts as of 1982. In HUD, PPSS found that some managers are not even aware of the information needed for informed decisions.

The data necessary to generate information needs to be collected. Standards for relevant, complete, timely, accurate, and consistent data are, in many cases, non-existent. The Department of Justice, for example, does not routinely gather basic information on the number, type, and status of cases and investigations in the divisions and offices of U.S. Attorneys. As a result, it is virtually impossible to balance the work load among individual U.S. Attorneys. The Department of Education does not have accurate and timely data to ensure the integrity of its educational grant programs, which dispense $14.5 billion annually. And, in the Small Business Administration, officers receive information on loans over 30 days past due five to six weeks after the delinquency is noted.

Current information systems in the Federal Government are generally based on computer designs of the 1950's and early 1960's. PPSS emphasized the need to apply today's technology as essential to overcoming information gaps. A deterrent in this regard is the extreme time lags in acquiring the latest technology due to Congressional obstacles, as noted further on.

The potential for profitable use of available data has been realized to a limited degree only. For example, in the area of identifying and eliminating fraud and abuse in Federal assistance programs, matching computer files (to identify the numerous instances of overpayments under multiple programs) can be very effective but, with the exception of the Office of the Inspector General at the Department of Health and Human Services, very little has been done in this regard.

Q. In what critical areas is the information system most deficient?

A. The Government lacks essential data in the following major areas:

- financial and accounting transactions and records;
- organization and industrial relations;
- support services; and
- general administration.

Q. What examples of information gap problems did PPSS note in these areas?

A. There were over 125 specific examples that PPSS noted; the following illustrate a few of the problems found:

1. Financial and Accounting Transactions and Records

- The Department of Justice (DOJ) has insufficient information to effectively carry out its mission of collecting the Federal Government's defaulted accounts receivable. At the end of 1982, DOJ was responsible for over $1 billion in receivables. Approximately 99% of that amount originated in other agencies. DOJ collection efforts are hindered by a lack of uniformity in the data supplied by originating agencies, accounting terms used, and definitions of "overdue" accounts. Three-year savings/revenue enhancements of $631 million are possible by adopting a uniform reporting system.

- In the Department of Defense (DOD), information for managing $40 billion of spare parts, medical and operating supplies is frequently inaccurate or not available on time. This results in excessive and obsolete inventories and the inefficient movement of supplies. For example, the Air Force has estimated that, with improved inventory management, it could field an additional 40-60 aircraft at all times.

Improving inventory management in DOD could save $6.074 billion over three years.

- The Social Security Administration (SSA) collects income data on potential beneficiaries. Poor internal controls have resulted in an SSA suspense file (income items which cannot be posted to specific accounts) of about 138 million items valued at $89 billion. Paying benefits correctly is contingent on the ability to record earnings correctly. PPSS recommended redesigning the computer systems used to collect and process income data.

- The Air Force Logistics Command (AFLC) uses 104 archaic and costly computer systems that do not provide up-to-date, accurate information to manage a $24.5 billion inventory. Further, AFLC has not taken action to correct these deficiencies. PPSS recommended that efforts to eliminate obsolete hardware and software be instituted immediately, resulting in three-year savings of $581 million.

2. Organization and Industrial Relations

- Federal agencies recognize only a part of their true personnel costs. For example, in FY 1981, agencies were charged with benefit costs equal to 27.8% of gross payroll while total payments from all Government sources, on a comparable basis, were equal to 65.3%. Understated personnel costs, resulting from failure to allocate costs on a realistic basis, can result in: grossly inaccurate budgets, misdirection of management attention, failure to understand the reasons for increasing costs and to recognize potentials for cost savings, and improper cost comparisons to the private sector.

  The current systems for allocating and funding total personnel costs of the civilian work force often result in improper assignment of costs to individual programs and functions and, thus, in waste and misdirection of effort.

3. Support Services

- The Pension Benefit Guaranty Corporation (PBGC) is unable to publish verifiable financial statements. In particular, there is a lack of control over accounting for investments, and the pension payment and verification process. PBGC has attempted -- with limited success -- to apply the kinds of controls used in the private sector. By using private industry services, PBGC can increase its efficiency and save $132 million over three years.

4. General Administration

- o With regard to the $4.6 billion spent by Executive agencies on freight transportation, poor management information systems prevent consolidation of government-wide shipping data, hampering the negotiation of freight discounts. Improving data collection systems and their use can result in three-year savings of $530 million. An automated system needs to be developed to provide adequate transportation data to traffic managers throughout Government so that an estimated 3% savings on all transportation costs, and a 2%-5% savings on large volume, large dollar shipments, can be achieved.

Q. What other savings are possible from improvements in the Government's management information systems?

A. Substantial savings are possible in specific programs as noted by the following examples:

- o Little historical data is collected by the National Flood Insurance Program (NFIP) to establish a sound basis for anticipating future needs. Without adequate information, NFIP cannot ensure the accomplishment of its objectives. PPSS estimates that three-year savings of $662 million can be achieved by increasing premium rates, raising deductibles, and putting the program on a sound actuarial basis, reducing subsidized rates.

- o The VA's budgeting system does not have the information necessary to project future hospital work loads. PPSS recommended that the patient treatment file be expanded and used as a basis for budgeting. In addition, reducing the time patients spend in VA hospitals by approximately one-third (so that average hospital stays are comparable to those in the private sector) and reducing the number of beds available can result in three-year savings of $4.888 billion.

- o The Federal Government does not know the total amount that is being spent on training costs due to information gaps in this area. PPSS estimated savings of $66 million over three years if information is developed and used to eliminate duplicate training programs.

Q. Why is so much "knowledge" missing from the Government's information systems?

A. There are many problems with the current information systems. For example:

- An excessive amount of data is produced by some departments and agencies. Much of it is of little value or use to Government decision makers. This proliferation of data tends to impede rather than facilitate the management information process.

  For example, for each of the past 17 years, GSA has converted paper and computer tapes detailing the properties owned and leased by Federal agencies into a series of annual reports. The annual report is a 2,000- to 3,000-page document that cannot be used by Federal decision makers because the data about any one property are not integrated.

- Important external information is not monitored; for example, environmental trends and conditions which can affect Federal Government programs. As a result, decisions are made concerning the direction of program activities and the use of resources which are less than effective.

  For example, appraisals of technological developments are not properly coordinated with the Department of Defense weapons acquisition process. Decisions about the technologies to be employed in weapons systems are made based on incomplete information.

- Government efforts are often aimed at getting the job done without due concern for efficiency. Considerable time and effort are committed to deciding what is to be done, but all too often a comprehensive post audit is not conducted and no follow-up action is taken. In the private sector, post audit follow-up is considered a critical element in assessing the success or failure of a project and in achieving greater future efficiencies.

  For example, of the 28,000 pension checks distributed monthly by the Pension Benefit Guaranty Corporation, only 18,000 are verified as correct. No one knows whether the other 10,000 are accurate.

- Federal department and agency managers do not analyze daily operations on an ongoing basis. This practice inhibits informed decision-making because essential information (such as employee or program performance data, inventory levels, and cash balances) is unavailable.

  The Department of Interior's cash management system often takes more than two weeks to collect, record, and deposit payments. Comparable private sector processing is typically accomplished in one or two days. As a result of the time lag (a period during which the cash position is unknown), the Treasury does not have use of the funds and must borrow to fulfill short-term cash needs, incurring interest expenses.

Q. Doesn't the Government have sufficient computers to solve these types of problems?

A. Yes, if you look only at the numbers of computers. It is estimated that there are more than 17,000 computers in the Government. But part of the problem is that they are too old to do the job that needs to be done. The Government's computers are, on average, approximately 6.7 years old. In the private sector, the average age is approximately 3-3.5 years.

In addition to the age problem, the fact that the systems are incompatible -- that is, data can't be readily exchanged between them -- results in many inefficiencies. For example, because computer systems are not integrated the Government cannot verify the income levels of recipients in needs based programs. As a result, there were overpayments estimated at $4.1 billion in just five programs during 1982.

Q. Are there instances where state-of-the-art computers exist and there are still problems?

A. Yes. The Urban Mass Transportation Administration (UMTA) had FY 1982 obligations of $3.4 billion and, by the end of that year, controlled $25 billion in active, ongoing grants. UMTA spent $10 million on a computer to keep track of these grants. Nevertheless:

- UMTA has been unable to close its books since 1979.
- There have been no account reconciliations since 1977.
- There are no accounts payable or accounts receivable subsidiary records, meaning there is no central ledger detailing who owes what to whom.
- When PPSS asked UMTA to provide financial data for 1972-1982, they did it manually and could only provide records for 1980-1982.
- The computer is unable to display funds carried over from previous years. It cannot immediately update balances.

Q. PPSS noted that one problem area was the lack of consistent definitions from program-to-program and agency- to-agency. How can definitional inconsistencies obstruct communication and cause an information gap?

A. One example of this is the variety of meanings both within and across agencies applied to terms used in Federal loan and insurance programs such as "guarantee," "insurance," "delinquency," "default," "forbearance," "subsidy," and "contingent liability."

Inconsistencies in terminology and definitions limit the ability of the Executive Branch and Congress to meaningfully interpret information on program operations. For example, with regard to the definition of "default," if a particular loan is in "default," that could mean several things. Under the Maritime Administration's Federal Ship Financing Program, it would mean the loan has been in default for 30 days and extensive remedial efforts are probably underway. If the loan was guaranteed under the Veterans Administration (VA) program for housing loans, the default has just become reportable since the VA definition of reportable default is a loan on which three monthly payments have been missed. The definition of default under the Guaranteed Student Loan Program (GSLP) even goes so far as to require that the Commissioner of Education make some judgement as to whether "a borrower no longer intends to honor his obligation to repay."

This inconsistent treatment of "default," and the unique data and information which result therefrom, precludes government-wide analyses.

Q. With all of the data available to the Government, why can't it do a better job of management?

A. "Data" and "information" are not synonymous and, while the Government may have an abundance of data, it suffers a dearth of information. PPSS found that much of the Government's data are useless for management purposes because they are inadequate, inaccurate, and untimely.

For example:

- Savings of $6.074 billion are possible in DOD if accurate and current management information were available to improve inventory planning. One segment of the DOD inventory system generates the previously described six million pounds of computer output annually -- much data, not much information.

- The Department of Justice could save taxpayers $50 million and accelerate cash collections by $244 million if it had information on total assets seized as a result of FBI, IRS, and other agency investigations.

- The Veterans Administration pays $15 billion per year to six million claimants. Yet, it has no information to measure the accuracy of these payments even though it knows the error rate exceeds $500 million per year.

Q. Does Congress itself contribute to the "information gap"?

A. It does. While there is no question that Congress is entitled to information from agencies on Federal programs so as to properly discharge its Constitutional responsibilities, many of the reports Congress requires of the Executive Branch are ill-timed, excessively costly to produce, no longer relevant, and often not even read or used by their intended audience.

The Executive Branch has attempted to reduce the paperwork burden on the American public, but Congress has made no similar attempt to limit the paperwork burden imposed on the Executive Branch. Almost every piece of legislation carries with it new requirements for Federal managers to report to Congress on the status of a program, a research project, or some other Executive Branch activity. This is in addition to the program and budgetary information that each agency must compile and present to Congress. On top of this are requests for "ad hoc" reports from Committee or Subcommittee Chairmen seeking information on Executive Branch programs and plans.

Q. What's the extent of these Congressional reporting requirements?

A. In the U.S. Department of Agriculture (USDA), for example, reporting requirements jumped 68% from 1980 to 1983. In one USDA area it was estimated that it required some 80,982 hours of work to prepare 58 reports, for an average 1,396 hours per report, or the equivalent of nearly 35 employees working a full year on nothing but those reports.

PPSS determined that there are an estimated 30 reports that duplicate or overlap, cost too much for what they produce, and are of low value in terms of useful information. The cost to develop and produce these reports totals over $35 million, with over 200,000 staff hours devoted to preparation.

Q. This discussion has shown that the information gap is pervasive throughout the Government. Will PPSS solutions bridge the information gap once and for all?

A. The Federal information gap is a dynamic problem that will continue. PPSS has identified many information gaps. There are many more. When one gap is bridged, another will appear. The recommended solution recognizes this problem. By creating a structure for information management and by identifying and emphasizing the processes needed to solve today's problem, tomorrow's problems can be managed and, perhaps, even avoided.

Too often in the past, the Government has focused its attention on a very specific problem rather than its cause which may lead to the same problem in other areas of the Government. This narrow focus can result in overlooking major issues. For example, both the Executive and Legislative Branches have directed their attention toward controlling the acquisition and cost of computers. This is important, but the benefit side of the cost/benefit relation has too often been neglected.

For example, a Washington Post article dated November 30, 1983 reported that the Internal Revenue Service estimated a 1981 annual "tax gap" of $81.5 billion. How much of this revenue loss could have been collected through more effective use of computer systems? While the answer cannot be quantified, modern computer systems can substantially reduce lost revenue by expanded use of sampling techniques and by increased matching of actual and reported earnings. The correct focus should be on the additional revenues that can be collected (an annual "tax gap" of $81.5 billion) rather than on the cost of the computers.

The technological revolution of the last 30 years has made a vast amount of new information available to managers. New technologies have radically altered the amount, type, and speed at which information is available. Many corporations are investing considerable time and energy to accumulate better information and improve decision-making. Based on its review, PPSS concluded that the Federal Government does not manage its information well and that managing it better could save at least $78.6 billion over three years.

Financial Management

Federal financial management procedures have little in common with accepted private sector accounting principles. Budgeting; accounting; and cash, loan, and debt management; as well as auditing functions are conducted in the Federal Government largely independent of one another. As a result, the interrelationships between responsibilities for programs and action authorities are unclear and this is an invitation to inefficiencies, abuse, and fraud.

To correct these deficiencies, PPSS has recommended that the proposed Office of Federal Management take responsibility for formulating and coordinating financial management policies and practices throughout the Federal Government.

In FY 1983, the Government spent $120.8 billion in the specific areas covered by PPSS recommendations, with spending estimated to increase to $1.833 trillion by the year 2000 if present policies are continued. Implementing PPSS recommendations would reduce spending to $376.2 billion in 2000, a saving of $1.456 trillion, or 79.5%.

The Federal Government is involved in financial transactions amounting to $6.8 billion each working day. This is $34.0 billion per week, $146.2 billion per month, and over $1.7 trillion per year. The monthly figure is 32 times total Federal expenditures when FDR became President in 1933. Despite the enormous sums and number of transactions involved, the Federal Government is years behind the private sector in developing modern budgeting, accounting, and management information systems.

Within the Executive Branch of the Government, no single department or agency is responsible for overall financial administrative direction and policy. Financial management responsibilities are primarily shared in the Executive Branch by the Office of Management and Budget (OMB), the Department of the Treasury, and the General Services Administration (GSA); and in the Legislative Branch by the General Accounting Office (GAO).

Individual agency and department accounting systems have led to the use of diverse methods and standards, making government-wide oversight, comparisons, and evaluations extremely difficult, if not impossible.

Also, the functional independence of agencies and departments results in very little mutual sharing of pertinent financial data.

The diversity of approaches and the lack of centralized controls in Federal loan programs has fostered management practices which lead to oversights, procedural mistakes, abuses, and, in the worst cases, the opportunity for fraud.

Under the PPSS proposal, a Financial Management Office would be set up within the Office of Federal Management (OFM), the proposed new management arm of the President. OFM would be responsible for policy development and government-wide direction in the areas of budgeting and planning, human resources, administration (including approval of management information systems), financial management, and management evaluation and incentives. The current Office of Management and Budget would serve as the core of OFM, performing the budget functions. The Office of Personnel Management (OPM) and the GSA would be part of OFM and would continue to direct efforts in the areas of human resources and administration.

Within this context, the responsibilities of a newly-created Financial Management Department would be similar to those of a private sector corporate headquarters financial staff: directing and coordinating the Federal Government's overall accounting and financial reporting policy and activities, and developing a systematic program to identify and implement government-wide financial management improvements on an ongoing basis.

If PPSS recommendations are implemented, the following benefits, which are discussed in detail in the body of this section, would result:

- Improved coordination of practices and systems across departments and agencies;
- Greater compliance with GAO accounting standards by departments and agencies;
- Clarification of reporting responsibilities;
- Improved quality of information available to the central agencies -- i.e., the General Services Administration, the Office of Personnel Management, and the Office of Management and Budget;
- Improved overall quality of financial management and reporting in Government and, thus, increased accuracy, reliability, and timeliness of financial data.

PPSS conclusions and recommendations in the area of Government financial operations are based on identifying the structural, procedural, and control problems in budgeting, accounting, cash management, loan and debt management, and auditing procedures. These areas are discussed individually below.

Budgeting

The annual Federal budget is a political document, issued primarily as a statement of spending priorities, but of limited usefulness as a vehicle for planning, control, or evaluation. Further, the budget has a short-term orientation and is primarily concerned with current expected spending levels. Conversely, private sector budgeting is directed toward the measurement of results versus plan within the context of achieving long-term objectives. Important aspects of long-term planning in the private sector include: communication of primary objectives from top management to other levels of management; identification of alternative means of accomplishing objectives; formulation of detailed plans to implement the best alternatives; and the monitoring of progress toward achieving these objectives.

Problems which have been identified many times in the Government budget process include the following:

- Difficulties encountered by senior officials in attempting to continously monitor progress toward accomplishment of major Administration goals;

- Emphasis on a one-year budget process without an accompanying effective multiyear analysis of programs and resource levels by the various agencies and the Executive Office of the President (EOP); and

- Difficulties in communicating and implementing changes in policies and practices by new administrations.

Q. How can the current budget process be made more effective?

A. The budget is not fully used as a management tool by OMB or the departments and agencies. Accounting for actual expenditures is largely separate from budget preparation and analysis. Differing from the private sector, the Government stresses budget preparation, while putting minimal emphasis on budget execution and control.

Q. How would adopting private sector budget practices help the Government?

A. Implementing an Executive Branch planning system similar to those existing in the private sector would increase the Administration's ability to accomplish its major objectives and more effectively allocate its overall resources.

An Executive Branch planning system would assist agencies and the proposed OFM in ensuring that long-term issues are considered, major Administration initiatives are highlighted, resources are allocated properly, and progress toward accomplishing Presidential goals are assessed. In net, plans would:

- Communicate objectives, strategies, and detailed instructions to Federal managers; and
- Measure progress toward achieving objectives -- an integral part of keeping management aware of linkages between long-term goals and current budgets.

Q. Were most of the identified budgeting problems the result of short-term planning?

A. Most, but not all. For example, in the Agriculture Department, the Commodity Credit Corporation's (CCC) accounting procedures allow other agencies to underreport their spending significantly. Among the ways the CCC provides price support to producers of agricultural goods is the purchase and storage of agricultural commodities. Some commodities purchased by CCC are then donated to other agencies. Such donations in FY 1983 are estimated at $728 million. However, there is an increasing tendency by recipient agencies to use these donations to supplement programs which are limited by budgeting constraints and pressures to reduce Government costs. If the Administration is reducing appropriations to a program, it is because other programs have higher priority, and circumventing these priorities by accounting manipulations destroys managerial control and is counterproductive.

Q. What recommendations does PPSS propose?

A. PPSS recommended that recipient agencies pay for CCC commodities with appropriated funds. This would result in greater control since agencies would more carefully assess their requirements if funding of commodity purchases were brought within the budget process. PPSS estimates savings would be $1.205 billion over three years. That's enough to purchase 931 million pounds of ground beef, or 27.1 pounds for every person below the poverty level.

Q. Is it common for agencies to mask their spending?

A. It's not clear that common is the right word, but it does happen. In the Environmental Protection Agency (EPA) much budgeting time is spent on processing change notifications, which are defined as minor balancing adjustments from one spending classification to another. These change notifications reduce the visibility of budget overruns that should receive management attention. PPSS recommended that change notifications be eliminated to simplify budgeting procedures and to allow problem areas to be identified. Staff savings alone would be $600,000 over three years.

Q. What problems exist in the Federal capital budgeting process?

A. PPSS noted three major problems with the Federal capital budgeting process:

1. Capital investments are understated since capital outlays are net of related receipts. This is a major departure from sound accounting principles.

2. Federal capital investment outlays, as reported, are not complete since they do not include a number of off-budget agencies such as the U.S. Postal Service.

3. Definitions of capital assets differ, resulting in data that are not comparable among the more than 60 departments and agencies of the Federal Government.

Q. What do you mean when you say capital outlays are net of related receipts?

A. For example, if the Government builds a dam with power generating facilities, projected revenues from selling the power are subtracted from the estimated cost of the plant to determine the total capital investment. This policy substantially understates actual capital requirements. Again, a major departure from sound accounting principles.

Also, excluding off-budget agencies from the budget process results in an understatement of both capital and operating costs. Off-budget agencies are those which are Federally owned and controlled but their spending has been removed from the budget process for various reasons by acts of Congress. As a result, their outlays are not included in reported budget totals or deficits. For a fuller discussion of off-budget agencies and their outlays see the section of this report on "Will the Real Budget Please Stand Up."

Off-budget outlays, which have the same impact on Government finances as the on-budget deficit, have been as high as $21 billion and would have increased the reported on-budget deficits by as much as 45% over the 1978-1983 period. Excluding off-budget items in reporting the deficit is contrary to generally accepted accounting principles and distorts the Government's true financial condition.

Q. Why does it matter if the Government doesn't report its capital spending in the same way as a private sector company?

A. It's more than just a matter of accountability, although that is important in its own right. Accurate capital budgeting is needed for effective analysis of alternatives and reporting of public expenditures. The failure to implement comprehensive capital planning at the Federal level has contributed to the deterioration of the Nation's physical infrastructure, e.g., roads, bridges, dams, and public buildings. As a result, governments at the Federal, state, and local levels face unplanned capital expenditures of as much as <u>$3 trillion</u> in this decade alone, if the current level of service and safety is to be maintained.

Q. How can this situation be kept from getting worse?

A. What is needed is a standardized, government-wide capital budgeting process. In addition, PPSS recommended that a comprehensive capital analysis be included in the annual budget. This analysis should include an estimate of aggregate capital investments, sources of funding, and public works investment priorities. Departments and agencies should use a standard format in their capital investment analyses. Individual capital expenditures -- including those administered by state and local governments through Federal grant programs -- should be shown separately for each department and agency in the President's budget.

<u>Accounting</u>

Accounting systems in both public and private sector organizations consist of two parts: (1) the formal set of accounts, supporting records, documents, and reports; and (2) the related procedures and standards used to ensure both consistency of recordkeeping and also adherence to the accounting profession's generally accepted practices. An adequate accounting system should meet the following basic objectives:

- <u>Comparability</u> - Transactions must be accounted for in a consistent fashion across all units of an entity. Similarities and differences appearing in financial statements need to reflect basic conditions and not merely differences in the accounting treatment of transactions.

- <u>Timeliness</u> - Information must be available when decisions need to be made.

- <u>Completeness</u> - Accounting information should fully disclose an entity's activities in a manner that facilitates understanding and avoids misleading implications.

- <u>Verifiability</u> - Substantially the same results should be reached by different accountants working independently and observing the same principles of measurement.

To meet the above goals in the Federal Government, the General Accounting Office (GAO) prescribes the principles and standards for accounting systems. However, GAO has no authority to force departments and agencies into compliance. Reflecting this lack of authority, 123 accounting systems -- 37.0% of all systems subject to GAO approval -- have not been approved. As a result, many departments and agencies in the Government do not have accounting systems that are on a par with accepted business standards and practices. Without appropriate systems, Federal department and agency accounting systems are frequently incapable of producing the timely, accurate, and complete financial reports required to properly manage assets, control funds, and evaluate performance versus goals.

As a first step toward upgrading Federal accounting systems, a central controllership function, similar to that in the private sector, needs to be established in the proposed new Office of Federal Management to follow through on GAO guidelines for Executive Branch departments and agencies. This position should develop comprehensive accounting policy, financial reporting, and internal control standards to serve as guidelines for greater integration and coordination of Federal accounting systems. As an additional measure, legislation should be introduced mandating that departments and agencies comply with GAO's accounting systems approval process within a specified period of time.

Q. Is it that important for departments and agencies to meet GAO accounting standards?

A. GAO has shown that departments and agencies which devote the time, effort, and resources to designing and implementing approved accounting systems have fewer difficulties and are able to carry out their financial management functions more efficiently. A very important area on which GAO focuses during its approval process is an accounting system's internal controls. While an approved accounting system cannot by itself ensure that there will be no fraud or abuse, these problems are much less likely to occur when a system has tight internal controls and adequate audit trails.

Q. In what ways do inefficient payroll systems contribute to higher costs?

A. In some Government agencies, antiquated and time-consuming punchcard systems are still in use. Further, the abundance of incompatible systems means that any change to payroll reporting requirements necessitates that many systems be adjusted instead of just a few. As a result of inefficient payroll systems, the cost to the Army to process each payroll check is $4.20. The same expense for the Interior Department's Bureau of Reclamation is $3.75. In the private sector, the costs to process payroll checks generally range from 75¢ to $2.00 per check -- about one half of the Federal cost. In addition, with so many accounting and payroll systems each time there is a change in requirements, each system has to be modified individually, which is a serious waste of staff time.

Q. How much would implementation of payroll systems, based on standardized software and procedures, save the Government?

A. Implementation of a common payroll system would require an investment in the first three years, but it would achieve significant savings by the time the system was installed government-wide. Specifically, the acquisition of a common payroll system would cost $3.3 million in the first year, $3.6 million in the second, and $4.1 million in the third. However, by year thirteen (after full implementation), the Government would have achieved a cumulative net savings of $735 million with a decrease of approximately 2,000 staff-years of payroll clerical effort.

Q. How would the PPSS recommendation to establish a central controllership function help in this area?

A. Under the leadership of the proposed Office of Federal Management, the Executive Branch should develop a centralized program to replace agency-unique systems with compatible systems.

Payroll should be designated the first common system primarily because payroll systems are generally similar across departments and agencies, and requirements for payroll systems tend to change frequently. Thus, changes in the future would not have to be made to each system individually. Following payroll, other high-priority common systems are accounts receivable, retirement/pension, accrual accounting, accounts payable, fixed asset systems, and budgeting.

Q. Are accounting and payroll systems within agencies compatible?

A. Not often. The situation is worse in agencies like the Department of Energy (DOE), which was created in 1977 from parts of several other agencies. As a result of inadequate coordination, DOE financial offices don't close their monthly books on the same day, and payrolls are processed independently at eight locations.

If standard accounting and payroll systems were developed so that all data could be consolidated, DOE accounting and payroll staffing alone could be reduced by approximately 80 people, with savings amounting to $12 million over three years.

Q. Are there any other examples of agency problems with accounting systems?

A. Yes. Because of poor information systems, Small Business Administration loan officers often don't know that a loan payment is 30 days overdue until five or six weeks after the fact. Similarly, the Commerce Department's Economic Development Agency cannot track either the number or the amount of loans that have been granted extensions on repayment.

Q. Are there also problems with the follow-up process in accounting systems?

A. Yes. Most management attention is focused on the programming and budgeting process with insufficient attention paid to actual expenditures. In addition, there is a failure to charge the cost of all resources to the units which consume those resources, thus creating a lack of incentives for efficient resource management.

Q. Why isn't something done to correct this?

A. Something was done. Congress passed a law, P.L. 84-863, requiring that accounting be shifted from an obligations basis to an accrual accounting basis. What this means is that currently when a consumable good is purchased its cost is recorded at that time -- e.g., when the Air Force buys jet fuel, it is recorded as an expense even though it might sit in a storage depot for a year. With accrual accounting an expense is only recorded when resources (material, labor, etc.) are consumed. With accrual accounting the actual consumers of material are more readily identifiable and chargeable, and as a result are more likely to exercise managerial control. In review of the Air Forces operations, PPSS found that the use of an obligation accounting system rather than an accrual accounting system also results in:

- Inefficient use of personnel, who are considered "free" by operating units because the units are not charged for their use.
- A year-end rush to obligate all budgeted funds, which can result in very inefficient spending.

PPSS recommended that the law requiring the use of accrual accounting be actively enforced, which it currently is not. In addition, a system should be developed to report the total operating expenses of each organizational unit, including all personnel-associated costs -- e.g., pension costs -- to ensure more prudent use of resources. In the Air Force alone, savings are estimated at $1.159 billion over three years.

Cash Management

The last consolidated financial statement of the U.S. Government showed that its cash balance was $54 billion on December 31, 1980. Unfortunately, the Government cannot determine on a current basis what its cash balance is at any point in time. Each year the Government spends or collects $1.7 trillion -- almost $971 million every working hour, $16.2 million every minute. With this magnitude of cash flow, the manner in which the Government handles its transactions can have a major financial effect on taxpayers. Three working days of movement is $20 billion, and the interest on this is over $2 billion per year -- equal to the annual income taxes of 917,431 median income families.

Q. What improvements could the Federal Government make in order to manage its cash flow more effectively?

A. The underlying principles in managing cash positions are straightforward, and not very different conceptually for individuals or for private sector companies than they should be for the Federal Government:

- Do not pay bills until they are due unless early payment is sufficiently beneficial to cause one to do so.
- At all times, deposit checks that you receive from others immediately.
- Keep as little money as possible in bank accounts that do not earn interest and as much money as possible in interest-bearing instruments.

Q. What are some examples of how these principles could be applied?

A. Currently, the Treasury Department's Bureau of Government Financial Operations pays bills and issues checks on a first-in, first-out basis regardless of when the money is due. If bills were paid and checks issued only when they were due, the Treasury could save $1.309 billion over three years.

In addition, many states withdraw funds made available by the Federal Government before the money is needed for specified purposes. If Congress would allow the Treasury to charge interest and penalties when funds are withdrawn prematurely, $1.103 billion could be earned over three years.

The Federal Government could even save money when it pays its current and former employees by using direct deposit and electronic funds transfer. The Government makes approximately 580 million salary and benefit payments per year. This is 48.3 million payments a month. Using direct deposit/electronic funds transfer to allow the funds to remain on deposit longer would save the Government $635 million over three years.

Q. Is there any room for improvement in the way the Government collects money?

A. Yes. For example, the Treasury Financial Communications System (TFCS) is a telecommunications network that allows the Government to access the nationwide banking system instantaneously, thus accelerating its cash receipts. Currently, this system is mainly used when transactions exceed $50,000 and as a result the system is operating at only 10% of its capacity. If the TFCS were commonly used for transactions as small as $10,000, an additional $40 billion would be deposited more quickly in Government interest-bearing accounts.

Q. How long does it currently take to deposit receipts?

A. The most widely used alternative is direct mail which averages from two to four days. With an additional three days required for the check to clear, the total time in which the money is not earning the Government interest is six days.

Q. What is the cost of this six-day lag from receipt to deposit?

A. Speeding up the collection of $40 billion by just six days would earn the Government $221 million more in interest over three years. These collections do not include the collection of estimated taxes that certain individuals -- mainly the self-employed -- have to pay each quarter totalling over $14 billion. If these payments were made using an electronic Federal Tax Deposit System, interest gained would equal $156 million over three years on accelerated receipts of $470 million.

Q. Where else can electronic funds transfer (EFT) systems be used to accelerate receipts?

A. Applying EFT to excise taxes paid by the alcohol and tobacco industries as well as eliminating the current payment deferral period of about one month would accelerate receipts by $911 million over three years with corresponding interest earnings of $294 million.

Applying electronic funds transfer to customs duties and eliminating the current ten day grace period would earn $114 million in interest over three years by accelerating payments of $344 million.

Most banks in the private sector use automatic account withdrawal systems where feasible for installment payments. If the Government used such a system, the amount of delinquent debt owed the Government would decrease by approximately 10%, because it would keep the Government more in touch with its loan portfolio, i.e., a computer won't forget that someone owes it money. If automatic account withdrawal were used in conjunction with EFT, the Government would accelerate its receipts by $4.072 billion over three years and would earn interest of $821 million over the same period.

The combined effect of using advanced electronic cash collection practices, which are common in the banking industry -- and keep in mind the Government is by far the nation's biggest lender -- would be to accelerate cash flow by $6.464 billion and increase interest earnings by $1.581 billion over three years. The interest earnings alone would pay the average salaries of 86,486 elementary school teachers in 1982.

Q. Why hasn't the Government done this on its own?

A. There isn't any incentive, i.e., profit motive, in the Government. PPSS recommended that the Office of Federal Management -- proposed by PPSS -- establish cash management goals for each department and agency. To provide incentive, performance in this area should be used as a bonus criterion.

Q. Are there other examples where Government collections could be accelerated?

A. Yes. Prompt collection and deposit of Federal receipts, when electronic funds transfer is not practical, can alternatively be accomplished by use of a lockbox. A lockbox, widely used in the private sector, is a Postal Service rental box to which mail is delivered. Its principal purpose is to collect payments faster, generally 2.5 to 4 days faster.

Q. How much would lockbox systems save the Government?

A. If results from a test program conducted by the Customs Bureau are extrapolated government-wide, receipts would be accelerated by $4.900 billion on which interest earnings would be $1.622 billion over three years.

Another area for improvement is the way in which the Government collects Social Security withholdings (FICA) taxes. Private companies with monthly FICA liabilities greater than $3,000 must make payments within three banking days after the end of the month. States, on the other hand, are allowed up to 30 days after the end of the month to make their payments to the Federal Government -- i.e., ten times as much time as private companies are allowed.

Q. How much does it cost the Government for states to have that extra time?

A. PPSS estimates that the Government's cash flow would be accelerated by $1.250 billion and interest earnings would be increased by $414 million over three years. That's enough money to cover the clothing and other personal care costs for 313,829 lower income four-person families.

Q. The Internal Revenue Service (IRS) is responsible for most of the Government's collections. Is it handling tax receipts efficiently?

A. No. IRS procedures could be changed to reduce the amount of time between the receipt of a remittance and its deposit into an interest-bearing account. Currently, the IRS processes remittances automatically, checks for errors, corrects any errors manually, then deposits the money. The IRS system for processing checks is considered state-of-the-art, but waiting for any errors to be corrected manually defeats the purpose of using high-technology computers for processing. PPSS recommended that entries be verified after the checks are deposited. This would speed deposits by an average $661 million while increasing interest earnings by $219 million over three years.

Another recommendation made by PPSS is that during the Internal Revenue Service's non-peak months, it share its advanced check processing capacity with other agencies that have substantial check processing requirements such as the Farmers Home Administration and the Small Business Administration.

Q. How effective is the IRS at collecting taxes owed to the Government?

A. Taxes receivable, which have grown from $8 billion at the end of 1977 to $28.5 billion in 1982, are in addition to the growing "tax gap", which is money lost to the Government through taxpayer non-compliance -- estimated at $81.5 billion in 1981. In addition, the accounts receivable balance of $28.5 billion excludes the interest penalty for delinquent taxes, estimated to be at least $2 billion. In total, revenues that should be collected by the IRS, but are not, are about $112 billion -- almost 20% of all Government revenues collected in FY 1983.

During FY 1977 through FY 1982, the number of tax filings increased from 88 million to 103 million, an increase of 17.0%, while IRS examination staff increased by only 1.9%.

Largely as a result of the rapid increase in workload, the percentage of returns examined fell from 2.44% in FY 1977 to 1.67% in FY 1983. During the same 1977-1982 period, IRS accounts receivable increased by 180% but the number of revenue officers responsible for collecting these funds owed the Government decreased by 15%. As a result, total uncollected tax revenues have increased to $112 billion, as mentioned previously.

Q. Why doesn't the Government hire more people to increase collections?

A. The Government has made provision to increase the Collection Division by 4,000 staff years during FY 1982-1984, in addition to an 882 staff year increase in the Examination Division. However, PPSS found that these increases were inadequate considering the growing amount of tax dollars that remain to be collected. In addition, PPSS notes that IRS has no consistent system-wide method to determine the optimum level of personnel to maximize its revenue collections. There are problems in the methods used to determine personnel levels in various IRS programs. For example, measurement of yields and costs for individual programs are generally inconsistent, and some programs use average revenue and cost data which may not be a realistic approximation of what additional costs and benefits are.

Q. What does PPSS recommend?

A. PPSS recommended that within twelve months a computer model be designed to determine comprehensive IRS staffing needs. This model should take into consideration the importance of the interaction of the various IRS programs -- i.e., it would recognize that a change in one program will affect potential benefits and costs of other programs. It must also base its conclusions on incremental, or additional, costs and benefit data to show what the impact of each additional employee hired will be.

Q. Until that is accomplished, what interim measures can be taken?

A. Until that model is completed, PPSS recommended that clerical support for IRS Revenue Officers, responsible for collecting delinquent taxes, be increased to offset some of their increased workload. In addition, payroll deductions or automatic bank transfers should be used in installment agreements.

Also, the $81.5 billion in taxes lost through non-compliance -- e.g., underreporting of income -- merits immediate attention. Until the proposed computer model is operational, IRS should plan to add 2,500 employees to its Examination Division staff each year for three years. At least $17 million should be reallocated to the document matching program which has proven to be the most effective method of identifying taxpayers who underreport their income.

Over three years, collections would increase by $5.732 billion, or 22% of the total taxable income of the lowest 25% of taxpayers.

Q. What are some specific cases where other agencies don't manage their cash and assets efficiently?

A. A good example is in the Justice Department which, as a result of its crime-fighting activities, seized $317 million in cash and physical assets such as cars and planes in FY 1982. Cash seizures represented about 25% or $79 million of that amount. Currently, seized cash is not placed in interest-bearing accounts and, because of slow processing, other non-cash assets depreciate in value as much as 65% before they are sold off.

Q. Would it be legal for the Government to deposit cash seized in criminal investigations?

A. Not only legal, but efficient. Over three years, seized cash could earn $50 million while the decision as to its eventual disposition is made.

Other specific examples where PPSS found that agency cash management could be improved include the following:

- In a review of only nine Transportation Department grant recipients, it was determined that $473 million was paid to contractors by grantees an average of 13 days earlier than necessary, resulting in added interest costs to the Government of $3 million. If procedures were enforced requiring that all bills be paid by grantees only when due, and if excess cash were aggressively collected from grantees, the Transportation Department could save $144 million over three years.

- In the Education Department, there is a lack of timely account balance information. If payments were made only when specifically authorized, $62 million in interest could be earned over three years.

- In the Interior Department, the use of electronic funds transfer to collect bid deposits on Federal offshore minerals leases and other fiscal improvements could earn $23 million over three years.

- In the Agriculture Department, requiring a deposit for timber sales could earn $460 million over three years. In addition, prioritizing Farmers Home Administration cash collections on the basis of dollar amounts and allowing decentralized deposit of collections could earn $57 million over the same period.

- In the State Department, if foreign currency requirements were provided for before they were actually needed, $17 million in exchange losses could be avoided over three years. When the tide turns against the U.S. dollar, the Government should delay purchasing foreign currencies.

Loan and Debt Management

Total credit outstanding under Federal lending programs has increased rapidly over the past decade and in 1984 is expected to be about $1 trillion, as shown in the following:

Loans Outstanding Under
Federal Lending Programs
($ Billions)

		(1)	(2)	(3)
		1974	1984B	1984B as Multiple of 1974
(1)	Direct Loans	$ 61.5	$210.9	3.4X
(2)	Government-Sponsored Loans	71.0	337.3	4.8
(3)	Guaranteed Loans	153.2	435.8	2.8
(4)	Total	$285.7	$984.0	3.4X

The rapid growth in the Government's lending programs has enabled it to maintain its place as, far and away, the nation's largest lender. At the end of FY 1981, the Federal Government had loans and loan guarantees outstanding of $676.3 billion -- $51.8 billion, or 8.3%, greater than the $624.5 billion of combined loan portfolios of the nation's 50 largest commercial banks.

There are three ways in which the Federal Government extends credit:

- Direct Lending - the Government supplies funds to the private sector and assumes full responsibility for loan administration.

- Guaranteed Lending - the Government guarantees some specified portion -- usually 75% to 90% -- of loans made by private sector lenders and assumes very little responsibility for loan administration unless a loan goes into default.

- Government-Sponsored Lending - Government-sponsored enterprises are privately owned financial institutions originally founded by the Government to provide credit to specific segments of the economy -- primarily agriculture, housing and education. They are subject to Federal supervision and they consult with the Treasury Department when they issue debt securities to raise funds. While the Government has no responsibility for administering loans made by these enterprises, their lending tends to distort credit markets in favor of their targeted groups to the detriment of other sectors of the economy, such as industry.

The following compares 1974 and 1982 Federal gross new lending:

Federal Lending FY 1982 vs. FY 1974

		(1)	(2)	(3)
		Gross New Loans		
		1974	1982	1982 as a Multiple of 1974
		----($ Billions)---		
(1)	Direct Loans	$15.8	$ 28.6	1.8X
(2)	Guaranteed Loans	26.0	85.8	3.3
(3)	Government-Sponsored Enterprise Loans	38.4	133.2	3.5
(6)	Total New Loans	$80.2	$247.6	3.1X

Total Federal lending in 1982 was more than three times the amount lent in 1974, with guaranteed and Government-sponsored lending accounting for most of the growth. Lending by Government-sponsored enterprises in FY 1982 was 4.7 times the level of direct lending. To place in perspective the Government's lending activities, the following shows the growth in net Federal credit -- i.e., gross loans minus loan repayments -- in comparison to the total funds advanced in U.S. credit markets:

[Table on following page]

Federal Share of Credit Advanced

		(1) 1974	(2) 1982	(3) 1983E
			($ Billions)	
(1)	Net Federal Lending*	$ 25.5	$ 87.6	$130.9
(2)	All Other Net Lending	202.2	400.9	420.1
(3)	Total Net Credit Advanced in U.S. Credit Market	$227.7	$488.5	$551.0
(4)	Net Federal Lending as a % of Total Net Credit Advanced	11.2%	17.9%	23.8%

* Includes direct loans, guaranteed loans, and loans of Government-sponsored enterprises.

The Federal share of credit advanced in U.S. markets has risen steadily to an estimated 23.8% in 1983. This growth in targeted Federal lending has corresponded to a steady decline of the U.S. industrial base in comparison to our major trading partners such as Japan.

Among the major recommendations made by PPSS to improve the management of Federal loan programs are to:

- Substitute guaranteed for direct lending wherever possible to avoid tying up Federal funds. The maximum amount of the Federally-guaranteed portion should also be set at 75% of the loan amount -- down from 90% in many cases currently.

- Include guaranteed loans and Government-sponsored loans as Federal commitments since it is Government policies that reallocate credit toward Federally-selected users at more favorable terms than are otherwise available. This would also give these lending programs more exposure to Congressional review, which should act to check their rapid growth.

These recommendations should also act to reduce Federal costs of administering loan programs as well as to reduce the exposure to default, which in some programs runs as high as 40% -- e.g., the Farmers Home Administration farm loan programs. For a more complete discussion of Federal lending programs see the section on Government Lending Programs.

Audit

Federal audit operations reviewed by PPSS fall into three categories:

1. Internal reviews of Government operations -- e.g., PPSS reviewed Inspector General (IG) auditing procedures. IG's are internal department and agency audit and investigative staffs.

2. Government audits in the normal course of doing business -- e.g., PPSS reviewed freight bill auditing, the Federal procedure for reviewing charges to the Government by private sector freight companies.

3. Government audits of private sector or state and local operations that are Federally funded -- e.g., PPSS reviewed the Aid to Families with Dependent Children program. These audits are meant to ensure compliance with Federal regulations.

A centralized administrative function is necessary to monitor and assess the performance and the allocation of resources among the various IGs; to achieve consistency in planning, procedures, and reporting; and to promote the most effective use of audit and investigative techniques.

Freight bill audits need to be performed before payment instead of afterwards and computer assistance is necessary to reduce the backlog which may be as long as 15 months.

Improvements need to be made in Government auditing of non-Federal operations -- e.g., duplication in bank examining activities can be avoided saving $24 million over three years and limiting state Aid to Families with Dependent Children (AFDC) errors to 3% of payments could save $241 million over three years.

Q. How does the Inspector General (IG) function operate within Federal departments and agencies?

A. The Inspector General Act of 1978 established an Office of Inspector General in 12 departments and agencies. Since then, IGs have been established in seven additional agencies. The 19 IGs operate with a total staff of approximately 7,400 auditors and investigators and a total budget of about $400 million annually. While no precise division of the amounts between audit and investigative activities is readily available, approximately 70% of these resources appear to be applied to the audit function and the remainder to investigative activities.

Under their current organization structure, the IGs report to a sufficiently high level of management to achieve and maintain an appropriate level of auditor and investigator independence and at the same time serve the needs of senior management in an effective manner.

Q. What improvements in IG operations are necessary?

A. With regard to the audit system, PPSS recommendations are to:

- o Establish an office responsible for coordinating the activities of IGs, providing technical assistance to them, as needed, and assuring that IG personnel and budget resources are adequate;

- o Develop more joint training, technology development, and exchange programs to improve the effectiveness of IG functions and to encourage innovative approaches; develop a formal mechanism for exchanging the best IG management ideas with the sub-Cabinet level agencies not having statutory IG offices;

- o Maintain a central reference file of IG reports and findings for the use of all IGs; and

- o Include IGs in the legislative development process so that new legislation contains appropriate audit and cost-monitoring provisions.

Q. In what specific areas is there room for improved IG auditing reviews?

A. IG audit staffs should increase their level of attention to internal control evaluation and coordinate such efforts with independent control evaluation performed by management. This will also require upgrading personnel capabilities in this area.

Regarding improvements within the audit functions of specific agencies, it is recommended that the Department of Defense (DOD) establish a Procurement Audit Service (PAS) which will be solely responsible for performing internal reviews of DOD procurement practices. The PAS should report to the DOD Inspector General (IG). Existing DOD audit agencies would concentrate on non-procurement matters. The Defense Contract Audit Agency (DCAA) -- which is an external audit function -- should remain in the DOD Comptroller's organization and not be assigned to the IG. The proposed PAS should review the quality, accuracy, and scope of DCAA activities in the course of its normal internal audit reviews. Savings over three years are expected to be $1.655 billion based on a projected 0.5% productivity improvement through improved audit and reviews.

Q. Is the IG audit function cost effective?

A. Yes. In the Department of Energy (DOE), for example, internal reviews indicate that hundreds more auditors are required for full coverage, but the budget provided for a 20% reduction in outlays. Measured savings from fiscal 1982 audit recommendations amounted to $23 million in cost avoidance and recoveries -- a return of more than $6.50 for each $1.00 spent. PPSS recommended hiring additional entry level staff (of the current staff of 88 professionals, 64 are partner or manager equivalent level). At the indicated cost recovery rate, adding 190 additional auditors could net DOE $73 million in savings over three years.

Q. How can freight auditing procedures be improved?

A. Since 1975, the General Services Administration (GSA) has been responsible for post-payment rate audits of freight bills, and also for recovering freight rate overcharges. A rate audit is an analysis that determines whether the charge reflects the correct application of often highly complex tariffs, tenders, contract rates, routing, etc. Claims for overcharges must be made within three years after payment. Overcharges are common in both the Government and the private sector.

However, the private sector identifies and recovers rate overcharges averaging 1.75% of total freight billings, while the Federal Government identifies overcharges averaging only 0.37%; its recovery rate is 87% of the overcharges identified, or 0.32% of billings, i.e., one-fifth the private sector recovery rate.

The Government's recovery rate is one-fifth that of the private sector for several reasons: its use of postpayment audits probably encourages overcharges or carelessness in billing, whereas a prepayment audit discourages billing errors that could serve to delay payment; the Government doesn't have available computer-assisted auditing techniques and relies on manual comparisons; and the volume of bills results in as much as a 15-month backlog of work which, together with the 7-month delay in the bills being sent to GSA, means that bills may not be audited until 22 months after payment has been made, making any recovery attempts more difficult.

Q. What improvements does PPSS propose?

A. PPSS recommended using private sector auditing capacity to reduce the current audit backlog, bringing audits to a current basis. PPSS also recommended a study to assess benefits from improved in-house efficiency through automation versus continuing with a private sector contractor on a long-term basis. In addition, postpayment legislative audit requirements should be repealed. Savings are estimated at $165 million over three years.

Q. How can the auditing function save money in the Aid to Families with Dependent Children (AFDC) Program?

A. In FY 1981, 3.8 million families received benefits totalling $12.7 billion under the AFDC program, with the Federal portion accounting for approximately $6.8 billion, or 53.5%. In addition, the Federal Government reimburses states for 50% of any administrative costs of the AFDC program -- resulting in an approximate $800 million subsidy in FY 1981. SSA's Office of Assessment is responsible for quality and control of state payment accuracy. The Tax Equity and Fiscal Responsibility Act (TEFRA) contains a provision that states should reduce their payment error rate to 3% by September 30, 1983, or face fiscal sanctions. However, in the past HHS administrators have been reluctant to impose similar sanctions.

Since the states have wide discretion over AFDC benefit levels and eligibility standards and are responsible for its proper administration, the Federal Government should not be financially liable for state payment errors. HHS should impose fiscal sanctions for payment errors in excess of 3% as mandated by TEFRA.

Also, HHS should withhold an estimated amount from states based upon projected payments and error rates. Total savings are estimated at $241 million over three years.

This "gift" to the states represents all the Federal income taxes over 3 years of 36,219 American median income families of four but the "givers" are never consulted.

Q. How extensive is the bank examination process in the Federal Government?

A. Five Federal agencies regulate 36,000 financial institutions. Thus, the examination process involves at least 36,000 examinations conducted by a combined force of over 6,000.

Regulatory bank examinations carried on by the Federal Reserve Board, the Office of the Controller of the Currency, and the Federal Deposit Insurance Corporation are costly. The Federal Reserve Board examinations cost $22,000 per bank on average; the Office of the Controller of the Currency spends an average $18,000. Not only are these examinations expensive, they are also duplicative.

Q. How can these costs be reduced?

A. PPSS recommended consolidating these agencies' bank examinations to avoid duplication. This would save $24 million over three years.

In addition, examination expenditures can be reduced by 10% over three years by: requiring certified public audits and accrual accounting for all banks and S&Ls and also for credit unions with assets over $2 million; requiring audit engagement letters to identify specific requirements of the audit processs and list specific tests that ensure compliance with Federal regulations and statutes; increasing use of state examinations; improving computerized monitoring; and using common training courses among all regulatory agencies.

PPSS recommendations are aimed at centralizing and coordinating the current auditing efforts. With total budget outlays of approximately $800 billion in 1983, it is imperative that Federal auditing functions, personnel, and procedures be improved.

In addition to the specific topics included in the preceding discussion on Federal Government financial management, PPSS addressed thirty-two additional issues which can be categorized as follows:

- Budgeting improvements - In addition to those discussed previously, PPSS found several other examples where improved budgeting techniques could result in savings of $12.237 billion over three years.

- Cash management - PPSS found many cases where prudent handling of liquid assets could yield cumulative interest savings of $2.872 billion over three years.

- Tax status - PPSS reviewed several entities which currently enjoy tax exempt status, such as credit unions and the Farm Credit System, and found this benefit to be unwarranted, giving these entities an unfair advantage over other credit institutions. Removing their tax exempt status would generate $1.163 billion in additional revenue over three years.

- Accounting methods - Improved accounting techniques could save $944 million over three years in the Treasury Department and the Energy Department.

- Audit activities - Improved audit measurement and standard reporting in the Medicare program and elsewhere could save $514 million over three years.

The three-year total of all the recommendations in this section, after elimination of duplication and overlap among issues, is $30.037 billion -- equal to the three-year taxes of 4.5 million median income families.

Will the Real Budget Please Stand Up

Budgeted Federal expenditures significantly understate the true level of Federal activity by excluding or only partially including major spending commitments. The Government's practice of netting or "offsetting" outlays by amounts collected for loan repayments, property sales, etc. distorts true spending levels. Similarly, the off-budget Federal Financing Bank conceals spending by on-budget agencies by providing a "back door" to the U.S. Treasury. Guaranteed loans and Government sponsored enterprises receive favorable treatment in credit markets as implicit Government obligations. However, neither guaranteed lending nor the lending activities of Government sponsored enterprises are adequately disclosed and controlled.

Fully reflecting these items as part of a more encompassing view of Federal spending results in commitments for FY 1984 of $1.8 trillion -- more than double the budgeted outlays of $848 billion. There are no quantifiable savings from changing Federal accounting procedures to reflect all Federal commitments. What would change, however, is the level of scrutiny given to budgeted programs which would ensure that financial resources are allocated according to national priorities.

Within the Federal Government, formation and review of the budget is the single most important process by which continuing operations, program priorities, and policy changes are examined by the President, the Congress, and the public. The budget should provide a framework for allocating funds among various Government programs, thereby balancing the country's needs and goals against the estimated availability of funds from taxes and other sources, such as the incurring of new Federal debt. In addition, the budget system should provide useful information to department/agency managers who are responsible for efficient program implementation. Moreover, it should present fairly to the general public the complete story concerning estimated Government spending and the use of tax dollars.

For the Federal budget to serve adequately as a review of program priorities and as a method of controlling and accounting to the public for all Government activity, the design of the budget has to be comprehensive. The basic concept followed by PPSS is that if a spending activity is carried out directly or indirectly by the Federal Government, it belongs in the budget.

From this perspective, the budget as currently presented neither reflects all Federal expenditures nor accurately shows spending by function since:

1. For certain kinds of Federal business-type activities (such as making loans, renting facilities and selling hydroelectric power), the Government does not separate in its budget presentation the revenues generated from the costs incurred. Instead, it calls the revenues or loan repayments "offsetting collections," and it "nets" them against its expenditures or loan disbursements. In this way, one never sees or can examine or weigh the full expenditure picture.

2. Many Federal activities are omitted entirely from the official budget. Some, like the Postal Service, are considered "off-budget" entities. Others, such as the Federal National Mortgage Association, are credit institutions called "Government-sponsored enterprises"; they are the vehicles for carrying out Federal programs in fields such as housing, agriculture and education.

3. The Government does not differentiate between lending and spending. Off-budget Federal entities, new guaranteed loans, Government sponsored enterprises, and a large portion of total budget outlays are associated with lending activities. Offsetting collections are primarily repayments of loans which are redistributed as additional new loans. These amounts are used for the acquisition of assets which would offset losses in the event of default. In the private sector, direct loans are carried on the balance sheet as assets; guaranteed loans and loans by Government sponsored enterprises would be contingent liabilities. The Government, however, does not have a balance sheet, and direct lending activities, on- and off-budget, are considered expenses. Guaranteed lending and the lending activities of Government sponsored enterprises are inadequately controlled, in large part, due to deficient Federal budgetary and accounting procedures.

The Federal budget for FY 1984 estimates that outlays (or "net" expenditures) will be $848.5 billion. However, when the items discussed above are taken into account -- and a timing adjustment is made to reflect when spending commitments are authorized rather than when bills are actually paid -- the true size of the Federal Government's commitments for FY 1984 more than doubles to $1.8 trillion. The Government has no accounting measure similar to "commitments" which, as used here, include gross outlays of all on- and off-budget Federal entities, guaranteed lending under Federal auspices, and the Government's liabilities under pension and other programs (private sector companies are required by law to record the amount necessary to fund future pension liabilities as expenses). The effect of individual items is shown in the following table:

[Table on following page]

U.S. Government Commitments, FY 1984
($ Billions)

	(1) Amount	(2) % of Total Adjusted Gov't Budget
(1) Total budget outlays (official budget)	$ 848.5	46.8%
(2) Offsetting collections which are netted against outlays in the official budget	330.5	18.2
(3) Timing adjustment between authorizations and spending	42.4	2.3
(4) Off-budget Federal entities not included in outlays	68.4	3.8
(5) New guaranteed loans outside the official budget - money the Government causes to be spent	126.0	7.0
(6) Government-sponsored enterprises outside the budget - money the Government causes to be spent	193.4	10.7
(7) Amortization of Unfunded pension liabilities neither accrued nor established in reserves	202.8	11.2
(8) Total commitments - representing money the Government spends, money the Government causes to be spent, and accrued expenses	$1,812.0	100.0%

As the preceding table shows, budgeted outlays account for only 46.8% of total Federal commitments of $1.812 trillion, leaving $963.5 billion with little visibility and limited control by Congress or the Executive Branch. To create a budget which fully reflects the level of Federal spending and commitments, PPSS recommended the following:

1. Discontinue the practice of "offsetting" outlays by related collections, i.e., report gross rather than net spending.
2. Include off-budget Federal entities in all future budgets.
3. Include guaranteed loans and Government-sponsored enterprises as budget commitments.
4. Include the full cost of funding Federal retirement and disability plan liabilities in all future budgets.

Whether the Government borrows money directly or causes money to be borrowed for a preferential purpose, such as student loans, is not material. It is all money being spent because of Government and has the same impact on credit markets as Government borrowing to finance its on-budget deficit. Current budgetary treatment disguises the extent of Federal participation in U.S. credit markets.

The first three items above are discussed in detail in the following pages. The fourth item, including the unfunded pension liability in budget data, is discussed in the section entitled "Retirement Systems."

Q. PPSS recommended that all spending activities be included in the Federal budget, creating a unified budget. No doubt this is good practice if only for truth in spending. But how will unifying the budget reduce spending?

A. The primary benefit of having a so-called "unified" budget -- including all Federal taxes and spending -- is that it helps ensure Federal expenditures truly reflect priorities and that there is a means to assess and control the overall level of Government spending. Programs that are omitted from the budget are inevitably less scrutinized, even though they receive Federal funds and/or rely on Federal credit as much as on-budget programs. As a result, spending in these areas is not as responsive to Federal policies and priorities.

Offsetting Collections

Offsetting collections are the funds the Federal Government receives from the public as a result of transactions that are of a business nature, such as the sale of Government property and products, loan repayments, rents, and royalties for the use of Federal land. Excluding these receipts in FY 1984, Government expenditures would be $330.5 billion higher than currently reported. This represents an increase of 39% on reported Government expenditures.

For budget purposes, the Federal Government treats these payments differently than the funds it raises from the public through taxes. The latter are called "governmental receipts," and they constitute the revenue side of the official Government budget (Receipts - Outlays = Deficit). By contrast, offsetting collections are not shown in the budget as revenues. Rather, they are "netted" against the collecting department's expenditures.

The "netting" of offsetting collections against reported expenditures occurs in agencies and functions throughout the Federal Government. To show the impact of this approach, here's how the

Government went from total spending (i.e., total obligations) to net spending (i.e., outlays) in 1982 at the Export-Import Bank:

Export-Import Bank
Obligations to Outlays - 1982
($ Millions)

		Fiscal 1982
(1)	Total Obligations (Total Spending)	$5,054
(2)	Less Offsetting Collections	(3,108)
(3)	Net Obligations (Net Spending)	$1,946
(4)	Timing Adjustments	(773)
(5)	Outlays (Official Budget)	$1,173

As shown, offsetting collections reduce expenditures for the Export-Import Bank by $3.1 billion. Stated another way, after accounting for timing adjustments, outlays represented only 23% of what the Export-Import Bank actually spent in 1982.

Q. PPSS recommended that offsetting collections be included in both the revenue and outlay totals in the budget. While this will present a clearer picture of program/agency spending, there do not seem to be any tangible benefits. How will this save the Government money?

A. There are no quantified savings from changing the accounting treatment of collections. Treating collections as revenues rather than as offsets to expenditures would have no impact on the budget deficit, since the effect would be to increase both reported budget revenues and reported budget expenditures by the same amount. What would change are both the level of scrutiny given to programs that are large in "gross" terms but small on a "net" basis, and the perception of how Government allocates its funds.

Changing the accounting treatment to show budget expenditures before offsetting collections would also facilitate the spotting of real trends in expenditures, not affected year-to-year by movements in collections.

Q. Why is looking at "gross" rather than "net" program expenditures helpful?

- Netting not only presents an incomplete picture, but leads to a misjudgment of the economic impact and risks related to individual activities. The PPSS recommendation applies the same approach as in the private sector where evaluations of companies take into consideration the components that lead to the bottom line.

Off-Budget Federal Entities

Off-budget Federal entities are Federally owned and controlled, but their transactions are excluded from the Federal budget by law. Therefore, their spending and subsequent deficits are not reflected in either budget expenditures or the budget deficit regardless of their current or long-range impacts. In addition, appropriation requests for their programs are not included in the budget and their expenditures are not subject to the targets set by the Congressional budget resolutions. However, if these entities operate at a deficit, their shortfall is covered by the U.S. Treasury (through the Federal Financing Bank), which borrows the money from the public -- thus increasing the national debt. In short, having these entities off-budget misleads the public as to the true magnitude of the Federal Government's spending as well as permitting these entities to escape the normal scrutiny and control of Congress.

Until 1971, the Federal Government used the unified budget concept as the foundation for its budgetary analysis and presentation. The first departure from the unified budget concept occurred in August 1971, when the Export-Import Bank was excluded by statute from the budget. Further departures followed in the next few years as the Postal Service Fund, the Rural Telephone Bank, and the Rural Electrification and Telephone Revolving Funds were removed from the budget. Furthermore, from their inception, the Federal Financing Bank (FFB), the U.S. Railway Association, the Pension Benefit Guaranty Corporation, and the Synthetic Fuels Corporation, were established as off-budget Federal entities. In FY 1984, off-budget Federal entities account for $68.4 billion in additional expenditures.

Following are the off-budget Federal entities and increases in their obligations from 1974 to 1982.

[Table on following page]

Gross Obligations of Off-Budget Federal Entities
($ Millions)

		(1)	(2)	(3)	(4)
		1974	*Ranked* 1982	As a % of Total in 1982	1982 as Multiple of 1974
(1)	Federal Financing Bank	$ 603	$44,843	61.1%	74.4X
(2)	Postal Service Fund	11,610	23,152	31.6	2.0
(3)	Strategic Petroleum Reserve Account	-	3,677	5.0	ND
(4)	Rural Electrification and Telephone Revolving Fund	758	1,321	1.8	1.7
(5)	Rural Telephone Bank	164	248	0.3	1.5
(6)	Board of Governors of Federal Reserve System	44	60	0.1	1.4
(7)	U.S. Railway Association	-	28	-	ND
(8)	Synthetic Fuels Corporation	-	12	-	ND
(9)	Total	$13,179	$73,341	100.0%	5.6X

Source: Appendix to the Budget of the U.S. Government, FYs 1976 and 1984.

As shown, the FFB and the Postal Service Fund accounted for approximately 93% of the $73.3 billion in off-budget obligations during 1982. Of particular concern is the growth in the FFB's activities from $603 million in 1974 to $44.8 billion in 1982 -- obligations increased 74.4 times in eight years in just this one off-budget agency.

The FFB began operations as an off-budget entity in 1974. At that time, as many as 18 agencies or programs were offering debt securities to the public independently of each other and independently of the Treasury. The FFB was established to centralize and reduce the cost of agency borrowing and to coordinate such borrowing within Federal economic and fiscal policies. All borrowing would be directly by the Treasury, and the money would then be channeled to the individual agencies through FFB.