

ASSOCIATION of GOVERNMENT ACCOUNTANTS

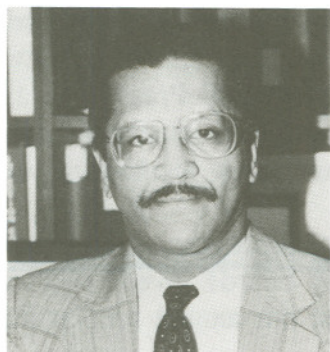
THE WASHINGTON CONNECTION

Washington Chapter • P.O. Box 423 • Washington, D.C. 20044-0423 • (703) 758-4080 • March 1993

WASHINGTON CHAPTER LUNCHEON MEETING

THURSDAY
March 4, 1993

SPEAKER



MARK CHASTANG
EXECUTIVE DIRECTOR
D.C. GENERAL HOSPITAL

Touchdown Club
2000 L Street, N.W.
(Near Farragut West Metro Stop)

Social: 11:30 (Cash Bar)
Luncheon: 12:00 NOON
Menu: London Broil
Cost: \$16.00 (Members)
\$18.00 (Non-Members)

- . Reservations strongly recommended.
- . Call (703) 758-4080 Voice Mail through March 2, 1993
- . Non-Members are welcomed.
- . No-Shows are expected to pay.
- . Walk-ins are welcomed on space available basis.

THE IMPACT OF HEALTH CARE REFORM ON PUBLIC HOSPITALS

Mr. Mark Chastang is currently the Executive Director of D.C. General Hospital. Mr. Chastang is responsible for the overall operations and direction of this 482-bed public, university affiliated, teaching hospital. He is also a lecturer and adjunct faculty member of Howard and Georgetown University Schools of Medicine.

Mr. Chastang joined D.C. General Hospital in 1988 as Associate Executive Director/Chief Operating Officer. While serving in this capacity, he also served on numerous committees and frequently represented the Hospital in matters involving external agencies.

Prior to joining D.C. General Hospital, Mr. Chastang served as Assistant Director of Emory University Hospital in Atlanta, Georgia (1979-1988), and as Executive Director of Mount Bayou Community Hospital & Delta Center (1976-1979).

HEALTH CARE REFORM

The rising cost of health care is one of the most critical issues facing President Clinton in his search to find ways to resolve the Federal deficit. Last year, Federal expenditures for general health increased 25.8 percent to \$89.5 billion and Medicare increased 13.9 percent to \$119 billion. Everyone of us is affected by the rapid increase in health cost. Either for actual treatment or for increasing by higher insurance premium. Health Care Reform will be the topic for the year ahead. Our March Luncheon Speaker offers you a first step in having more understanding of this critical issue. Mark Chastang will speak on the Impact of Health Care Reform on Public Hospitals. Mr. Chastang also will address Council Chair Wilson's suggestion on the closing of D.C. General Hospital.

**FROM WHERE I STAND
BY
Marcus Page
President, Washington Chapter**

I attended the opening session of the Regional Seminar on Accounting and Auditing on February 1st. We had just over 200 registrations and based on early returns, a very successful seminar in terms of educational content and also income to the three Chapters. I want to thank the fifty Washington Chapter members who attended and the people from Washington, Northern Virginia, and Montgomery-Prince Georges Chapters who made it a success. The list of contributors is long so I will mention only the principals: John Balakos (Novaga) Chair, Nancy Fleetwood (D.C.) Accounting Track, Dennis Duquette (Novaga) Auditing Track, Paul Bognaski (M/PG) Onsite Registration and Logistics, Doris Chew (D.C.) Hotel and Keynote Speakers, Maureen Barry (Novaga) Publicity, and Joyce Charles (D.C.) Billing and Accounting.

Our Chapter membership is on the way up again after the summer break. We have just passed 1100 and our social and educational events are producing a steady stream of new applicants. **Brian Lee** arranged another after-work get together at the National Press Club at the end of January. There were quite a few new people there. We could have used some more seasoned veterans. Try to make the next one or just go out and recruit a new member in your office.

As a result of the financial success of our first two educational programs, the Executive Board has voted to put another \$1000.00 into our college scholarship awards. We have also transferred this activity to the Community Outreach Committee so that our annual scholarships can help make a difference.

AFTER WORK SOCIAL

The AGA Social Activities Committee cordially invites members, prospective members, and their guests to attend a post-Saint Patrick's Day after-work social.

DATE: Thursday, March 18, 1993 TIME: 5:00 PM - 7:30 PM

**PLACE: JW MARRIOTT HOTEL - Garden Terrace Lounge
14th Street between E and F Street
(Nearest Metro Stop - Metro Center - 13th Street Exit)**

COST: Cash Bar and Hor'Duerves (available at nominal charge).

For further information, contact Brian Lee at (202) 622-1450 or Karl Boettcher at (202) 874-8792.

GOVERNMENT ACCOUNTING IN JAPAN

By

Spencer Sakai and Kathleen M.P. Byrne

Despite Japan's high level of activity in financial markets and that country's position as the most important bilateral economic relationship of the U.S. government, comparatively little attention has been paid to Japanese accounting practices, in either the public or private sectors. This article provides a brief introduction to government accounting practices in Japan.

The Department of the Treasury and the Ministry of Finance (Okura Sho) have a unique and close relationship. Both agencies play important roles in their countries' financial communities, with the Ministry of Finance exerting an even higher profile than Treasury. The two agencies interact closely on matters concerning international macroeconomic coordination as well as on bilateral issues, in a variety of fora, including the G-7, the U.S.-Japan Structural Impediments Initiative, and the U.S.-Japan Working Group on Financial Markets. (The latter two fora have addressed selected issues in private sector accounting and disclosure.)

The Department of the Treasury, with the Office of Management and Budget (OMB), together constitute the full complement to the Ministry of Finance for the Ministry's mandate includes much of the work carried out by OMB. Although the Ministry of Finance dominates economic and financial policy-making in Japan, Treasury's responsibility for government accounting is more extensive than the Ministry's, which does not play as crucial a role in formulating and implementing government accounting policy.

Under the Japanese Constitution, there are four major laws underpinning government financial management: the Financial Management Code (which contains the financial management system's core requirements), the Revenue Code, the Code of Local Government, and the Code of the Board of Audit. Although the Ministry of Finance bears overall responsibility for overseeing financial management functions of the Japanese government, it is actually empowered to enforce only the first two of the codes listed above. The Ministry of Home Affairs administers the Code of Local Government, and the Board of Audit (Kaikei Kensain), the Code of the Board of Audit. The legal foundation of U.S. government financial management is principally U.S. Code Title 12, 31 as well as the laws of various states. (State code is often incorporated in the U.S. Code.)

The Board of Audit, akin to the General Accounting Office (GAO) but considered less autonomous, examines

and audits the financial records and reports of the Japanese government. The Board of Audit, and its executive arms, the Audit Commission (Kensakan Kaigi) and the General Executive Bureau (Jimu Sokyoku), are independent entities from the Ministry of Finance, and report directly to the Prime Minister's Cabinet (Naikaku). The Cabinet nominates each of the Board's seven auditors, and these nominations must be approved by the Diet. The seven auditors nominate one among them to be their head. The Cabinet appoints the head, an appointment which essentially ratifies the Board's nomination. An auditor is nominated for a seven year term, and may be re-appointed only once. Thus, the maximum period an auditor may serve on the Board is fourteen years. The head of the Board is usually a second-term auditor, or at least in the latter part of his career.

In the U.S., the selection of the Comptroller General is based upon the recommendation of the President, and subsequent confirmation by the Congress. The Comptroller General's appointment is for fifteen years. Note that whereas the Board of Audit reports to the executive branch of Japan's government, the GAO reports to Congress where the law requires, and may also conduct an audit for the President and his Cabinet. GAO also works closely with the Inspector General (IG) - the internal audit organization for the executive branch. (The Congress may also ask the IG to conduct an audit.)

Although Japanese ministries and other government institutions do not appoint a Chief Financial Officer (CFO), the distinction from U.S. practice appears to be in name and rank only and should not be misconstrued. Certainly it is true that each minister is responsible for pursuing the mandate of his or her ministry, as well as overseeing the internal financial affairs of that ministry. This ultimate responsibility also rests with the heads of U.S. government agencies. But each ministry has a division responsible for internal financial management headed by a director, whose day-to-day function is comparable to that of a CFO. The difference appears to be the CFO's greater visibility and prestige as a member of senior management, versus a division director, of which there are many within a given ministry in Japan.

With respect to reporting requirements, the ministries and other bodies of the Japanese government do not issue separate, audited financial statements, and do not operate under a performance measurement system. Rather, the Prime Minister issues an annual report for the government as a whole to his Cabinet and the public. This contrasts with U.S. government practice, whereby some

Japan (Continued)

Japan (Continued)

government agencies issue monthly and quarterly financial statements, as well as annual audited financial statements. Japan's private sector also reflects a bias towards less frequent disclosure than in the U.S. (Japanese commercial banks, for example, issue financial statements only twice annually, usually not in consolidated form, compared

with the quarterly statements and strict rules for consolidation of information required of U.S. commercial banks.) Such relatively infrequent reporting perhaps reflects the longer term view embodied in Japan's economic and financial planning, whereas U.S. government and business interests tend to stress the short term when reviewing results and profits.

While the requirement for a single annual financial statement for the entire government might constitute a federal accountant's worst nightmare in the U.S., this practice in Japan reflects the pervasive uniformity and integration of the Japanese government's financial management system. U.S. government accounting practice accepts multiple systems within individual agencies (the Department of Treasury uses several major financial management systems, for example), integrating systems via core accounting requirements and the use of a standard general ledger.

Within the Japanese government, the extent of integration actually renders the concept of inter-agency transfers of goods or services almost meaningless to a government accountant in Japan. Exchanges of goods and services between ministries would be accounted for and executed through a general account of the Japanese government. When questioned, government accountants in Japan assert that there are very few, if any, cases in which government ministries make exchanges of goods and services between themselves. This conviction illustrates the overriding characteristics of integration and control in Japanese government accounting. Transactions between U.S. government agencies are recognized as such, and are reported by making adjustments to an agency's general account. Payments are made using an electronic transfer system called GOALS, as well as through a manual system of written forms.

The accounting method primarily used by the Japanese government is the cash method. However, the accrual method is used for special "corporate-type" business, such as for the Bureau of Engraving and Printing and the Bureau of Alcohol and Tobacco. The Japanese government uses a standard ledger, as in the U.S., but uses special accounts for public debt and goods and materials management. In those accounts, the cash-based

method is used to record the flow of funds between the general and special account, with disbursement made by check. The Japanese government also uses encumbrance and proprietary accounting, similar to U.S. practice.

With respect to overall choices for disbursement of payments, the Japanese government uses cash, check, and electronic funds transfer (through the central bank, the Bank of Japan). Although detailed data on the frequency of use of each method is not available, the basic method appears to be by check. Electronic funds transfer is also used, but very seldom does the government make direct payments in cash. In the U.S. about one-half of all payments are made by electronic funds transfer (Automated Clearing House system of the Federal Reserve) and the other half by check. While the use of checks has declined markedly and the electronic funds transfer method is being used more and more, the U.S. government still wrote about 430 million checks in 1992.

To conclude, uniformity and integration clearly define the accounting system of the Japanese government. Within the U.S. government, the Chief Financial Officers Act will mandate integration of government accounting practice, and the Department of the Treasury has begun to implement regulations in a supportive environment of full disclosure and accounting for performance. An effort is underway to encourage U.S. government agencies to choose "off-the-shelf" systems which have been certified by the General Services Administration (GSA), in order to streamline U.S. government accounting practices. The manifestations of Japanese-style integration and uniformity would be unacceptable to the U.S. financial community, in either the public or private sectors: greatly diminished levels of disclosure, coupled with an inability to measure or compare financial performance across government ministries. In any case, both the U.S. and Japanese financial management systems are highly complex, and merit continued study.

TRAINING COURSE

The AGA Washington DC Chapter and the Small Business Administration are jointly sponsoring a 10-week Basic Training In Accounting and Small Business Management.

The course is scheduled for April 21, 1993 through June 23, 1993 at the ICF International Auditorium, Fairfax, Virginia. For registration and further information, please contact Mr. Henry N. James at (202) 663-2003.

**Donald Kirkendall
Treasury IG Retires**

Don Kirkendall, a Past National President of AGA, has retired after 34 years of government service. Don served in four different federal agencies including his appointment as Treasury's first statutory IG in 1989. Kirkendall, a recognized expert in accounting and auditing, created the Federal Inspector General Audit Training Institute during his tenure as Chairman of the audit training committee of the President's Council for Integrity and Efficiency. The institute serves over 5,000 IG auditors in 61 organizations. He also served on the Professional Practices Committee of the Institute of Internal Auditors, the only organization serving internal auditors worldwide. Mr. Kirkendall has just established a firm called DK ASSOCIATES/ MANAGEMENT CONSULTANTS. The firm's motto, "Our goal is to help you meet yours", reflects his life long work ethic and service orientation. Kirkendall says that to be a small firm is to be flexible. "We offer exceptional experience with quality and end result guarantees at prices made possible by low overhead".

**Clyde McShan Nominated as
National President Elect**

The National Nominating Committee has selected Clyde McShan as their nominee for National President Elect for 1993-1994. Mr. McShan was recently selected by the Department of Commerce to be Deputy Chief Financial Officer. Prior to that selection, he was Director of the U.S.D.A. National Finance Center in New Orleans. Mr. McShan has been an active member of AGA since 1969. He has also received AGA's Elmer Staats Award at this year's Federal Leadership Conference, the Frank Greathouse Distinguished Leadership Award in 1987, the National Author's Award in 1982, and the Chapter Service Award in 1977.

**Susan S.K. Lee Nominated as
Capital Region Vice President**

The National Nominating Committee has also selected Susan S.K. Lee as Capital Region Vice President. Susan is currently employed by the Federal Aviation Administration as a Systems Accountant. She previously served as Budget Officer and earlier as Accounting Officer for the National Archives and Records Administration. She has also held several positions in the Treasury Department's Financial Management Service.

Susan has been a major contributor to the Washington Chapter and the National AGA. She served our Chapter as President in 1984-1985, and has given a great deal of service in many positions on committees and the Chapter Executive Board. She has just completed service as National Treasurer of AGA and has served on the National Board of Directors. Susan has received many awards for her service to AGA, including National's Best Newsletter Award and an Outstanding Service to the Chapter Award.

**ANNOUNCEMENT OF \$1,000 SCHOLARSHIP
FOR MEMBER OF THE AGA WASHINGTON
CHAPTER**

The Student Awards Committee of the AGA Washington Chapter is pleased to announce the awarding of a \$1,000 scholarship to a current Chapter member.

Scholarship must be used for one of the following:

1. graduate or undergraduate programs in accounting and finance; or
2. professional certification review course (CPA, CIA, CFE, etc.)

Application should include the following documents:

- one copy of academic transcript(s) for college work;
- one letter of recommendation from current employer or faculty advisor; and
- one essay addressing the following two items:
 - financial need for scholarship; and
 - career goals in government financial management.

Essay must be typed, double-spaced, and no more than 350 words.

Applications should be sent to:

Association of Government Accountants
Washington Chapter
Student Awards Committee
P.O. Box 423
Washington, D.C. 20044-0423

**APPLICATIONS MUST BE RECEIVED BY
APRIL 8, 1993**

SUMMARY OF LUNCHEON MEETING

By
Patricia L. Wensel

Our panel for the February 4, 1993 luncheon meeting was composed of former Inspectors General J. Brian Hyland (Department of Labor), Charles L. Dempsey (Housing and Urban Development), and Richard P. Kusserow (Department of Health and Human Services). Their topic was "Friendly counsel to Inspectors General in the new administration." Panel members gave us their historical perspective of the Inspector General Act and offered words of advice for Offices of Inspector General.

Mr. Dempsey shared some of favorable conclusions from the Congressional hearings conducted by Jack Brooks at the end of 10 years after the passage of the IG Act. It is now almost 15 years and, according to Mr. Dempsey, people are not saying kind things about IGs. In his opinion, this is not entirely the fault of IGs. Appointments were political, which hurt the movement. Mr. Dempsey recommended two new books as good readings for financial management professionals: "Monitoring Government - Inspectors General and the Search for Accountability," by Paul Light; and the Prune Book, "Forty Five Toughest Financial Management Jobs in Washington," sponsored by the AICPA and the six largest U.S. accounting firms. Mr. Dempsey advised IGs to go back to the basics and educate new secretaries on the provisions of the IG Act. Explain the rules and responsibilities. Other advice included: (1) Set the example - stay at your desk, do your work, forego perks; (2) Be professional - put egos on the shelf, get training, stay current; (3) Be fair in dealing with program managers, give credit when due, concentrate on prevention in audit reports, not "gathering scalps"; (4) Know the details of the IG Act; (5) Make the Chief Financial Officer successful; and (6) Develop an in-house communication network to keep abreast of what's happening in the IG community.

Mr. Hyland shared his observations on some recent news articles, particularly Paul Light's Washington Post article of January 15, 1993, entitled "Clinton Urged to Fire Some Inspectors General." Mr. Hyland felt that the point that Paul Light was making is that some of the current IGs may have been selected more on political bases than on professional ability. Most of Mr. Light's remarks focused more on how the new administration can use IGs to help change the bureaucracy. Mr. Hyland believes that IG offices contain a lot of institutional memory, particularly as it relates to accounting and financial

management. Therefore, IGs can bring new CFOs up to speed more quickly while reducing the learning curve. The IG organization in many Departments has the most talented and skilled auditors and accountants. It is time for IGs to take the "improve economy and efficiency" and "prevention" part of the IG Act seriously. Mr. Hyland offered the following advice to IGs: (1) Actively monitor any development of a financial or accounting system. Work closely with management and actively support the development or implementation of a new accounting system. This should not affect independence and could have a positive effect on program management; and (2) Improve the system of internal controls and get actively involved in the FMFIA process - provide technical assistance.

Mr. Kusserow discussed the question of IG independence. The question is independent of who? The President? The IG community, as created by Congress, is suspended between the executive and legislative branches. Consequently, the IG way of doing business is different. It is a part of management yet it reports to the Congress. Mr. Kusserow emphasized the importance of obtaining balance and being objective. He offered much the same advice to new IGs as his fellow panel members: (1) IGs must understand the environment in which they work; (2) Reports need to be even, balanced, and fair (tough but fair); (3) Give credit when management is doing something right; (4) Prevail on the merits of your work; (5) Do your homework. Understand the intent of the IG Act. Know the legislative history - read the committee report. (6) Know the professional standards and apply them correctly. Mr. Kusserow also said IGs should know supports them. They should support the CFO Act. He pointed out that there has been lukewarm support of the CFO Act by IGs, and that leadership for the CFO Act by IGs, and that leadership for the CFO Act has come from non-auditor IGs. He further said that IGs will rise and fall on what they do as auditors, not as investigators.

NOTICE - APRIL LUNCHEON MEETING

Due to the 22nd Annual Financial Management Conference sponsored by the JFMIP on April 1, 1993, the April AGA luncheon meeting has been rescheduled to APRIL 8, 1993.

EDITORIAL

At the February meeting, three former Inspectors General called for greater attention to implementing the CFO Act, producing meaningful annual financial statements, and greater IG community investment in financial audits. Not really surprising, except all three came from the investigations side of the IG community and agreed that financial audits should move up on the list of IG priorities. And they are right. One of the keys to Public acceptance that the Federal Government can clean up its act is credible financial information. There are more articles and books written each year about the poor condition of Federal financial data than there are agencies carrying out a committed plan to improve the quality of their financial data. Of course, the number of pages of audit reports dealing with this same condition is beyond our threshold to endure pain. We really need to get back to basics here. The plan government has used in the past - our data is bad, so let's create even more bad data - isn't working any better today than it did twenty five years ago. Maybe, financial managers need to pick a limited number of data elements a year and commit to doing whatever is necessary to make those few elements credible. Then next year, pick a few more and so on year after year. Yes, at that rate, it's slow, but how much better is our data than it was a few years ago. If your financial management office has successfully improved its data quality recently, write to the Editor and share your success with your peers.

**EDWARD STEPNIK NAMED
HONORARY AICPA MEMBER**

Edward W. Stepnick, a certified public accountant from Silver Spring, was recently named an honorary member of the American Institute of Certified Public Accountants (AICPA). The honorary member certificate is given to CPAs who have been members of the AICPA for 40 years.

Mr. Stepnick is a former assistant inspector general for auditing in two major Federal department: Health, Education and Welfare; and Labor. A 1950 graduate of Roosevelt University, Mr. Stepnick has also been a continuing professional education consultant and author, specializing in government accounting and auditing. He has received the governmentwide Joint Financial Management Improvement Award, and his articles in the *Government Accountants Journal* won Authors Awards in 1981 and 1984. Mr. Stepnick has been a Washington Chapter member since 1967.

MEMBERSHIP

**By
Evelyn A. Brown, Director**

The membership year is progressing and membership growth is continuing to rise. The growth is made possible through the cooperative efforts of all of our members.

The renewal notices for membership dues will be mailed out during the 3rd or 4th week of February. All members are encouraged to renew their memberships promptly. This will ensure that our membership rolls are current and up-to-date. Your prompt renewal will also eliminate the additional postage expenses required for follow up billings and the remittance of the local dues to the Washington Chapter for deposit. If you do not receive your renewal invoice, please check with the Membership Coordinator, Thomas Graham at (703) 684-6931. As of December 31, 1992, our chapter has 1,100 members, including 96 new members.

**NEW APPROACH TO FINANCIAL MANAGEMENT
BY A NEW ADMINISTRATION**

AGA is sponsoring a half-day session to address the following questions:

- What direction will the new administration take concerning financial management?
- Who are the new faces, and what do they have to say?
- What role will the CFO's play? and
- Are we moving in the same direction or have we changed course?

Date: April 21, 1993
Time: 8:30 am to 12:30 pm
Place: Hyatt Regency, Capitol Hill
Cost: \$65.00

Reservation:
(703) 758-4080

Mail registration to:

Nancy Fleetwood
AGA Education Committee
P.O. Box 6145
McLean, VA 22106

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FOR 1992/1993**

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