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Fiscal Year 1995 Budget Estimates for the
General Accounting Office



Statement of
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Before the
Subcommittee on Legislative Branch
Committee on Appropriations
United States Senate



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Mr. Chairman and Members of the Subcommittee, I am pleased to be here today to present the fiscal year 1995 appropriation request of the U.S. General Accounting Office.

Fiscal Year 1994 Funding

As you know, GAO is now in the midst of making some of the most significant changes in its operations in decades. We are rethinking many of our processes and policies while enhancing our customer focus, attempting to modernize our technology, and bringing our building up to standard. These changes come against a backdrop of budget reductions that has affected the size of GAO. For example, we have reduced our staffing by over 10 percent and are planning to come down by 12 percent by fiscal year 1996. As you know, the executive branch is not planning to meet the 12 percent goal until fiscal year 1999.

Since the early 1970s, GAO has been roughly the same size. During that 20-year period, we generally had sufficient funding to take on the increasing challenges presented by the burgeoning information needs of the Congress. We were also able, through productivity gains, to cope with a rapidly growing audit universe created by an ever larger and more complex government. Not only has the amount of our work increased during this 20-year period, but the number of agencies we are required to audit has increased as well. For example, legislation was passed requiring us to audit the Federal Reserve and the Internal Revenue Service. We

have also had to expend considerable effort in audits of the Savings and Loan crisis and banking issues.

Beginning in 1992, however, we began to face a contraction in real funding and consequently found it necessary to freeze hiring and cut funding while striving to maintain adequate audit coverage. Because about three-quarters of our budget goes to staff salaries and personnel benefits, the only way to manage the magnitude of these recent budget reductions was to significantly reduce our staff. Thus to manage effectively during this downsizing, we sought and obtained the authority to offer separation incentive payments to staff willing to retire (or separate) from the agency between October 1 and December 31, 1993. Over 400 individuals took advantage of this incentive plan. Consequently, with the imposition of the hiring freeze two years ago and a 40-percent reduction in our non-salary-related accounts, we have thus far been able to continue operating effectively with reduced appropriations, while avoiding either furloughs or a reduction-in-force--disruptive actions that typically result in lower morale, declining productivity, and reduced effectiveness.

As I have said before, we understand the critical financial crisis our nation faces, and we want to do our part in helping the Congress reduce the deficit. I believe our recent actions have dramatically demonstrated our willingness to do so. We are

also committed to managing these reductions so they will not reduce the quality of our work. However, to ensure our continued success, we need funding to cover our mandatory personnel and operating costs, to complete some capital investments that will achieve future savings as well as productivity gains, and to begin filling some critical vacancies.

Fiscal Year 1995 Request

We were authorized 4,800 average positions for fiscal year 1994. As a result of our separation incentive program and pursuant to the Legislative Branch Appropriations Act (P.L. 103-69) our new fiscal year 1994 authorized level is 4,581. We are requesting funding to support 4,581 average positions through fiscal year 1995 in order to stabilize our organization and make necessary adjustments in areas where we have lost key personnel. We are planning to reduce further to 4,500 average positions in fiscal year 1996. As I mentioned earlier, this will result in a 12 percent reduction where we hope to be able to remain as a stable organization for some future time.

Fiscal Year 1993 Highlights

In fiscal year 1993, we continued to assist the Congress with reports, testimony, and recommendations for financial savings and management improvements. We produced 1,305 audit and evaluation

products, including 979 reports to the Congress and agency officials, 136 formal congressional briefings, and 190 pieces of congressional testimonies delivered by 65 GAO executives. We also produced nearly 4,000 legal decisions. In addition, we responded to requests for information on hundreds of important issues confronting the Congress and gathered information and analyzed data on some of the most pressing and controversial matters the Congress had to consider. Some examples are as follows:

- We evaluated DOD's downsizing plans, analyzing the underlying assumptions of force structure decisions and assessing alternative ways to accomplish missions. Our review of the Secretary of Defense's recommendations and selections process for the Base Realignment and Closure Commission identified improvements that could be made in DOD's analytical framework and process, which recommended the closure of 130 bases and the realignment of 45 others with savings projected at roughly \$2 billion annually.
- We helped the Congress consider the issues raised by trade negotiations between the United States and its major trading partners, including Canada, Mexico, the European Community, and Japan. Our report and testimony on the North American Free Trade Agreement (NAFTA) provided Members of Congress with objective and comprehensive

analysis of the treaty's contents. We also provided analyses on NAFTA's potential effects on the economy, the environment, labor, and immigration.

- We revealed serious financial management problems as we performed the government's first financial statement audits of the Internal Revenue Service (IRS), the U.S. Customs Service, and the Federal Guaranteed Student Loan Program, with the result that the cognizant agencies are taking numerous actions to improve the financial reporting and the quality of their underlying financial and program data.
- Our work focused on many of the approaches that have been suggested to curb rising health care costs. Our reports on German health care reform and on cost containment efforts in Hawaii and Rochester, New York, suggested that while universal health care is an achievable goal, it requires changes in the role of government, the structure of the health finance system, and the financial responsibilities of individuals and employers. Implicit in most proposals for cost containment is the move toward managed care; our report on Medicaid managed care showed that strong oversight is needed to ensure equal or improved access.

- We produced a series of reports on the management and structure of the U.S. Department of Agriculture (USDA). We identified problems that, if corrected, could lead to greater efficiency, effectiveness, and cost savings. As a result, USDA is actively pursuing reorganization and streamlining initiatives. In September 1993, the Secretary of Agriculture announced plans to restructure USDA--reducing the number of agencies from 43 to 30 and eliminating at least 1200 field offices--for a savings of about \$2.3 billion over the next 5 years.
- The new IRS commissioner cited our work as providing "...a roadmap for strengthening financial management and accountability at IRS." In fact, IRS has used our management review findings to improve the agency's operations in many areas. For example, it has reorganized its top management structure to improve accountability and communications. It also improved decision-making by setting up a strategic management system and is now assessing accomplishments against its strategic business plan. As a result of this improved focus, IRS is now making progress in reducing errors, improving financial management, and modernizing its computer systems.
- In December 1993, we commented on the recommendations in the National Performance Review's (NPR) September 1993 report, which contained 384 major recommendations covering

27 federal agencies and 14 cross-cutting government systems, such as procurement and budgeting. The NPR report emphasized many of the basic themes that we have stressed for years, including the need to strengthen management within agencies and to focus on results.

- We also issued two important series of reports--a transition series and a "high-risk" series. The 28 transition reports summarized the results of GAO's work on key issues and agencies during the past four years. These reports focused on important management, operational, and policy issues facing the new Congress, the President, and the agency heads and included recommended actions. The 17 reports in the high-risk series covered specific areas or programs considered to be especially vulnerable to waste, fraud, abuse, and mismanagement, such as the Bank Insurance Fund, guaranteed student loans, Medicare claims, and defense contract pricing. Another high-risk area, the loan programs for the Farmers Home Administration (FMHA), has revealed that roughly 70 percent of FMHA's \$20 billion direct loan portfolio is delinquent. These reports focused on the causes of problems, the progress made in correcting them, and the actions required of the Congress, the administration, and agency officials to ensure more efficient and effective program operations.

The value of our work to taxpayers was also evident during this past year. Hundreds of recommendations made in prior years were implemented leading to improved government and financial benefits to the American people. Notably, during fiscal year 1993 our work contributed to legislative and executive actions that yielded over \$14.5 billion in measurable financial benefits. Some examples are as follows:

- The Congress reduced DOD's fiscal year 1993 funding by \$3 billion to eliminate excess inventory and encourage DOD to improve its inventory management practices.
- The Health Care Financing Administration (HCFA) acted to identify and recover mispayments by the Medicare program that saved nearly \$400 million in Medicare costs.
- A uranium enrichment decontamination and decommissioning fund was established to defray the cost of cleaning up aging uranium enrichment plants, which should reduce taxpayer costs by nearly \$800 million.
- The Congress raised the maximum penalties for violations of work place safety and health regulations and child labor laws. This will result in \$198 million in increased government revenues and should discourage the exploitation of working Americans.

In addition, 190 GAO recommendations adopted in fiscal year 1993 resulted in significant non-monetary contributions to improve government. Some examples are as follows:

- New procedures at the National Institutes of Health were initiated to ensure that government-sponsored research includes women where appropriate. An Office of Research on Women's Health was also created to proactively pursue women's health issues.
- Our analysis of the fiscal and other implications of long-term care insurance contributed to the Congress's enactment of legislation preventing state-run Medicaid programs from establishing long-term-care insurance projects that could increase Medicaid costs.
- Stronger regulation of the financial services industry will help protect investors from securities fraud. For example, the National Association of Securities Dealers has improved its ability to detect fraudulent sales practices by establishing formal standards for examining branch offices of penny stock brokers-dealers in all districts.

Quality Management

Our efforts to use the total quality management (TQM) approach to improve operations took a major step forward during fiscal year 1993. Using information from Members of Congress and their staffs, survey results from our own staff, and an analysis of internal GAO data, we have decided to focus TQM efforts on four key areas--improving communication with the Congress on individual jobs, reducing rework of our products, improving internal communications and teamwork, and using technology more creatively to solve our problems.

Three-year goals are being established in each priority area that will better ensure that we continually provide quality products to our customers as efficiently as possible while maintaining a work environment that fosters trust, respect, and teamwork. Although it is too early to assess results, many efforts appear to hold promise for promoting the needed changes in process and management approach to achieve our goals.

This is the third full year of our TQM effort. The experience of companies using these approaches indicates that substantive and lasting changes take place only after five or six years. Our leadership is committed fully to providing sustained support until fundamental changes are realized and take hold.

Regional and Field Location Closures and Consolidations

The Senate report accompanying the Legislative Branch Appropriations Bill for fiscal year 1994 directed us to examine the need for our regional offices and suboffices and report by December 15, 1993. In April 1993, a steering committee was established to study our current field alignment. Its task was to review our field structure and determine its compatibility with mission needs and audit approaches in a changing technological environment and to identify possible efficiencies. Based on the information developed by this steering committee, we have decided to close or consolidate the following locations:

- The Philadelphia and Albany offices will close by mid-1994 and Indianapolis will close at the end of 1994.
- The San Antonio, Oklahoma City, Albuquerque offices, and the Far East Office will close by mid-1995.
- The Cincinnati office will close by mid-1996, with its Dayton suboffice remaining open and likely to grow somewhat to meet accounting, information management, and defense workload needs.
- New York and Boston Regional Offices will consolidate into a single Northeast Region, effective this summer (1994).

Upon completion of these actions, we will have closed 20 of the 40 field locations we had in the early 1980s. This will complete our efforts to update and streamline our field structure so that GAO will be able to effectively and efficiently provide necessary audit coverage into the foreseeable future.

In determining the closure dates, we considered such factors as budget constraints, the time required to complete and/or transfer critical work, and the ease with which audit coverage can be provided from another location, taking into account the time required to transfer and/or build any critical expertise or capability in an alternate location.

The Assistant Comptroller General for Operations (ACG/OPS) will be managing the closure process and ensure that the closures take place as smooth and orderly as possible, while seeking to minimize hardships on the staff. The ACG/OPS will also be providing guidance and information to affected staff on relocation and other options and benefits available.

Asbestos Abatement and Renovation Program

Although funding reductions have affected the progress of the asbestos abatement project, we will continue our efforts to remove the asbestos to ensure the safety and well-being of our employees and to provide for advances in office technology. As the asbestos is removed, such space renovation and modernization

activities will proceed as upgrading the building mechanical support systems, upgrading the electrical system to accommodate the new technology, and installing an automated fire sprinkler system. The modernization of the GAO Building is being undertaken to create a safer and more productive work environment for our staff. Renovations of the existing architectural layout will allow GAO to effectively link people and technology and provide a generic approach to internal space, which will allow for future work group changes with fewer building alterations. As I stated earlier, the renovation and modernization of the GAO Building is critical, in that, as work is completed, we will be able to move selected audit functions that are currently housed in leased space back into the main building and avoid the costly rental fees. Also, at some point the construction industry will rebound, and it is important for us to be able to move ahead as quickly as possible to avoid resulting price increases.

Information Resources Technology

With the continued support of the Congress, we moved ahead with the development of our network resources in fiscal year 1993, but at a slower pace than previously scheduled because of funding restrictions. We brought our pilot computer network to maturity during fiscal year 1993. We stabilized our operations, developed a prototype network using a graphical user interface, designed and tested a mission-critical application for data collection and analysis, and re-engineered key work processes to make maximum

use of the technology. In addition, we developed preliminary estimates of expected user benefits from the application and designed and delivered training both for the network and the application. As requested by the Congress, we will issue the final report on the benefits of the network pilot in fiscal year 1994. Thus far, the analysis demonstrates substantial benefits to our operations.

In this development effort, we are not simply automating our existing audit practices. Rather, by integrating our technology development with our TQM initiative, we are examining our mission processes and re-engineering them, as appropriate, to take full advantage of technology's potential impact on our work processes. Our goal is to establish a computer network capability within GAO to enhance communication and improve the accessibility of information, thereby improving both the timeliness and the quality of our work. With our current staffing situation, this technology is critical to our mission.

Conclusion

In conclusion, I want to thank you, Mr. Chairman and the Members of this Subcommittee, for your past support of GAO. I urge your continued support as we strive to become more efficient and effective in meeting the needs of the Congress and helping you save money for the American taxpayer.