

GAO

Testimony

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Fiscal Year 1994 Budget Estimates for the
General Accounting Office

Statement of
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Before the
Subcommittee on Legislative
Committee on Appropriations
U.S. House of Representatives



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Mr. Chairman and members of the Subcommittee, I am pleased to be here today to present the fiscal year 1994 appropriation request of the U.S. General Accounting Office.

Fiscal Year 1993 Funding

The fiscal year 1993 funding level is challenging GAO to do more with less. Although budgets have been tight over the past several years, GAO has been supported by the Congress with the funding needed to perform our mission and continue to modernize our operations. But in fiscal year 1993 funding was reduced by \$7 million below the level appropriated for fiscal year 1992. In addition, we lost another \$5 million in rent collections resulting from the Bureau of Labor Statistics vacating space in our building, and we are required to reduce our staff by 162 average positions. This will be the lowest staff authorization in 10 years. These budget reductions have required us to substantially cut back or slow down our travel, training, and acquisition of modern technology.

Absorbing these reductions, along with nearly \$31 million in increased mandatory pay and related costs and inflation, is being accomplished through attrition and a strict hiring freeze as well as many reductions in services. In effect through most of calendar year 1992, the hiring freeze, if continued, will have a longer term effect on our ability to attract high quality college graduates. Many years were needed to build our highly successful

recruiting program, which has now been suspended. As a result of this program, in the last 3 fiscal years over 73 percent of our new evaluators have graduate degrees and over 70 percent of these had a 3.5 or higher grade point average on a 4.0 scale. In the longer term, we will be increasingly challenged to provide the vitality that comes from attracting, motivating, and retaining new staff, who can bring a fresh way of looking at old problems.

We began this year with more staff on board than we expect to have by next October 1. Attrition continues to be half or less of normal levels. This, coupled with mandatory pay and related costs plus inflation, has resulted in a 25 percent funding reduction in travel and training--both vital to our mission--with no apparent reductions in congressional demand for GAO work. Even with careful management we are concerned about our ability to undertake as many critical assignments as needed. We are equally concerned about being able to complete them in a timely manner.

Carrying the current budget level through fiscal year 1994 will severely challenge us to maintain current service levels. At the same time, we recognize that the Congress is faced with challenges to reduce the size of government and strict budget limitations that could result in further reduced resources for GAO. Therefore, our budget request for fiscal year 1994 presents only what is needed to permit essential travel, essential

contracting for specialized expertise in support of audit and evaluation assignments, continued removal of asbestos from the GAO building, and equipment purchases necessary for the use of professional staff in the performance of their audit work. We hope to be able to work with the committee on developing a well thought out plan to ensure the appropriate level of resources needed to do work for the Congress. By working cooperatively, we can avoid the demoralizing impacts of disruptions in our service to the Congress and a reduction-in-force.

Fiscal Year 1994 Appropriation Request

For fiscal year 1994, we are requesting \$497,585,000. As compared to fiscal year 1992, our 1994 request is about an 11 percent increase, which will enable us to return to the 1992 level of services. The request does not provide for the restoration of any of the 162 average positions cut in fiscal year 1993, but is to cover essential activities and our reduced 4,900 average positions. Fifty-three percent of the increase is actually to fund mandatory pay increases in personnel compensation and benefits and inflation in the price of goods and services at the already reduced fiscal year 1993 levels.

We are requesting that the reductions made in training and permanent personnel moves be restored so that we can put the right people in the right locations with adequate travel

resources and necessary training. We are also requesting the minimum funding required to maintain progress on asbestos abatement and renovation so that we can save money in the future by bringing staff presently located in temporary rental space back into the GAO building. Consistent with Legislative Branch telecommunications initiatives, we need to continue to install modern telecommunications equipment to improve staff communications. Additionally, we need to continue to meet staff needs for microcomputers, and to move ahead with our efforts to test and evaluate assignment-related applications on our pilot computer network. An interconnected system of microcomputers will enhance the ability of our geographically dispersed staff to respond to growing congressional information needs. These expenditures are critical to any modern organization and will play a role in our ability to enhance efficiency and continue to carry out our mission with the current reduced staffing.

I would note that gains in efficiency through investment in modern technology, successful recruitment of talented people over the years, and a heavy investment in training have allowed us to increase our productivity and enhance the quality of our services to the Congress over the last decade.

Fiscal Year 1992 Highlights

In fiscal year 1992, as in prior years, we continued to concentrate on addressing major national issues pending before the Congress. Events are unfolding in the United States and around the world at an unprecedented pace. The worldwide political and economic restructuring has important implications for the future of U.S. competitiveness in international markets and for defense force reduction and realignment. At the same time, problems associated with the budget deficit continue to challenge the nation's ability to provide programs and services in crucial areas such as health care, education, energy, transportation, finance, economic development, and the environment. As the Congress attempts to deal with these and other issues, it increasingly turns to GAO for analysis, information, and support. As a result, in 1992, the magnitude and complexity of our work load continued at record high levels. Since fiscal year 1988 and without any staffing increase, the total number of our reports, testimonies, and fact sheets has increased by 12 percent, new congressional job starts have increased by 25 percent, measurable financial benefits have increased by 54 percent, and recommendations made in our reports and testimonies have increased by 72 percent.

Agency goals during the past year continued to focus on how best to serve the needs of the Congress--making GAO more responsive, producing high quality and timely products and services, and identifying trends that require the commitment of future resources. Significant issues addressed during fiscal year 1992 include the following:

- In the budget area, GAO issued a comprehensive report examining the influence of federal fiscal policy on economic growth and addressing the long-term implications of the Federal budget deficit.
- In the defense area, GAO's reports on Operation Desert Shield/Desert Storm provided the Congress with up-to-date costs and funding requirements as well as efforts related to combat systems effectiveness and force deployment, including evaluation of training preparation and the roles and experiences of military women.
- In the food and agriculture area, GAO sponsored a forum for congressional staff and rural development community representatives to examine the problems affecting rural America, their underlying causes, and policy alternatives for addressing them. In addition, GAO's management review of the U.S. Department of Agriculture (USDA) and subsequent testimonies led to the introduction in both

the House and Senate of legislation to reorganize the department and to the formation of a combined OMB and USDA task force to streamline the department.

- In the financial markets area, GAO's reports on international securities found that the Commodities Futures Trading Commission lacked the legislative authority needed to fully share information and cooperate with foreign regulators and that the Securities and Exchange Commission was not collecting important information on financial activities of U.S. securities firms' unregulated affiliated, broker-dealer holding companies.
- In the health area, GAO reports analyzed options for containing the rapidly escalating cost of health care, improving access to health care for the 35 million Americans who lack any health insurance, and overcoming federal barriers to implementing health care reforms of various states.
- In the financial management area, GAO trained over 1,000 executive branch staff to perform financial audits, published new financial audit methodology for Chief Financial Officer Act audits, and developed software tools for conducting the audits.

The value of our work to the nation continued during this past year as recommendations issued in prior years continued to be implemented. For instance, 1,171 of our recommendations made over the last 5 years were implemented. In addition, we made 1,715 new recommendations in fiscal year 1992 citing specific actions that the Congress and federal agencies could undertake to improve government operations and reduce costs.

Examples of significant government financial benefits resulting from our reports or testimonies follow.

- GAO continued to scrutinize annual Department of Defense funding requests for military operations. As a result of this work, the Appropriations Committees reduced military services' operation and maintenance and air defense initiative budgets by over \$5.5 billion.
- GAO identified weaknesses in the systems, controls, and procedures used by the Air Force to budget for reparable spare parts. Acting on our recommendations, the Senate Appropriations Committee reduced the Air Force's fiscal year 1992 budget by \$73 million.

- The Congress rescinded \$14.7 billion of supplemental funding for Operation Desert Shield/Desert Storm and terminated the Persian Gulf Regional Defense Fund. We had provided the Congress with numerous testimonies, reports, and briefings on DOD's access to the funding.
- GAO continued to target specific improvements in Medicare. Congress adopted our recommendations to extend the secondary payer provisions for Medicare disability beneficiaries resulting in savings of \$891 million to the Medicare program.
- GAO's reports on USDA major computer systems acquisitions and systems capacity management led to savings of \$214 million at the Farmers Home Administration, the Agricultural Stabilization and Conservation Service, and the U.S. Forest Service.
- GAO had provided the Congress with 17 reports and testimonies since March 12, 1987 that addressed the design and construction of 2 new tritium production reactors. In September 1992, the Secretary of Energy announced that this program would be deferred and reactor design efforts would be brought to a prompt and orderly closure. Future savings

resulting from this decision are conservatively estimated at \$3.5 billion, based on the lower cost of the 2 reactor alternatives.

- The Department of Justice collected a \$25 million fine in an out-of-court settlement with Exxon related to the Exxon Valdez oil spill. In preparation of its criminal case against Exxon, the Department's use of GAO's cost figures, developed from extensive records analysis and interviews with officials of the 10 federal agencies involved in spill-related activities, avoided duplication of efforts and was essential to the Department's investigation.

In addition, 192 of our recommendations adopted in fiscal year 1992 resulted in significant, nonmonetary accomplishments that led to substantive improvements in government operations.

Examples are as follows:

- The Department of Defense made several improvements to the 1993 base closure review process, which will affect at least 15 bases, addressing problems noted by GAO with the Cost of Base Realignment Action (COBRA) Model.

- The Department of Veterans Affairs adopted a GAO recommendation to revise medical criteria in its disability rating schedule for which the last comprehensive update had occurred in 1945.
- Based on GAO work, the Congress and Treasury made changes to the Tax-Exempt Bond Program to ensure that housing projects financed with such bonds better serve lower income renters.
- The Secretary of the Treasury simplified 5 federal tax deposit rules in line with GAO recommendations that employers be required to make deposits at specific time intervals and be advised in advance of the deposit dates.
- The Department of Education implemented 10 GAO recommendations to enhance management and strengthen support systems and services.
- The Congress authorized national early intervention and evaluation of tuition guarantee programs to increase the access of low income and potential first generation college students to postsecondary education. We had reported on the success of private programs in these areas at increasing access of poor and minority youth to higher education.

- The Congress took action to encourage states to enact motorcycle safety laws. We had reported that helmet laws reduced fatalities by 20 to 40 percent and substantially reduced costs of care for injured riders.
- The Health Care Financing Administration implemented a GAO recommendation to conduct Medicare cost effectiveness reviews and to determine the extent to which information resources management guidelines apply.

We will require additional funding (1) to devote sufficient resources to work addressing major issues of high congressional and national concern, (2) to continue work on areas where long-standing problems involving billions of dollars are at stake, and (3) to assess the costs and the effectiveness of other federal programs.

Information Resources Technology

We have made good progress in our efforts to pilot a computer network and to develop and test mission-related applications on the network. During fiscal year 1992, we worked closely with the Surveys and Investigations staff of the House Committee on Appropriations throughout this process. We expect to issue a final report on the benefits of the network pilot in fiscal year 1994. Assuming that analysis demonstrates substantial benefits

to GAO's operations, we will request funds to implement an agency-wide network in our fiscal year 1995 appropriations request.

Asbestos Abatement in GAO Building

During the past year, the asbestos abatement and space renovation activities have continued. The renovation of another full floor of the headquarters building will be completed in fiscal year 1994 and asbestos abatement work and renovation will be ongoing on other floors. During this same period, we also will continue to renovate the building's 50-year-old mechanical support systems. Since we took ownership of the GAO building, maintenance and renovation have proceeded at a cost much less than the rent we would have had to pay to the General Services Administration.

Adopting Quality Management Initiatives

We recognize that our future success requires a firm commitment to continuous improvement. We must increasingly ask whether our traditional approaches to managing and performing our work will enable us to meet the challenges of the future with a smaller work force. Our work load is becoming larger and more analytically and technically complex, even as budgets become more

constrained. As a result, we receive far more requests than we have resources to satisfy. Under these conditions, we must continue to seek innovative ways to work more efficiently.

To that end, we have taken steps to institute quality management, a leadership philosophy that sets quality as the primary goal of everyone in an organization and establishes continuous improvement as a way of life. Quality management emphasizes management by fact and offers a comprehensive approach to managing that has helped both public- and private-sector organizations make significant changes in quality, efficiency, and effectiveness. One of the key strengths is that it involves all people in the organization in quality improvement efforts. We believe quality management will allow us to provide much higher levels of service to all of our customers.

In 1992, the first full-year of our quality management initiative, we gathered information on processes that we are using to set priorities for improvement for the next 4 years. We surveyed a sample of congressional staff, including both majority and minority, to elicit views on what we can do to better help Members of Congress and their staffs meet their legislative responsibilities. We also charted our core processes--the way we do our work and report our findings--and found many areas for improvement, including reducing duplication of effort, developing

a common definition of quality, and improving staffing of jobs. In addition, we assessed our system of performance measurement and identified ways to improve it.

Reforms in Policies and Procedures

Mr. Chairman, a number of concerns have been raised during recent legislative appropriations hearings that I would characterize as dealing with the quality and objectivity of our work, and the fairness of certain procedures we have followed in working with the Congress. First let me say that we go to extraordinary lengths to ensure that our products are of the highest quality, and we have always taken great pride in the nonpartisan nature of our work. Some changes made in recent years have begun to pay off. Nonetheless, as we studied congressional concerns, we agreed that we should reexamine certain of our policies and practices, especially as they relate to congressional requests, to see if some additional changes might be needed.

After discussions with the leadership and a number of Members of both houses, we have made what I believe are some very positive changes and are considering several others. I'd like to discuss our current thinking.

- First, we have strongly reinforced to our staff our policy of including minority Members and staff in early discussions of our work plans to ensure that we are considering their interests and priorities.
- We will no longer undertake assignments in which the requester is unwilling to be identified as the source of the request. We will, of course, continue to treat confidentially any assignment for which disclosure would jeopardize the success of the work.
- We are now sending a monthly listing of all new job starts to the House and Senate majority and minority leadership. This is in response to a requirement in the conference report on the fiscal year 1992 legislative appropriations bill. This listing can enable congressional committees and members to become aware of new GAO assignments early on.
- We have also reduced the number of congressional detailees serving unusually long details. Although it is our position that Hill assignments are valuable experience for our staff and that detailees provide a valuable service to the Congress, some of the difficulties involved in providing that service have caused us to reconsider our specific policies regarding

detailees. Some specific proposals for your consideration are (1) providing reimbursement for detailees after a fixed period, (2) requiring that staff members return to GAO for at least 2 years after a detail before being considered for another detail, and (3) limiting the total number of GAO detailees.

Other changes under study include:

- Exercising greater control over decisions about when and how to obtain agency comments on congressionally requested work. We believe many cases now exist in which we could provide the agency an opportunity to comment, enhance the quality of the report, and still satisfy the needs of congressional requesters in a timely manner. Our preference would be to provide agencies with shorter periods of time in which to comment on most reports, while taking steps to ensure that in all cases, we issue our reports promptly.
- Reducing the current 30-day hold period, during which requesters can limit distribution of our final reports to others in Congress. This will permit more timely dissemination of the results of our work to other interested parties, such as other Members of Congress, agency officials, and the public.

Oversight of GAO

Periodic congressional oversight is critical to the effective operation of any agency, and it is particularly important at GAO due to our significant role in serving the Congress. In addition, most professional organizations provide for an external, independent review of their work. Because of the broad scope of our mission, and the diversity, complexity, and sensitivity of many of the issues addressed in our audit and evaluation work, finding a single organization or group of individuals with the high levels of expertise and independence needed to assess the quality of our work is especially difficult. Also, our earlier efforts (in 1988) to have a CPA firm conduct an external quality control review of GAO were met with some congressional concerns that such activities were better left to the congressional committees with responsibilities for overseeing our operations.

In 1992, I established an Audit Advisory Committee to provide advice on our financial operations. The committee is composed of three distinguished individuals from outside of GAO:

- Sheldon Cohen (Chairman) is a CPA and an attorney with Morgan, Lewis & Bockius; former IRS Commissioner and Chief Counsel; and Secretary and Trustee of the National Academy of Public Administration.

- Alan B. Levenson is an attorney and senior partner with Fulbright and Jaworski and a former senior official at the Securities Exchange Commission.
- Katherine D. Ortega is a CPA and an attorney, former Treasurer of the United States, former Commissioner of the Copyright Royalty Tribunal, and former Member of the President's Advisory Committee on Small Minority Business.

The Audit Advisory Committee will independently monitor, review, and report to me on the effectiveness of our (1) financial reporting and auditing processes, (2) internal controls over financial operations, and (3) processes to ensure compliance with laws and regulations that could significantly impact our operations.

Our internal quality review program--the Post Assignment Quality Review System--continues to operate agencywide to ensure that audit and evaluation activities are conducted with the highest degree of professionalism and conform to all applicable quality standards. We also have a Quality Control Review Board, consisting of 4 distinguished individuals from outside of GAO, to provide perspectives and advice on the effectiveness of this quality assessment program. The Board members are:

- Elliot L. Richardson (chairman), attorney; formerly Attorney General, and Secretary of the Departments of Commerce, Defense, and Health, Education, and Welfare.
- John C. Burton, Columbia University Professor, CPA; formerly Chief Accountant of the Securities and Exchange Commission and Deputy Mayor of New York City.
- David F. Linowes, University of Illinois Professor, CPA; formerly chairman of Commissions on Privacy Protection, Privatization, and Energy Resources.
- John Rhinelander, attorney; formerly Under Secretary of the Department of Housing and Urban Development, General Counsel of the Department of Health, Education, and Welfare, and legal advisor to the State, Navy, and Commerce Departments.

We are working with our appropriations, as well as oversight, committees to reach agreement on an acceptable external review structure and process. When agreement is reached, we hope to implement such a program as soon as possible.

The 1992 Transition Reports

In response to the Speaker of the House of Representatives and the Majority Leader of the Senate, we prepared a series of transition reports which pointed out that the state of management in the federal government is not good. Too many principles, structures, and processes that may have worked well years ago no longer allow the government to respond quickly and effectively to rapidly changing circumstances and events.

We issued a similar set of reports in 1988. We believed then--and we continue to believe today--that the breadth of our oversight responsibilities and the large body of work that we have performed over the years gives us a special perspective on the problems facing our government. We believe that we have a responsibility to share that perspective with those in Congress and the executive branch who are in a position to deal with the issues we have identified.

This year's series includes 28 reports, 2 more than in 1988, and, as in 1988, involves three levels of analysis and discussion. One level deals with broad policy issues affecting government as a whole and its relationship to the economy. In this category are the reports on the budget deficit and investment. A second level of analysis deals with cross-cutting management issues, including financial management, information management, program

evaluation and the public service, that affect a number of departments and agencies. The third level deals with issues affecting individual departments, agencies and policy areas, such as defense, energy, and the Internal Revenue Service.

In some cases progress has been made since 1988, and some of that progress is remarkable. In other cases, however, the problems have continued to fester and grow worse. In still other cases, new problems have emerged or old problems have taken on a new dimension, even more serious than the ones we highlighted in 1988. It would be naive to think that these problems and issues--some of which have been decades in the making--could be dealt with overnight. If the problems were easy, they would have been solved before now; if the issues were simple, there would be no controversy about how to resolve them. Dealing with these challenges will take the best efforts of everyone.

High Risk Reports

Widespread financial management weaknesses are crippling the ability of our leaders to effectively run the federal government. Reducing the federal deficit requires monumentally difficult decisions. If our government is to make these decisions in an informed manner, it must have better financial information.

When we started our high-risk program in November 1989 to examine 17 programs involving tens of billions of dollars that are particularly vulnerable to fraud, waste, abuse, and mismanagement, we reported that the government's efforts to strengthen its programs and implement the Federal Managers' Financial Integrity Act had not produced the results intended by the Congress. Today, as 4 years ago, these high risk areas can trace many of their difficulties to a common source: severe, fundamental weaknesses in financial management. These weaknesses have contributed to such problems as insufficient oversight of hundreds of millions of dollars distributed under the Department of Education's guaranteed student loan programs, the Internal Revenue Service's inability to manage billions of dollars of tax receivables, and the Department of Defense's inadequate control over billions of dollars worth of inventory.

Our focus was on finding the root causes of program vulnerabilities and on directing management attention to these issues. It was evident then, and is much the same today, that

- the government did not have the internal control and accounting systems necessary to effectively operate many of its programs and safeguard its assets;
- many of the weaknesses were long-standing and had resulted in billions of dollars of losses and wasteful spending;

- the public perceived the federal government to be poorly managed, with little or no control over its activities; and
- top-level officials needed to provide leadership if this situation was ever to change.

Progress in changing this situation has been slow. Not only does the federal government do an abysmal job of rudimentary bookkeeping, but it is also far from having the modern financial systems one would expect of a superpower. At present, the federal government runs the world's largest financial operation without reliable information needed for making informed decisions. It annually spends about \$1.5 trillion--almost a quarter of the country's gross national product--using unreliable systems and ineffective controls. In addition, it manages hundreds of programs, many of them individually larger than our nation's biggest publicly owned corporations, without adequate knowledge of their financial condition and the results they achieve.

Most agencies have not created a strategic vision for the future, most lack good systems to collect and use financial and program information to gauge operational success and accountability, and many do not have people with the necessary skills to accomplish their missions. These elements are essential for any organization to succeed, but they usually do not command the

attention of senior political officials coming into government. After all, these elements do not appear to be directly related to the development of an administration's policies and programs and, therefore, do not seem important to achieve its goals and objectives.

Conclusion

Before completing my statement, I would like to point out that we marked another successful year of service to the Congress and the American people in fiscal year 1992. We produced 1,573 audit and evaluation products, including 1,117 reports to the Congress and agency officials, 167 formal congressional briefings, and 289 congressional testimonies delivered by 72 GAO executives. We also produced almost 4,000 legal decisions and opinions. In addition, our work contributed to legislative and executive actions resulting in a record high of more than \$36.2 billion in measurable financial benefits, or \$82 for every dollar appropriated to GAO.

I am pleased that in recent years we have been able to provide the Congress with increasing numbers of products without staffing increases. My goal is to maintain these high productivity levels, even with lower staffing resources, through continued improvements in our training curriculum, acquisition of modern technology, and renovation of our working environments. With

these support systems, we should be able to improve the efficiency and effectiveness of our work force and, thereby, continue to produce high quality products that are essential to the oversight requirements of the Congress as well as lowering the cost of government to the American taxpayer by identifying annually billions of dollars in better uses of limited federal resources.

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. I would be pleased to respond to the committee's questions.