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STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
LEGISLATIVE SUBCOMMITTEE, APPROPRIATIONS COMMITTEE
UNITED STATES SENATE
ON
BUDGET ESTIMATES FOR FISCAL YEAR 1971



APR 8 1970

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

We appreciate the opportunity to appear before you today to discuss the work of the General Accounting Office and our budget estimates for 1971. The justifications we have furnished your Subcommittee provide details concerning our work, our organization, our plans, and our fiscal requirements. We have also furnished the Subcommittee with our 1969 Annual Report which gives details concerning our accomplishments last year. My statement will summarize and highlight our request.

BUDGET ESTIMATES

Our appropriation for 1970 was \$63,000,000

Our revised 1970 estimate includes a request for supplemental funds to meet the cost of the following cost increases which were not included in the 1970 appropriation:

Pay increase, effective July 13, 1969	5,011,000
Increase in contributions to the retirement fund effective January 11, 1970	131,000
Increase in travel per diem allowance approved November 10, 1969.	<u>499,000</u>

Our current 1970 estimate thus totals. \$68,641,000

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Our fiscal year 1971 budget estimate of \$74,750,000 represents an increase above our revised 1970 estimate of \$6,109,000. This increase is made up of the following principal items:

The additional cost of 1970 supplemental items to put them on a full year basis	\$ 596,300
Periodic step increases	808,900
An increase in the average number of professional staff (211) and grade promotions for the professional staff	2,685,800
An increase in technical and supporting staffs (47) and grade promotions for these staffs	476,500
Personnel benefits related to the above items	371,800
An increase in our need for highly technical contract services and intermittent use of consultants equivalent to about 2 man-years	334,000
Increase in required travel related to the increase in professional staff	400,000
The net increase for all other items totals	435,700

Subsequent to the submission of our budget, the Civil Service Commission authorized, effective with the first pay period beginning after June 1, 1970, a further increase in the minimum rates and rate ranges for the top quality graduates that we recruit annually at the GS-7 and GS-9 levels. The minimum rates are increased for a GS-7 from \$8,659 to \$9,934 and for a GS-9 from \$9,942 to \$10,564. These increases in rates are expected to increase our costs by \$27,000 in fiscal year 1970 and \$520,000 in fiscal year 1971. We have not included this increase in our 1971 budget request.

To give you some idea of the effect that pay raises, increased travel, and other costs have had on our appropriation requests within the last 10 years, if our 1971 budget request were computed at 1962 rates for salary, travel, and other expenses, the amount requested would be \$49.0 million, or about 35 percent less than the \$74.8 million we have estimated for fiscal year 1971. During the past 10 years our average total staff level increased only 32 employees--from 4,797 in 1962 to 4,829 requested in our 1971 budget. During the same period, however, our professional staff has increased from an average of 2,044 to 2,980, or 936, which represents an increase of 45 percent.

TRAVEL

Our work plans for 1971 will require travel estimated to cost \$5,545,000, an increase of \$671,000 above our 1970 revised estimate of \$4,874,000. In 1971, \$271,000 is required to place on a full-year basis the increase in travel per diem allowance authorized by P.L. 91-114, which was approved November 10, 1969. This law provided for an increase in the maximum per diem allowance from \$16 to \$25 per day. Our 1971 estimates provide an average per diem allowance of about \$22 per day which we believe is sufficient for our needs. An additional \$400,000 is required for the travel requirements of the additional professional staff. More detail concerning our travel requirements appears in our justification material beginning on page S-1.

GENERAL PERFORMANCE HIGHLIGHTS

It is difficult to translate the effect of GAO activities in terms of improvement of the operations of the Government. Most of the recommendations

which flow from our work cannot be readily reflected in terms of dollar savings. For example, about 20 percent of our professional staff effort is involved in rendering direct assistance to the Congress--none of which is reflected in terms of dollar savings. Moreover, we do not attempt to reflect dollar savings except where these can be readily measured. In brief, we do not undertake to test our effectiveness in terms of our ability to increase our dollar savings from year to year. Rather, our objective is to concern ourselves with indicated problem areas or potential problem areas, irrespective of the amount of savings which we might anticipate would flow directly from our work.

Nevertheless, we feel that it is useful to maintain a record of readily translatable dollar savings resulting from actions taken by Federal agencies through the adoption of recommendations brought to the agencies' attention through GAO audits. For fiscal year 1969 these amounted to \$187.6 million in additional revenues or savings, including:

- . \$20.4 million in refunds and collections.
- . \$65 million, representing one year's value of savings and revenues which we expect will recur in future years, and
- . \$102.2 million in non-recurring savings in planned or current programs.

Approximately \$95 million of the total savings and revenues were achieved through improvement of Government supply management and procurement.

Other indicators of our workload during 1969 were the following:

- . We issued 1,023 reports, including 381 reports to the Congress, committees or members of Congress, and 642 reports to other Government officials.
- . We undertook about 2,000 audits and reviews of selected Government activities and programs throughout the United States and in 45 foreign countries.
- . We audited over 9.5 million freight shipments and passenger movements for which the Government has paid over \$2.5 billion.
- . We collected over \$14 million in transportation overpayments and settled almost 14,000 claims from public carriers against the United States for amounts totaling \$16.3 million, or \$2.5 million less than claimed.
- . We disposed of over 18,690 general claims against the United States for amounts totaling \$70.1 million, adjusted and settled over 9,750 claims by the United States, and collected over \$2.8 million from debtors.
- . We handled about 4,900 decisions and other legal matters, including 794 legislative and legal reports to committees and members of Congress and 45 reports to the Bureau of the Budget.
- . We testified before congressional committees on 24 occasions.

NEED FOR INCREASED STAFF

As previously stated, our budgetary request identifies our need for an average of 260 additional positions in 1971. This provides an increase of

7.6 percent, or 211 positions, in our professional staff. A relatively smaller increase, 2.7 percent or 49 positions, is required for the supporting staff positions. With the total increase of 260 positions requested, an increase of 76 man-years of staff assistance will be provided for direct assistance to the Congress in responding to requests of congressional committees and individual members of Congress and an increase of 140 man-years of staff assistance will be provided for additional coverage of our audit review work in defense activities, including operations in Southeast Asia and expanded domestic programs. The remaining 44 man-years will be required principally for work in the examination of financial statements and settlement of accounts and the administrative support for our increasing workload.

This year we have, for the first time, provided in our budget justification information concerning our staffing requirements by function or program; that is, the average number of positions and financing requirements related to the work we undertake in carrying out each of our statutory responsibilities. We believe this summary will be helpful to the Committee in that it will enable it to relate our staffing requirements to each of these responsibilities for Washington and field and without regard to organizational units responsible for carrying out these responsibilities at the Washington level. However, we are also setting forth our requirements by organizational unit. It will be noted, by reference to pages C-2 through C-18, that we have shown our requirements in seven program categories, viz.,

- . Direct assistance to Congress
- . Reviews of management efficiency and program results

- . Examinations of financial statements and settlement of accounts
- . Legal services and decisions
- . Financial Management Improvement
- . Claims settlement and debt collection
- . Executive direction and administrative support

DIRECT ASSISTANCE TO THE CONGRESS

Our work in response to specific requests from the Congress, from congressional committees, and from individual members of Congress has continued to increase. During the past three fiscal years our staff effort involved in assignments resulting from specific congressional requests and assistance has increased from 238 man-years in 1966 to 470 man-years in 1969, an increase of 232 man-years or nearly 100 percent.

During fiscal year 1970, we have already undertaken over 100 assignments in response to specific congressional requests. Our estimated manpower requirements to respond to such requests total 612 man-years, which includes 522 man-years of professional staff assistance and 90 man-years of technical and supporting staff. As a result of the continuing concern of congressional committees and members of Congress over national defense and other major domestic programs, we anticipate that approximately 589 man-years of professional staff assistance and 99 man-years of technical and supporting staff assistance, or a total of 688 man-years, will be required to meet significant priorities of congressional requests in 1971, principally in defense, education,

and manpower, pollution control, health, income security, transportation, housing, and other urban programs. We have therefore projected a total increase of some 76 man-years for 1971, which increases our level of direct assistance to the Congress to slightly under 700 man-years. We believe this increase reflects an important trend out of a growing recognition by the Congress of GAO's capability to provide effective assistance to the Congress in exercising its legislative oversight responsibility and in the consideration of authorization and appropriation requests by the Federal Government.

As an example, we recently completed an important and complex study of the feasibility of applying cost-accounting standards to negotiated defense contracts of \$100,000 or more as directed under Pub. L. 90-370, approved July 1, 1968. The results of this study were submitted to the Chairmen of the House and Senate Armed Services Committees and the Banking and Currency Committees on January 19, 1970.

Another comprehensive study which we have under way is the Defense Contractors Profit Study. Section 408 of Pub. L. 91-121, approved November 19, 1969, authorized and directed the Comptroller General to conduct a study and review on a selective, representative basis of the profits made by contractors and subcontractors on contracts on which there is no formally advertised competitive bidding. We are required under the law to submit the results of our study and review to the Congress no later than December 31, 1970.

At the request of the Chairman, Senate Committee on Armed Services, we are currently making a review of reports, studies and other available data at Defense and service levels to develop information bearing on the question of whether the various types of air-to-ground missiles, plus TOW and SHILLELAGH, duplicate each other in their intended application, and, if so, whether

standardization was considered, and whether cost/benefit and other analytical studies justified the chosen missile. In making this study we are being assisted by consultants and are working closely with industry representatives and defense officials.

At the request of the Subcommittee on Executive Reorganization of the Senate Committee on Government Operations, we are undertaking a broad review of the Federal role in health facilities construction. Our review will involve the health construction activities of the Departments of Health, Education and Welfare; Defense; Housing and Urban Development; Commerce; the Veterans Administration; and the Small Business Administration. Our review will determine whether economies can be effected through more effective coordination of medical facilities among the departments and agencies, as well as the feasibility of sharing medical facilities by the Government and by outside parties.

During the current fiscal year and fiscal year 1971, we will continue to provide substantial assistance to committees and individual members on U.S. activities in Vietnam and Southeast Asia. At the request of the Senate Committee on Foreign Relations we are undertaking:

- . A study of all aspects of the Calabrian project in Thailand financed largely with loans guaranteed under AID.
- . Study of payments related to Philippine assistance in Vietnam.
- . Follow-up review of the American Institute for Free Labor Development.

We are also undertaking a number of important and comprehensive reviews at the request of the House Committee on Appropriations, including:

- . Review of the management of the civilian health and medical programs of the uniformed services,
- . A review of the need, requirements, and implementation features of ADP systems planned for installation in fiscal year 1970 and future years, and
- . A review of the management of non-appropriated funds in the Department of Defense.

Another very important form of assistance to the Congress, its committees, and individual members, is provided by our legal staff. We provide advisory opinions and comments on proposed and pending legislation, litigation, and other legal matters at the request of congressional committees and members. During fiscal year 1969, for example, nearly 800 advisory opinions and comments on proposed and pending legislation and other legal reports were furnished to committees and members of Congress. Additionally, we handle several hundred informal requests from the staffs of various committees on legal matters involving legislation under consideration.

Our staff also handles over 1,000 inquiries a month from members of Congress, committee staffs, and congressional officials. These inquiries relate to matters under consideration on which our professional assistance, technical advice, or information is sought. These inquiries generally lead to discussions and informal briefings of members and congressional staffs in order that we can be as helpful as possible in their work.

I would also like to mention that we have a very small and competent professional accounting and auditing staff located at the Capitol for the purpose of performing audits, examinations, and reviews of various activities of the House and Senate, including the U.S. Capitol Guide Force, Recording

Studios, Barber Shop, Beauty Shop, Stationery Revolving Fund, and the Architect of the Capitol. This staff provides over several hundred responses to requests for advice during the course of a year and offers recommendations for improvement of financial controls, accounting records, and procedures employed in the operations of the House and Senate.

REVIEWS OF MANAGEMENT EFFICIENCY AND PROGRAM RESULTS

Much of the work we undertake on our own initiative in reviewing management efficiency and program results materially assists the Congress and its committees in maintaining effective legislative oversight of governmental programs and operations. In selecting areas for review, we continually give primary attention to those areas known or considered to be of direct interest to the Congress or which, in our judgment, should be reviewed by the GAO as an independent arm of the Congress. In making these judgments, we give due consideration to the importance of programs and activities, size of expenditures, investment in assets, etc., through our program planning system.

Each year, before the start of appropriation hearings, we submit to the Chairman, House Committee on Appropriations, compilations of selected significant audit findings developed during our reviews of Government programs and activities.

We plan to increase the staff positions by 140 applied to reviews of management efficiency and program results, from 2,155 in 1970 to 2,295 in 1971. About 70 percent of the increase will be used in the review of Defense programs and activities.

At last year's hearings I advised your Committee of our plans to monitor the progress of weapon systems development and production and to report to the

Congress at least annually the most recent information available pertaining to cost growth, variations from original performance specifications, and significant slippages in production schedules. We undertook this effort in response to widespread interest in both houses of Congress and following the introduction of a large number of bills which would have prescribed detailed reporting and auditing by the GAO with respect to defense procurement.

On August 1, 1969, I advised the Chairmen of the House and Senate Armed Services Committees of our plans to assign a large number of our professional staff to this effort, indicating that we would give particular attention to the following:

1. Possible improvements in cost estimates at the time the authorization request is presented to the Congress.
2. Providing greater assistance to the Armed Services and Appropriations Committees in the timeliness and completeness of information on the status of major weapon systems.
3. Reviewing and presenting to the Congress on a selective basis major problems identified which may be of assistance to the Congress in acting on future appropriations and authorizations for major weapon systems.

We indicated our plan "to submit to the Congress at the beginning of the congressional session and at such later points in time as might be useful during the period when authorizations and appropriations are under consideration, status reports on major weapon systems, excluding those systems which are substantially completed." In other words, our intent was to provide information useful to the Congress where decisions still have to be made with

respect to new authorizations or new funding--not only to provide information with respect to costs, performance and schedules, but also to indicate problem areas and questions which we believe the Committees might wish to develop in the course of hearings with the Department of Defense.

An additional objective was to critically review the adequacy of the Defense Department's internal reporting system on the status of major weapon systems and the adequacy of quarterly reports which they now provide to the Armed Services Committees.

Our report submitted February 6 covers a total of 57 weapon systems out of a total of 131 systems which are estimated to cost in excess of \$25 million for research, development, test and evaluation and/or \$100 million for production. Of the 57 systems, we were able to develop for this first report sufficient detail on only 38 to permit an adequate comparison of cost estimates at different points in time. These 38 systems are now estimated to cost about 50 percent more than the original planned estimates. Our report points out that cost growth arises from a number of reasons--price inflation, improvement modifications, starting a system before it has been adequately developed and tested, faulty estimates, and over-optimism.

In future reports we hope to be able to identify the source of cost growth in greater detail. We are already underway on in-depth reviews of the Department of Defense's major acquisitions of aircraft, missiles, boosters, combat and support vehicles, ships, submarines, communications systems, space systems, and significant ammunition items.

We are satisfied, based on this initial report and after discussion with the staff of the Appropriations and Armed Services Committees, that the GAO

should continue to concern itself with this subject and perhaps extend this type of reporting to other major construction and procurement outside the Department of Defense--such as NASA, AEC, and the Department of Transportation--although we have not included any specific provision for such extension in our current budget estimate.

For many years a major part of our audit effort has been devoted to the areas of supply management, including the determination of material requirements, and to the procurement of the material, especially through negotiated contracts. These reviews have resulted in hundreds of millions of dollars in savings and improvements in the management of Defense Department procurement and supply management activities. As in 1970, a significant portion of our audit and review effort will be devoted to these Defense Department activities in 1971.

During the next 12 to 18 months we plan to review the phasedown of U.S. combat operations and related support forces in Vietnam. We have already assigned staff to review the current phasedown increment (code name Keystone Bluejay) under way in Vietnam. There will be formidable problems associated with identifying, transferring, redistributing, or disposing of the substantial quantities of military materiel, in-placed communications and radar equipment, and facilities which no longer will be used by U.S. forces in Vietnam. We intend to keep the Department of Defense apprised on a current basis of any matters of substance which we believe would require their prompt attention in order to promote economies or increased efficiencies in the management of the phasedown program. We also expect to report periodically to the Congress on the effectiveness of the Department of Defense's management of the phasedown program.

Our work plans for 1971, as for 1970, contemplate reviews of management efficiency and program results in all the civil departments and all major independent agencies as well as in many of the smaller agencies. Although our overall increase in reviews of civil domestic programs is only 7 man-years in 1971, we are adjusting the priorities for application of our manpower in a number of important areas. For example, in 1971, we plan to apply increased resources in the Departments of Health, Education, and Welfare; Housing and Urban Development; Labor; and Transportation and to decrease somewhat our efforts in the Veterans Administration and Treasury.

Because of the substantial expenditure of Federal funds and expressed interest of several congressional committees in the water pollution control program, we recently reported to the Congress (B-166506, November 3, 1969) on the results of our review of the construction grant program for abating, controlling and preventing water pollution.

During fiscal years 1957 to 1969, the Federal Water Pollution Control Administration awarded grants to States, municipalities, and intergovernmental agencies of about \$1.2 billion for the construction of more than 9,400 projects having a total estimated cost of about \$5.4 billion. The water pollution control program to date has been administered, for the most part, using a shotgun approach--awarding construction grants on a first-come first-served or readiness-to-proceed basis. We pointed out the need for a more systematic method of allocating funds, particularly in the short run, to increase the benefits to be obtained in terms of the purposes for which the water can be utilized. Accordingly, and in view of (1) the magnitude of the program required for the construction of waste treatment facilities, and (2) the backlog of grant applications for Federal funds, we suggested that

the Congress may want to consider amending the Federal Water Pollution Control Act to provide that priorities for grant awards be established on the basis of the benefits to be realized.

In view of the increasing costs in health program areas, now running to \$14 billion, we are applying considerable resources to reviews of the medicare and medicaid programs. I might mention that we furnished important and extensive assistance to the staff of the Senate Committee on Finance during its study of medicare and medicaid programs. Their report was released on February 9, 1970.

We have over 50 reviews relating to health activities now in progress or to be initiated this year. Our audit emphasis has been and will continue to be directed toward various aspects of the Medicare Program, including cost reimbursements to hospitals and extended care facilities (providers), utilization of medical services, eligibility of providers to participate in the program, reasonableness of physicians' charges and carriers' claims processing activities.

Our reviews of the medical assistance (Medicaid) program will include the eligibility of nursing homes participating in the program, the propriety of rates of payment paid for nursing home care, the functions and responsibilities of fiscal agents assisting the State welfare agencies in administering the medicaid program, the States' systems of control over payments for physicians' services and drugs, and the eligibility of medically indigent persons participating in the medicaid program.

We also have reviews under way for health research, facilities and manpower. Our reviews will involve the health professions educational

improvement program, the management and coordination of computer activities, the National Institutes of Health research functions, the comprehensive health planning and services to States and local agencies, selected Public Health Service hospitals and clinics, the nationwide mental health program for alcoholics, and the operating and regulatory functions of the Consumer Protection and Environmental Health Service, including environmental health activities related to radiological hazards and to air pollution. We also have a number of reviews of health activities in progress in the Veterans Administration and the Department of Defense.

We also intend to give increased attention to community development and housing, education and manpower, and income security. Congressional interest in these important domestic programs warrants an extremely high priority in our work.

One of our principal areas of audit emphasis will be our review of manpower training programs. As an objective, our manpower reviews will cover in considerable depth the effectiveness of the significant programs and activities in most of the geographical areas of the nation.

Of the nine major categories of education activities, we intend to concentrate principally on elementary and secondary education and higher education. We plan to undertake surveys and reviews involving the teacher corps program, library and community services, education of the handicapped, aid to impacted areas and research activities.

During the current year and fiscal year 1971 we plan to apply nearly 750 man-years to surveys and reviews involving health, education and manpower, community development and housing, and income security.

During fiscal years 1970 and 1971, we will continue to direct our resources to making country-wide reviews of foreign assistance programs, United States balance-of-payments position, and United States participation in international organizations. With respect to international organizations, we have started and will continue our review of United States financial participation in the International Labor Organization and plan to start a review of selected aspects of United States participation in international financial institutions.

A major portion of the Government's \$6 billion expenditures for transportation of equipment, material, and personnel continues to be for support of our military forces overseas, particularly those in Southeast Asia, as I previously mentioned. We therefore plan to maintain substantial review effort in this area as well as in other military transportation activities. We plan to expand our reviews of transportation and traffic management practices in the civil departments and agencies, such as the General Services Administration and the Post Office, and matters having multiagency or Government-wide significance, such as consolidation of air freight shipments and costs related to shipments by contractors.

To illustrate our work in the transportation field--in a report to the Congress (B-117196, June 30, 1969), we identified savings of millions of dollars annually that could be achieved if the Government consolidated its small freight shipments. We found that by consolidating small freight shipments to obtain the lower transportation rates applicable on larger shipments, the Government could save about \$3 million a year on shipments from just three consolidation areas to Seattle and San Francisco. The potential savings and benefits Government-wide would be significantly greater. Efforts are now being made to implement the concept between additional shipping points.

EXAMINATION OF FINANCIAL STATEMENTS

AND SETTLEMENT OF ACCOUNTS

Our work involved in the examination of financial statements and settlement of accounts, which are required by various statutes, includes:

- . Centralized audit of transportation payments
- . Annual audits of corporations and other governmental entities,
- . Centralized voucher audits at the military finance centers, including account settlement,
- . Settlement of accounts of accountable officers in civil departments and agencies, and
- . Audits of civilian pay and allowances.

The number of staff positions needed in fiscal year 1971 to carry out these financial-type audit activities will be 1,050, compared to 1,036 in fiscal year 1970. The increase of 14 is primarily for centralized voucher audits at the military finance centers and audit of civilian pay and allowances in view of the expected increases in expenditures.

The Transportation Act of 1940 requires the GAO to postaudit all billings for transportation under standard Government transportation forms. This activity, performed centrally in Washington by our Transportation Division, involves 723 people. While we expect increases in this audit workload in 1971, we are not asking for additional people to perform this function. We are improving our audit procedures through the use of our computer, which, we believe, will also result in increased recoveries of overpayments. In fiscal year 1969, we collected over \$14 million in overpayments.

Mr. Chairman, I have covered the highlights of our major program requirements and operations. Additional details concerning our activities are contained in our budget justification and I will be glad to answer any questions you may have.

This concludes my statement, Mr. Chairman.