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STATEMENT OF  
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
COMMITTEE ON POST OFFICE AND CIVIL SERVICE  
ON  
FUNCTIONS AND ACTIVITIES  
OF THE  
UNITED STATES GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Committee:

We are pleased to be here this morning, at your request, to discuss the functions and activities of the General Accounting Office as they relate to matters within the jurisdiction of this committee. We have enjoyed a good and we believe mutually beneficial relationship with the committee over the years and hope that this relationship will continue.

As you know, the General Accounting Office was created by the Budget and Accounting Act of 1921 as an independent office in the legislative branch of the Government. The Congress gave the GAO extensive authority to render legal opinions, to adjudicate certain types of claims and contract disputes, and to make independent audits and reviews of the executive branch. It intended clearly that the GAO be a non-political, independent arm of the Congress to assure that funds were spent in accordance with law and that programs were carried out as intended by the Congress.

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The GAO charter is broad and may be summarized under five principal headings:

1. Audit and Review--The primary purpose of General Accounting Office audits and reviews is to make independent examinations of the implementation of legislation by the executive branch, including inquiring into such questions as:

- (a) whether the funds and other resources are utilized only for authorized programs and activities and are properly accounted for and reported,
- (b) whether agency resources are managed efficiently and economically, and
- (c) whether programs are achieving the objectives intended by the Congress in enacting the legislation.

In addition, the GAO audits negotiated contracts and audits, centrally, bills and claims for transportation services purchased from commercial sources.

2. Assistance to Congress--The GAO provides direct assistance to the Congress through special reports made at the request of congressional committees and individual members, through informal staff assistance to committees and by assigning staff to the committees. We are often called upon to testify before congressional committees and furnish reports on several hundred bills during each session at the request of committees. We are pleased that we have had the opportunity to be of service to this committee many times in the past.

3. Accounting Principles and Standards--The GAO is required to prescribe principles and standards for accounting in the executive agencies; to cooperate with those agencies in the development and improvement of their accounting and financial management systems; to determine the adequacy of their accounting systems; and to approve them when they meet our requirements.

4. Legal Opinions--Many legal questions arise as to the authority for expenditures of funds. These questions arise in the course of our audit work; some originate in the agencies or in the Congress; or they arise in connection with claims originating outside of the Government. The Comptroller General's decisions are final and conclusive on the executive branch subject only to contrary action by Congress or the Courts.

5. Claims Settlement--The law places final responsibility for settling most claims for and against the Government in the General Accounting Office.

In addition to our basic authorities and responsibilities under the 1921 act and certain other legislation of general applicability, the Post Office Department Financial Control Act of 1950 (39 U.S.C. 2206, et. seq.) placed specific responsibilities upon us with respect to the Post Office Department. These responsibilities related to auditing of the Department's financial transactions and the development and approval of its accounting system, and were generally consistent with similar responsibilities we have with respect to other departments and agencies of the executive branch.

With the enactment of the Postal Reorganization Act which was approved on August 12, 1970 (P.L. 91-375), our relationship with the postal establishment has been significantly altered. In effect, this law negated our prior authorities and responsibilities, both under general legislative provisions and those specifically applicable to the Post Office Department. The general legislative provisions were rendered inapplicable to the new Postal Service by section 410 of the act which provides that, with some exceptions not pertinent here,

" \* \* \* except as otherwise provided in this title or insofar as such laws remain in force as rules or regulations of the Postal Service, no Federal law dealing with public or Federal contracts, property, works, officers, employees, budgets, or funds, including the provisions of chapters 5 and 7 of title 5, shall apply to the exercise of the powers of the Postal Service."

Those legislative provisions which had previously given us specific responsibilities with respect to the Post Office Department were repealed.

Our relationship with the new Postal Service will be based upon two provisions in the Postal Reorganization Act. Section 2002 of that act provides in part that:

" \* \* \* the value of assets and the amount of liabilities transferred to the Postal Service upon the commencement of operations of the Postal Service shall be determined by the Postal Service subject to the approval of the Comptroller General \* \* \*."

This provision places upon us a very specific and important responsibility. The value of assets recorded on the books of the Postal Service will be an important factor in determining the amount of depreciation costs which, in turn, will have an effect on postal rates and fees.

Section 2008 of the act provides, in part, that:

"The accounts and operations of the Postal Service shall be audited by the Comptroller General and reports thereon made to the Congress to the extent and at such times as he may determine."

This provision gives us rather broad authority and responsibility to review not only the financial transactions of the Service but also the entire effort put forth by the Service to fulfill its mission. It also gives us broad discretionary powers to select for review those areas in which we can make a significant contribution.

We will, of course, also continue to give such assistance to the Congress and its committees with respect to the new Postal Service as we may be called upon to provide.

Aside from our work at the Postal Service, which I will discuss in a minute, we do carry out under our general authorities work in a number of areas within the jurisdiction of this committee. These include, among other things, the activities of the Civil Service Commission and the Bureau of the Census, matters relating to civilian personnel employed by the Federal Government and to their utilization, generally, and certain statistical gathering and reporting activities. I have attached to my statement a list of our recent reports to the Congress relating to these areas. We would be happy to discuss these reports or our current work in these areas to the extent you may wish, or as you suggested in your letter dated March 8, discuss them at a later time with the appropriate subcommittee.

*Amount*  With regard to the Postal Service, I would like to briefly describe how we see our role in our audit capacity and the approach we propose to follow in carrying it out. I would also like to mention our recent reports to the Congress on postal operations and activities, which, I believe, illustrate to a degree the types of reports we will be making to the Congress in the future.

As you know, section 2008 of the Postal Reorganization Act, in addition to authorizing our Office to audit the accounts and operations of the Postal Service, contains other provisions relating to audit. Subsection (b) requires that the Postal Service maintain an adequate internal audit of the financial transactions of the Postal Service; subsection (d), in effect, authorizes the Postal Service to obtain audits of its accounts by certified public accounting firms; and finally, subsection (e) requires that beginning with the fiscal year commencing after June 30, 1971, the Postal Service obtain an opinion from an independent certified public accounting firm on any financial statements of the Service used in determining and establishing postal rates.

The authorities and requirements for audit contained in these provisions properly place upon the Postal Service the responsibility for assuring the integrity of its financial transactions and of its statements of financial condition and operations. We will, of course, keep abreast of the manner in which these authorities and responsibilities are implemented by the Postal Service and will work with its internal audit organization and with its outside auditors, to the extent appropriate, and in carrying out our own audit work will give consideration to the adequacy of the audits performed by them.

In addition, in the area of financial auditing, we will continue to audit, on a centralized basis, transportation charges to the Postal Service as we do for the Federal Government generally. This function will be performed on a reimbursable/under agreement between our Office and the Postal Service.

These and other matters concerning our relationship to the Postal Service have been the subject of two exchanges of correspondence which I would be happy to submit for the record.

Beyond the strictly financial audit activities, as I have mentioned, section 2008 of the act gives us broad authority to examine into postal operations and activities generally.

The Service remains a public service institution charged with responsibility to provide reliable and efficient postal service to patrons in all communities. Its operations will continue to have large financial dimensions and to affect virtually all the citizens and enterprizes in the nation. Therefore, Congress retains a strong continuing interest in the Postal Service and has, of course, retained the power to alter, amend, or repeal any or all sections of the act under which the Service is established. Accordingly, we intend to continue with our previous practice of examining selected postal operations and activities and reporting thereon to the Congress.

Our audit coverage of postal activities is planned with two major considerations in mind--the interest of the Congress and the benefit to the Postal Service.

As in the past, to maximize the benefits resulting from our work, we will concentrate our efforts in those areas of postal operations and activities which seem to have the greatest potential for improvement. Various factors influence our judgment in selecting an area for review including indications of congressional interest, the financial significance of the area, and indications of weaknesses in its management.

The types of reviews we make can be categorized as (1) management efficiency reviews--studies of management's utilization of resources, and (2) program reviews--studies dealing with the extent program objectives are being achieved.

Our recent efforts have been concerned primarily with evaluating management systems for assuring the assessment and collection of appropriate revenues for postal services rendered and management's efficiency in utilizing resources.

For example, in a May 1970 report to the Congress, we stated that the Department did not recover the <sup>full</sup> costs of providing address correction service.

In September 1970 we issued a report to the Congress in which we noted the need for better controls over the assessment and collection of postage for second-class mail because certain publishers were charged a postal rate lower than that to which they were entitled.

In an October 1970 report to a member of Congress, which was subsequently released to the public, we stated, among other things, that the Department had exceeded its legal authority in its use of emergency contracts for air taxi service to transport mail; that a number of contracts were awarded without obtaining formal competitive bids; and that questionable contract rate increases were granted because the Department did not have adequate procedures for evaluating rate increases requested by the contractors.

In December 1970, we reported to the Congress that maintenance costs on certain post office equipment could be reduced, without adversely affecting the operation of the equipment, by reducing the frequency of certain routine preventive maintenance and by reducing the time prescribed for performing such maintenance.

Our current reviews concern such matters as whether the Postal Service is:

1. making the best use of its manpower and machines,
2. providing certain publications priority treatment at no additional charge to publishers,

3. adequately planning, testing, and contracting for the installation of an automated system for collecting and processing management data (the postal source data system),
4. using sound methods to collect data to serve as the basis for allocating costs and revenues to the various classes of mail and types of services provided,
5. permitting only eligible nonprofit organizations to mail matter at reduced rates, and
6. following efficient traffic management practices in the transportation of mail.

Our plans for future work call for more emphasis on reviews dealing with the extent the Postal Service is providing patrons with reliable mail service at reasonable rates and fees. We will also be looking at the effectiveness of some recently initiated programs such as the express mail program--a door-to-door service provided by postal employees serving as special messengers; reviewing the use of the mailgram and other systems to reduce the physical volume of mail; and reviewing the value of assets and amount of liabilities transferred to the Postal Service. We will also stay abreast of the Postal Service's capital expenditure program, including its borrowing activities and its investments in postal equipment and facilities.

We will hold periodic discussions with the Postal Service concerning the scope, frequency, and nature of our reviews. In the past we have found such discourse between the staffs to be mutually beneficial.

We will also be glad to discuss with this committee or its subcommittees at any time our audit plans and areas of mutual interest and concern.

This concludes my statement, Mr. Chairman. We will be happy to answer any questions you may have.