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UNITED STATES GENERAL ACCOUNTING OFFICE

Washington, D.C. 20548

For Release on Delivery

Expected at 10:00 a.m.

August 7, 1974

STATEMENT OF

ELMER B. STAATS

COMPTROLLER GENERAL OF THE UNITED STATES

Before The

Subcommittee on Budgeting, Management and Expenditures,

Senate Committee on Government Operations.

Mr. Chairman, and Members of the Subcommittee,

I appreciate this opportunity to appear here in support of S. 3013, a a bill to revise and restate certain functions and duties of the Comptroller General of the United States.

As you know, S.3013 was drafted and submitted by our Office. The bill contains provisions that we consider important in making our operation more efficient and in giving us somewhat more flexibility in carrying out statutory responsibilities assigned us by the Congress. A nearly identical bill, H.R. 12113, was introduced in the House on December 21, 1973, and hearings were held on it on June 5 and 6,

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1974, in the Legislation and Military Operations Subcommittee of the House Committee on Government Operations. Certain modifications were made to the House bill as a result of those Hearings, and the modified bill was reported out of the Subcommittee on June 26, 1974. We have no opposition to these changes.

I would like briefly to discuss each of the eight titles in the bill, and I will note the major substantive changes made in the House version as I go along.

Title I - Statistical Sampling Procedures In The Examination of Vouchers

Public Law 88-521, approved August 30, 1964, gives heads of departments and agencies and the Commissioner of the District of Columbia the authority to allow the use of statistical sampling in the examination of disbursement vouchers for amounts less than $100. The law also provides that certifying and disbursing officers acting in good faith and using such procedures are relieved of liability for improper certification of payment of vouchers that may not have been examined because of the statistical sampling plan used.

Title I would amend subsection (a) of Pub. L. 88-521 so as to eliminate the current $100 limitation on the amount of disbursement vouchers subject to audit by statistical sampling and in its place would impose a limitation of such amount as from time to time is prescribed by the Comptroller General . It also would add a new requirement that the Comptroller General include, in his reviews of accounting systems, an evaluation of the adequacy and effectiveness

of procedures established under authority of the amended Act.

Since the original legislation, enacted in August 1964, the cost of doing business has increased significantly. The Consumer Price Index has risen from 93.0 for August 1964 to 147.1 for June 1974, an increase of 54.1 points.

The result is that a great many disbursement vouchers previously subject to sampling and therefore exempt from 100% audit now must be audited due to increased costs and the $100 limitation imposed by law. Agency savings are diminished because of the increasing number of vouchers (over $100) that must be audited on a 100 % basis. The studies which resulted in this proposed legislation showed that in the early 1960s about 65 percent of all vouchers were under $100. During 1970, the percentage of vouchers under $100 had dropped to 51%. A 1971 survey showed that only 12 agencies were using the sampling procedure. One department (Justice) reported that 95 percent of its vouchers exceeded the $100 limitation. The Executive agencies strongly support raising the limitation. Agencies reporting under the survey estimated annual savings in excess of $1.5 million. By raising the ceiling to $250, the savings would increase by about 35 percent for the 12 agencies currently using the sampling procedure. Additional savings would be achieved as other agencies find it worthwhile to use the sampling procedure under the higher ceiling.

The amended language authorizing the Comptroller General to establish the upper limit for disbursement vouchers that may be

sampled, and to change this limit from time to time as conditions warrant, will avoid the current problem of having a limitation fixed by law that only can be changed by the lengthy process of changing the law.

Nothing in the amending language will permit a department or agency to use statistical sampling indiscriminately up to the limit established by the Comptroller General. Rather, each user will have to demonstrate, by acceptable study, that economies will result up to the limit they propose to use. Thus, we envision that varying limits that are below the maxmum established by the Comptroller General will be used by different agencies.

No changes were made to this Title by the House Subcommittee.

Title II - Audit of Transportation Payments

Section 201, amends section 322 of the Transportation Act of 1940 to continue the requirement, contained in the law since 1940, for payment of carrier bills upon presentation, but makes it clear that the primary responsibility for the audit of transportation bills and the recovery of overcharges is to be removed from the GAO and placed in one or more executive agencies designated by the Director of the Office of Management and Budget. The GAO transportation audit responsibilities and related functions would then conform to the procedures for the audit of Government payments generally.

Section 202 provides for the transfer of the necessary records, property, personnel, appropriations, and funds. It also provides

certain job protection for transferred employees similar to that contained in section 9(h) of Public Law 89-670, which created the Department of Transportation. Specifically, it provides for transfer without reduction in classification or compensation for one year after such transfer.

Section 203 provides a time period within which to accomplish the transfer of functions authorized.

The GAO presently determines the correctness of charges paid for freight and passenger transportation services furnished for the account of the United States. This audit of Government transportation payments includes the functions of recovering overcharges, settling transportation claims both by and for the Government, reviewing, evaluating, and reporting on the transportation activities of Government agencies, and assisting the agencies to improve their effectiveness in these activities.

Ordinarily, agencies that contract for goods and services determine the correctness of charges therefor prior to payment. Because the complexities of determining the correctness of transportation rates and charges underlie delayed payment of carrier's bills, the Transportation Act of 1940 provided for payment prior to determining the correctness of the charges, a determination that was then made in the GAO as part of the detailed, centralized audit of Government expenditures.

We now propose that the entire transportation audit function, including the settlement of claims, be transferred to the Executive

Branch not later than July 1, 1976, with GAO retaining its oversight responsibilities as well as an appellate function enabling carriers to request the Comptroller General to review executive agency action on their claims.

The basic reason for proposing the transfer of this operation is that by its very nature it is primarily an operating function of the Executive Branch. Almost all of the transportation costs of the Government are incurred by Executive Branch agencies in the course of carrying out their operations. This being the case, the responsibility for determining that the charges billed are technically correct belongs to the branch of Government that procures the transportation services. Under the policy established in the Budget and Accounting Procedures Act of 1950 this is true for payments for all other types of services and it should apply to transportation, as well.

The detailed transportation audit function is simply not consistent with the general purposes, objectives, and responsibilities of the GAO as they have been modernized over the past 25 years. Its primary emphasis is now on evaluating the efficiency, economy, and effectiveness of executive agency management performance and on assisting the Congress in its legislative and oversight work. Responsibility for the detailed audit of transportation expenditures should be vested in the Executive Branch, subject to overall review by the GAO. This change would conform this large area of Federal expenditure to the same concept of executive management control subject to GAO post audit that applies to all other categories of expenditures.

The House Subcommittee made several changes to this Title. First, it designated the General Services Administration as the agency to receive the function. Second, because there was some confusion as to precisely what protection would be offered to GAO employees transferred under Title II, amended language was adopted to clarify the protection afforded in the bill. The new language would provide that personnel transferred pursuant to the transfer of this function would not be reduced in classification or compensation for one year after transfer, except for cause. Thereafter they would retain the protection of section 5337, Title 5, United States Code, as if they had continued to be employees of the General Accounting Office. Finally, the House Subcommittee approved language providing for notice of the transfer to be published in the Federal Register, and directing the Comptroller General to consult with the Civil Service Commission in connection with the personnel transfer.

Title III - Audit of Nonappropriated Funds Activities

Section 301(a) would authorize the Comptroller General, unless otherwise provided by law, to review the operations, systems of accounting and internal controls, and any internal or independent audits or reviews of nonappropriated funds and related activities within the Executive Branch. Under this section the Comptroller General and his duly authorized representatives would have access to such documentation relating to these funds and activities as is deemed necessary.

Subsection (b) would require such nonappropriated fund activities to furnish to the Comptroller General an annual report of the opera-

tions of their activity, including annual statements of financial operations, financial conditions and cash flow.

Since 1969, when large-scale improprieties in the administration of the Army Exchange System first were disclosed by the Permanent Subcommittee on Investigations of this Committee, Congress has shown considerable interest in having GAO conduct comprehensive audits of non-appropriated fund activities. We have prepared numerous reports for the House Appropriations Committe, and the House Committee on Banking and Currency. In May 1972, Robert Keller, the Deputy Comptroller General, testified before the House Armed Services Committee on the reports prepared for the House Appropriations Committee. And in the Senate, for the past several sessions, bills have been introduced that contain language nearly identical to the language now contained in Title III.

The authority provided in section 301 would extend generally to instrumentalities that are established and operated under the control of an executive department or agency for the benefit of its personnel, and that are financed from sources other than appropriations. The GAO does not propose to undertake the general responsibility for auditing of non-appropriated fund activities. We believe the primary responsibility should rest with the operating agencies concerned. However, we do believe that we should have the authority to make audits on a highly selected basis in order to test the adequacy of internal audit and other internal controls and to be able to respond to the requests

which we receive from Congress arising from specific complaints or allegations as to misuse of these funds.

There has been some confusion over the types of funds and activities that would be subject to GAO review under this Title, and, as now drafted, the Title possibly could be interpreted to authorize review by he GAO of certain funds and activities that were never intended to be covered by this Title. For example, the language of Title III perhaps is broad enough to encompass the Smithsonian Institution. However, this was not our intent. Title III is only intended to authorize review of those funds and activities that, if they were operated in the private sector, would be profitmaking enterprises. Amended language was included in the House bill that, I believe, clarifies this intent. The House Subcommittee also limited our access to activities with gross receipts from sales of more than $100,000 a year.

Title IV - Employment of Experts and Consultants

Section 401(a) would provide the Comptroller General discretion to employ on a full or part-time basis up to ten experts and to obtain consultant services authorized by 5 U.S.C. 3109, at a rate of compensation not to exceed Level V of the Federal Executive Pay Act.

Subsection (b) would exempt individuals serving under subsection (a) from restrictions upon reemployment of retired Federal employees and simultaneous receipt of compensation and retired pay or annuities.

Except for special authority contained in the Budget Control Act of 1974 (Public Law 93-344) to employ experts in connection with special

program evaluation duties given the Comptroller General by that Act, the GAO presently employs experts and consultants on a temporary or intermittent basis, without prior approval of the Civil Service Commission, under the authority of and subject to the conditions of 5 U.S.C. 3109 and a written agreement with the Commission. Compensation of these experts and consultants is limited to the rate for grade GS-18, and they are subject to most, if not all, of the other limitations enumerated above.

We believe that GAO is unique among Federal agencies in that we are called upon to perform tasks encompassing nearly the entire range of skills needed by the Federal Government. No other agency requires such a diversity of skills. These skills often, however, are required for only the relatively short period of time it may take to complete a particular program review. The present restrictions on the acquisition of experts and consultants thus present very real obstacles for the GAO in its quest for the best available talent to serve the needs of Congress and discharge its increasingly more diverse and complex responsibilities. It is for this reason that provision of the proposed legislation is needed.

The House bill was amended to limit the period of employment of the experts in subsection (a) to not in excess of three years. This would make it possible to retain a consultant over the period of time of major reviews, some of which take up to three years.

Title V - General Accounting Office Building

Section 501 would give the Comptroller General control of the General

Accounting Office Building; provide for the subleting of space therein to other agencies; and authorize the Comptroller General to lease additional space for the use of the General Accounting Office in the District of Columbia and elsewhere. Insofar as the headquarters office is concerned, this would put GAO in a position comparable to the Government Printing Office, the Library of Congress, and the Architect of the Capitol.

The record as to why the General Accounting Office Building was placed under the jurisdiction of the General Services Administration is not entirely clear but we assume that this arose from the fact that when the building was initially authorized the GAO was not designated as an agency of the legislative branch; it was considered by many in the nature of an independent agency somewhat comparable in status to the independent regulatory agencies. Under this assumption, it was logical that GSA should have the responsibility for building and managing space for GAO.

The GAO is now the only agency of the legislative branch whose headquarters space is under the jurisdiction of the GSA. We believe that managing our own building would be consistent with the pattern established for other parts of the legislative branch. Moreover, we believe that we should be completely free of any concern that the objectivity of GAO audits of GSA are affected in any manner by differences of opinion which we may have from time to time as to providing our internal space needs. For example, the implementation of the new Federal Buildings Fund in fiscal year 1975

is already proving to be quite controversial because of the increased charges which are being placed upon agencies, including the GAO.

We believe that our status as an arm of the legislative branch with responsibility for giving the Congress our objective views with respect to programs of the executive branch would be enhanced if we had responsibility for meeting our own space requirements. There would be substantial savings in the GAO's budget and we believe that we have adequate personnel with administrative experience to deal with the management of the GAO Building. Obviously, we would cooperate with the GSA where this would be in the interest of both agencies but the primary responsibility should rest with the GAO.

The House bill was amended to delete the provision authorizing the Comptroller General to lease additional space in the District of Columbia and elsewhere.

Title VI - Audits of Government Corporations

Title VI amends the Government Corporation Control Act, the Federal Deposit Insurance Act, the Federal Crop Insurance Act, and the Housing and Urban Development Act of 1968 to provide for audits of Government corporations at least once in every 3 years. Title VI also removes the requirement for an annual audit from the District of Columbia Redevelopment Act of 1945 and the Federal Home Loan Bank Act.

Presently, Government corporations are required to be audited annually and a report is made by the Comptroller General to the Congress after each audit.

One of the objectives of the 1972 reorganization in our Office was to place us in a better position to handle our total workload. The amendments proposed are another step toward that objective and one which, if enacted, will not dilute congressional oversight of the operations of the corporations covered in this section of the bill.

We are not proposing that audits necessarily be made only every 3 years. On the contrary, in many cases we may continue to audit the corporations annually and the bill is worded in such a way so as to give us that discretion. Thus, in situations where the Comptroller General may find that internal audits and accounting controls are weak or ineffective, he may well decide an annual audit by his Office is necessary. On the other hand, in situations where the Comptroller General finds good accounting, good management, and effective internal audits, it would obviously not be an effective use of his own resources to routinely make audits more often than his judgment as the chief accounting officer of the Government dictates. In this regard, we would of course consider interests of Congress in deciding what activities we would audit in these corporations, and how frequently.

Only technical changes were made to this Title by the House Subcommittee.

Title VII - Revision of Annual Audit Requirements

Title VII deletes the requirement for an annual audit from the Federal Property and Administrative Services Act of 1949, the Housing Acts of 1949 and 1950, the Federal Credit Union Act, and the Acts

concerning the operations of the Bureau of Engraving and Printing, the Veterans Canteen Service, Federal Aviation Administration, the Higher Education Insured Loan Program, and the Government Printing Office. Under this bill the audit of these activities will be in accordance with the provisions of the Accounting and Auditing Act of 1950.

This title--as with title VI--is designed to provide flexibility in carrying out our audit responsibilities. The decision as to the frequency of audit would be determined on an activity-by-activity basis, again, of course taking into account the interests of Congress. Where an annual audit is warranted, it would be performed.

Only technical changes were made to this Title by the House Subcommittee.

Title VIII - Limitation of Time and Claims and Demands

Section 801 of Title VIII decreases from ten to six years after the date a claim accrued the time within which claims cognizable by the GAO may be filed in that Office. This will make the time limitation consistent with the Statute of Limitations now applicable to claims filed in administrative agencies and the courts.

Section 802 provides that the reduction in time allowed for filing claims in the GAO will not go into effect until six months after enactment, and makes it clear that the enactment of the new time will not affect claims filed before such enactment. This is intended to minimize any hardship on potential claimants whose claims may be barred by the new provision by allowing them time to file their claims before the provision takes effect, but after they are put on

notice that it will take effect after six months.

Reduction of the barring statute from 10 to 6 years would have a significant impact on the amount of paperwork required to be stored by the GAO. A recent test over a typical 6-month period analyzed the requests for the GAO records held at the Federal Records Centers. In summary, the statistics gathered by that test indicated that only about 40 records between 6 and 10 years old are required each year for claims purposes. Other records are called for other purposes, but there are duplicate copies of these records available elsewhere. Thus, we can say that all GAO Records between 6 and 10 years old could be destroyed if the statute of limitations were shortened to 6 years. This would result in a savings of at least $300,000 per year, based on the storage cost savings.

The House bill originally did not include this Title, but it was added by the House Subcommittee and modified to extend the period between the time the bill is enacted and the time it goes into effect from six months to one year.

Conclusion

In conclusion, Mr. Chairman, the provisions of this bill, if enacted, would enable us to perform our statutory functions more effectively, and with greater flexibility. The end result would be increased support for the Congress, as well as more effecient operations within the General Accounting Office. We look forward to providing our fullest cooperation in connection with consideration of this legislation.