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STATEMENT OF  
ELMER B. STAATS  
COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
U.S. SENATE COMMITTEE ON APPROPRIATIONS  
ON  
WAYS TO REDUCE GOVERNMENT SPENDING



Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity today to discuss some of GAO's efforts over the last several years to improve the economy, efficiency, and effectiveness of Government. GAO, pursuant to its basic statutes, reviews the operations and activities of almost every agency of the Government. This affords us the opportunity to develop numerous recommendations for savings and improving the way the Government operates.

For the purpose of considering how to reduce expenditures, it is useful to categorize the recommendations we have made for budgetary savings over the past several years as falling into one of two categories: programmatic or administrative. Many of our recommendations have been accepted either by the executive branch or the Congress. For example, over the past four years congressional and agency action taken on GAO recommendations which could be

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quantified saved about \$14.5 billion or about \$20 for each dollar appropriated to the GAO. But many of our recommendations have not been enacted, even though the potential savings are quite substantial. In some cases this is because the recommendations are controversial. Others have not been acted upon simply because agencies have not taken the trouble to consider them as carefully as we think they should.

This is especially true of many of the administrative type savings that could occur. And that is what I would like to focus on today. There is undoubtedly fraud, abuse, and waste in government. And since governmental programs are financed from taxpayers' dollars, it is especially important to take all practical steps to reduce fraud, abuse, and waste in these programs. There are many things the Federal Government could do to improve its internal controls over agency programs, collect debts owed to the Government, and take action on previous audit findings that could result in large savings to the Government. But enactment of all our recommendations in this area would not mean that we would have a balanced budget, but it would reduce the deficit. What such improvements would mean also is that taxpayers would have better assurance that the Government is operating more efficiently and effectively; a goal that should be achieved regardless of the condition of the budget.

#### EXTENT OF FRAUD AND ABUSE IN GOVERNMENT

The average citizen has come to associate and lump together fraud, abuse, and waste in Government as if they were one and the same thing. In practice, there is a vast difference. Fraud involves illegal actions for which criminal statutes apply. Abuse

in governmental programs involves taking advantage of loosely written statutes, poorly written regulations, failure to check out eligibilities to receive governmental assistance, and so on. Waste however, takes on a much different connotation. It may refer to duplication of effort or poor management. However, whether there is waste may depend a great deal upon one's view as to what should be undertaken by Government.

Nobody knows the exact extent of fraud, waste, and abuse in the Federal Government. Suffice it to say: it involves a great deal of money. When you consider the number of Federal programs, the inadequate controls in place in many of these programs, and the size of the annual budget--a large portion of which is disbursed in the form of grants, contracts, and payments to individuals--we can quite correctly make the assumption that opportunities for fraud, waste, and abuse are very great. A few cases will illustrate the kinds of situations GAO has identified.

One case involved an alleged embezzlement of almost \$2 million in medical funds from a health care program administered in the Department of Defense by an employee who was able to falsify more than 3,300 forms over which he exercised exclusive control.

Our present food stamp program is another graphic example. It is vulnerable to a variety of excesses, and the exploitation carries a substantial price tag. In 1977 we reported that the Government was losing over half a billion dollars every year because of overissued food stamp benefits caused by errors, falsifications, suspected fraud by recipients and by errors of local food stamp offices. We made recommendations at that time to the Congress and the Department of Agriculture on procedures

that we felt could alleviate food stamp program abuses. As recently as May 1980 when we looked at the subject again, we noted some improvements but determined that the full range of our recommendations had not been implemented.

In a study completed by the GAO some 18 months ago, we learned that internal control weaknesses over the Social Security Administration's computer system had resulted in over \$25 million in erroneous benefit payments to over 4 million supplemental security income recipients. Administration of this program depended on a highly complex computerized system. The problem was that inaccurate beneficiary data could be entered into the system to compute benefit payment amounts. The agency concurred with all our recommendations and took immediate steps to correct many of the deficiencies mentioned in the report.

Fraud, waste, and abuse affects a wide variety of programs. For example, we recently reported the illegal mining of coal on Federal lands in a number of eastern states. Published estimates of potential losses to the Government--based on the value of the coal--range from \$135 million to over \$1 billion. We have urged the Bureau of Land Management to develop an overall plan to safeguard and manage federal coal in the eastern states. At the moment, no such plan exists.

In addressing the issue of fraud, waste, and abuse in Government, we must recognize the vast change which has taken place in the last 15 to 20 years in the size and nature of governmental programs. This growth is particularly dramatic in entitlement programs. As previously discussed, entitlements are programs which provide legally enforceable benefits to persons or governments who meet eligibility standards.

Entitlement programs now consume approximately 48 percent of the Federal budget. The largest of these programs is social security. Such programs can only be controlled through changes in the basic authorization laws that establish legal entitlements.

During the last several years, we have issued numerous reports recommending changes in income security programs managed by the Social Security Administration. Actions already taken by the Congress and the Executive Branch on the matters discussed in our reports will save about \$2 billion during fiscal years 1982-1985. There would be additional savings of about \$1.3 billion in fiscal year 1982 and about \$4.5 billion in fiscal years 1983-1985 if our recommendations in the income security area were fully implemented.

Legislative changes are needed to implement the recommendations that would result in the greatest savings in the income security area. Some of these recommendations have been considered by the Congress. However, further consideration is warranted as part of congressional efforts to reduce the budget deficit, control inflation, and resolve the serious problems of the Old-Age and Survivors Insurance Trust Fund. Some of our key recommendations which, if implemented, would bring about the greatest savings include:

--Terminating Social Security benefits for postsecondary students effective in the fall of 1981 would result in net savings of about \$1.1 billion during fiscal year 1982 and recurring savings of similar or larger amounts in later years. As an alternative, if student benefits were gradually phased out beginning with fiscal year

1982, the estimated net savings would be \$74 million in fiscal year 1982 and additional savings of about \$2.4 billion during fiscal years 1983-1985.

--Eliminating the minimum Social Security benefit provision for new beneficiaries would result in estimated net savings of \$35 million in fiscal year 1982 and additional savings of \$240 million during fiscal years 1983-1985.

--Requiring States to deposit Social Security taxes semimonthly or biweekly would earn additional interest of about \$49 million in fiscal year 1982 and about \$290 million during fiscal years 1983-1985.

--Calculating Social Security benefits to the nearest penny--or to the nearest dime, as HHS has proposed--would save at least \$8 million in fiscal year 1982 and at least \$181 million during fiscal years 1983-1985.

The table included as attachment I to this statement shows the quantifiable savings that would result from implementing our recommendations.

The fact that reduction or elimination of fraud, waste, and abuse in Government is not an answer to the overall budget deficit problem must not deter us from taking all practical steps to minimize losses due to poor financial controls, fraudulent actions, and loose management processes. Indeed, in the past several years GAO has given special emphasis to examining such problems. I am including as attachment II to our statement a more detailed discussion of this effort.

## INTERNAL CONTROLS IN AGENCY PROGRAMS

We are particularly concerned that agencies often have weak internal control systems that make it easier for fraud, waste, and abuse to occur. Quite simply, internal controls are checks and balances over all activities of an organization--both fiscal and managerial--that are designed to prevent the misuse or abuse of its money or property. Controls needed to prevent fraud, waste, and abuse often are inadequate, nonexistent, or ignored by agency officials. For example, over the last three years we have checked the manner in which cash and receivables are handled at 157 fiscal offices of 11 Federal agencies. At these and other agencies we visited we found a host of problems which make Federal money vulnerable to fraud, waste, and abuse.

We have supported legislation along the lines of the Financial Integrity Act of 1980 (S-3026) and the Federal Managers Accountability Act of 1980 (H.R. 8063) which would require greater accountability by heads of agencies for the effectiveness of their organizations' internal controls. Our experience is that internal control systems require a commitment from top management and constant vigilance to be effective. Passage of legislation similar to that introduced in the 96th Congress would require agency officials to periodically evaluate their controls and report the results to the Congress and the President.

## GAO REVIEWS OF GOVERNMENT DEBT COLLECTIONS

Another serious problem is that agencies have not aggressively tried to collect amounts owed the Government after they have been identified. These amounts arise from a host of Federal activities, including tax assessments, sale of Government services and goods,

overpayments to veterans and annuitants, and various loan programs, such as student and home loans. Moreover, present collection methods are expensive, slow, and relatively ineffective when compared with commercial practices. For example, Federal agencies reported that receivables from the public were \$126 billion at the start of fiscal year 1980, of which \$24 billion was delinquent. It was anticipated that an estimated \$6.3 billion would be uncollectible. Agencies reported that they wrote off as uncollectible receivables of more than \$1 billion in fiscal 1979. Unfortunately, these gloomy statistics are materially understated because the accounting systems of many agencies do not provide accurate information on receivables, expected losses, and writeoffs.

In 1978, we reviewed Government accounts receivable as part of our continuing effort to evaluate the adequacy of agency accounting systems. We made these reviews at 12 agencies which had large accumulations of accounts receivable. We also analyzed the results of numerous GAO reviews of debt collections to develop a broad picture of how Government agencies can do a better job of accounting for these assets and collecting amounts owed.

Our findings have been the subject of several Congressional hearings. Attachment III is the digest of our report.

Our conclusion was that the collection of debts by the Government has been hindered by

- lack of prompt and aggressive collection,
- low or no interest being imposed on delinquent accounts,
- and
- inaccuracies in accounting for and reporting accounts receivable, including inadequate allowances for bad debts.

We have been actively working with the Congress, seeking legislation that will facilitate the Government's ability to collect debts. We supported the proposed Debt Collection Act of 1980 (S.3160) as well as the proposed Debt Collection Practices Improvements Act of 1980 (S.3246). The latter bill has been reintroduced in the current session as S-42.

#### ACTIONS ON AUDIT FINDINGS

Related to the problem of collections is the failure of agencies to act on their own auditors' findings. Based on a review of 34 agencies, we reported in late 1978 that agencies had failed to resolve \$4.3 billion in audit findings. About 80 percent of this amount involves potential recoveries from grantees and contractors, including what they either spent for purposes not authorized by Federal laws and regulations or could not support as charged to the Government. Recent work in this area shows unresolved audit findings are still a serious and widespread problem. This problem is a good example of agency heads not paying enough attention to audit findings that could save the Government a great deal of money.

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There are many specific proposals to control Federal expenditures. I have highlighted just a few of the actions that could be taken to reduce Federal expenditures.

In the next several weeks we will be providing the committee our views on further specific ways that programmatic as well as administrative actions could be taken to reduce Government expenditures. We look forward to a close working relationship with this Committee in the 97th Congress.

This completes my prepared testimony, I shall be pleased to respond to the Committee's questions.

Savings to be Realized  
from Implementation of GAO's  
Recommendations on Social Security Programs

<u>Recommendation</u>	<u>Fiscal years</u>				<u>Total</u>
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	
	----- (millions) -----				
Terminate student benefits	\$1,120.0	\$1,120.0	\$1,120.0	\$1,259.0	\$4,619.0
Reduce excessive student basic grants	2.4	2.4	2.4	2.4	9.6
Further expedite deposits of States' Social Security contributions	49.0	81.0	95.0	114.0	339.0
Rounding benefits to nearest penny	8.0	37.0	62.0	82.0	189.0
Eliminate minimum benefits	35.0	60.0	80.0	100.0	275.0
Use State data to compute benefits	1.6	1.6	1.6	1.6	6.4
Reduce SSI payments to newly arrived aliens	32.0	24.0	15.0	15.0	86.0
Prepayment review of retroactive SSI payments	2.0	2.0	2.0	2.0	8.0
Compute SSI benefits on a retrospective basis	<u>60.0</u>	<u>60.0</u>	<u>60.0</u>	<u>60.0</u>	<u>240.0</u>
<b>Total</b>	<b><u>\$1,310.0</u></b>	<b><u>\$1,388.0</u></b>	<b><u>\$1,438.0</u></b>	<b><u>\$1,636.0</u></b>	<b><u>\$5,772.0</u></b>

GAO ACTIONS DEALING WITH PROBLEMS OF FRAUD AND ABUSEGAO ACTIONS TO REDUCE WASTE AND INEFFICIENCY  
AND TO MAKE FEDERAL PROGRAMS WORK BETTER

For some time now GAO has maintained a special focus on internal control employed by federal agencies--as a part of their regular management--to see that federal funds are economically spent and that they are spent only for intended purposes for legitimate government functions and that they are paid only to eligible program beneficiaries. This emphasis has included attention to how well agency accounting and financial reporting systems report the actual use of federal resources and the current status of agency financial operations and activities. Thus, GAO's work--across the board--has long emphasized elimination of waste, mismanagement, and abuse as well as the improvement of programs to better meet their legislatively defined objectives.

GAO's work is largely directed to strengthening the ability of Federal agencies to effectively and efficiently fulfill their responsibilities to eliminate waste and mismanagement and to improving legislative branch oversight of the manner in which federal programs are carried out. Where possible, GAO makes legislative recommendations to make federal programs more workable. GAO recommendations are included in some 1,000 reports issued annually to the Congress, Congressional Committees, Members and to agency officials.

GAO cannot compel Federal agencies or the Congress to accept its recommendations. Actions on GAO recommendations rests on the persuasiveness of our arguments. Agency management and the Congress must be convinced that our analyses are sound and that it is in their interest to take the action that we recommend. The full effect of GAO's activities on financial savings and improvements to the operation and effectiveness of Government actions cannot be measured in dollars and cents. We do, however, record actions taken by Congress and by agencies on GAO recommendations. Over the past four years collections and measurable savings resulting from GAO recommendations totaled \$14.5 billion.

Of this, \$3.7 billion was saved in FY 1980. Examples include: reduction in the number of computer systems to be acquired by the Air Force (\$741.6 million); termination of army TACFIRE procurements (\$153.1 million); consolidation, automation, and elimination of defense telecommunications centers (\$274.0 million); systems enhancements to improve tracking of costs and schedule baseline for the strategic petroleum reserve (\$240.0 million); elimination of veterans' benefits for certain military dropouts (\$215.0 million); and improvements in Agriculture and Interior Land Acquisition practices (\$41.5 million).

RECENT SPECIFIC EMPHASIS ON PROBLEMS OF FRAUD  
AND ABUSE IN FEDERAL PROGRAMS

Even though GAO's enabling legislation has, since 1921, required GAO to make recommendations to improve the economy and efficiency of federal operations, it became clear to us in recent years that a more focused effort was required to deal with the problems of fraud and abuse in federal programs.

In mid-1976, the General Accounting Office conducted exploratory work aimed at determining whether federal agencies had instituted effective policies and procedures for combating fraud and abuse in their programs. The results of this work established not only the existence of fraud but also that serious problems exist in the Government's ability to fight fraud.

Over the years, GAO approached the problem of fraud but, by and large, the objective of ferreting out fraud was largely incidental to other aspects of improving program efficiency and effectiveness. A more focused approach was necessary.

In October 1978, GAO established a special Task Force for the prevention of fraud. The Task Force performed a 3-fold mission:

- Operate a nationwide, toll-free hotline for use by citizens anywhere in the country to report instances of fraud in federal programs.
- Establish an "overview" of the scope of the overall problem of fraud and other illegal activities against the federal government and highlight where existing procedures for dealing with fraud are inadequate.
- Conduct "vulnerability assessments" within selected agencies to evaluate internal controls and develop risk profiles of fraud and other illegal activities.

The GAO Fraud Hotline

The overall objective of the national hotline is to develop a proactive approach to dealing with future fraud and abuse in federal programs. In work under this objective we are addressing the following questions:

- (1) How valid are allegations made to GAO on the national hotline?
- (2) How effective are the Justice Department and/or other agencies with and without Inspectors General, in following up on specific allegations reported to them by GAO or other sources?

- (3) Can trends or patterns of fraud and abuse be identified by analysis of hotline calls, and can this information be used to identify weak financial and program management controls?

As of December 15, 1980, over 25,000 calls have been received. After initial screening, a total of 5,505 cases were deemed to be substantive. Twenty-six percent of the 5,331 cases involved mismanagement while the remaining 74 percent or over 4,000 cases, appear to involve intentional wrong doing. A total of 5,297 cases have been referred to various federal agencies for further investigation. Over 2,740 of these allegations have been closed out by the federal agencies and they have informed us that more than 335 allegations have been substantiated and action taken.

In connection with GAO work on the hotline, we have evaluated the responsiveness of Offices of Inspector General in handling cases of indicated fraud and abuse. For agencies without Inspectors General or other internal capability to follow up on hotline allegations, we have performed limited work to determine that the allegations have merit and need to be referred to the Justice Department. This latter follow-up work has substantiated several cases of misuse and abuse of federal funds. Also the hotline has been a source of information for GAO to consider in performing audit assignments directed to uncovering instances of waste and mismanagement, along the lines referred to in previous sections of this paper.

Trend analysis data currently being developed on hotline operations will be used throughout GAO and by other federal audit or investigative organizations in planning future fraud related reviews. This information will help Congress and federal agencies to determine if the nationwide hotline is an effective mechanism for combating fraud and abuse in federal programs and activities.

#### Determining Fraud and Its Causes

A major ongoing GAO study is directed to a multi-agency review of fraud and its causes. Through this job, GAO is working to identify (1) weaknesses in internal controls that lead to fraud, (2) corrective action taken to prevent future fraud occurrences, and (3) factors and organizations, regulations, and legislation that inhibit full enforcement of controls over fraud and abuse. Based on this work, we plan to issue a series of reports to various departments and agencies and to the Congress. We will also issue a consolidated report, perhaps as early as January 1981. GAO representatives have already testified on this review before the Senate Appropriations Committee.

#### Vulnerability Studies

In related work, GAO has in process a series of "vulnerability studies" to determine the extent to which selected agencies are susceptible to future fraud. The studies evaluate the adequacy of the system of management and internal controls by analyzing the effectiveness of:

- Agency internal auditors in detecting program and administrative internal control weaknesses, and in agency analysis of indications of fraud or error the auditors have uncovered.
- Computer controls over payroll, payments to vendors, other cash disbursements, inventory and any other areas involving computer controls.
- Financial management controls over manually-operated program and administrative assistance by using an internal control questionnaire.

Work on vulnerability assessments concentrates on the systems of internal control each agency has established to prevent or discourage fraud, abuse and error which could lead to financial loss of cash and receivables, inventories and supplies, and anything else of value that might be stolen or misappropriated. It also concentrated on internal controls designed to insure that the government actually gets what it pays for including work performed under contract and equipment and supplies purchased from vendors.

ACTIONS THAT GAO BELIEVES ARE MOST  
NEEDED TO ELIMINATE FRAUD AND ABUSE  
IN FEDERAL PROGRAMS

As pointed out in the foregoing sections of this paper, GAO has referred a large number of indicated instances of alleged fraud and abuse to those who can perform required follow-up including disciplinary, or prosecutorial action and recovery of Federal property or funds. We have made numerous recommendations to virtually all Federal agencies pointing up specific actions that we believe are needed to tighten up the management controls that would help prevent future fraud against the Federal government and abuse of its programs, property and other resources. We will continue to pursue with vigor all of the approaches that we have outlined above.

But an effective Federal program to counter fraud and abuse requires the active and continuing emphasis of executive branch agencies. We have found that Federal agencies often have weak and ineffective internal controls which make it easier for fraud and abuse to occur. Controls often are inadequate, non-existent, or ignored by agency officials. A major reason for this is a lack of management support for sound systems of control.

Actions need to be taken promptly and completely on GAO recommendations and those of Inspectors General and of internal audit groups to shore up the control weaknesses that have been disclosed; to take appropriate action against those who commit fraud; and to recover property improperly taken from the Federal government. But, more than this, top management of executive branch agencies must give this problem the attention that it requires, seeking out ways to prevent fraud and program abuse as an important part of their total responsibilities.

Passage of legislation similar to the Financial Integrity Act of 1980 (S-3026) and the Federal Managers Accountability Act of 1980 (H.R.8063) would help make agency heads more accountable for seeing to it that their agencies have effective internal controls. This proposed legislation would require agency heads to undertake annual evaluations of their organizations' internal control system and report the results of their evaluations to the Congress and the President.

Under its provisions, GAO would provide guidance for making this examination and would review its results. We believe that this approach would contribute to the development of adequate internal control systems in the Federal Government--and to the reduction of fraud and abuse. Whether or not this or similar legislation is enacted, we believe that the kind of personal attention of agency heads to the fraud that goes on within their departments or agencies is critical.

While the development and regular use of effective internal controls cannot be overemphasized as a deterrent to future fraud, neither can effective action against those who have committed fraud against the government. GAO work in 21 Federal agencies has disclosed that the Department of Justice prosecutes less than half of the cases referred by Federal agencies. This makes it particularly important for Federal agencies to take effective administrative actions where warranted. They do not always do this; we believe that action against those who have committed fraud needs more attention than executive branch agencies have given it. One approach would be for the Department of Justice to work actively with Inspectors General, perhaps through the Executive Group To Combat Fraud and Waste in the Government, to develop effective administrative alternatives to prosecution. One possibility would be to grant some agencies the authority to levy administrative fines against individuals who defraud the Government. Undoubtedly there are other alternatives. More aggressive action along these lines is, however, important to an effective attempt to reduce fraud.

The emphasis that we are suggesting to counter fraud against government has as its touchstone, an active role for managers in executive branch agencies. We believe the Inspectors General, as they are presently constituted, have been a major force in enhancing control over the expenditure of Federal funds. In addition to improving the audit and investigative coverage at their own agencies, Inspectors General have been working together through joint interagency audits and investigations to deal with common problems. We believe that it is important for this approach to be continued--for each agency to have its own investigative and audit staff. We believe the current Inspectors General arrangement with oversight by GAO is the most effective arrangement; but it needs to be supplemented with the active support of agency Heads and of program managers in each department and agency throughout the executive branch.

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESSTHE GOVERNMENT NEEDS TO DO  
A BETTER JOB OF COLLECTING  
AMOUNTS OWED BY THE PUBLICD I G E S T

The public's debt to the Federal Government is growing. Amounts increased from \$10.4 billion in 1973 to \$14.6 billion in 1977. The Government has not been aggressive in collecting amounts due. Moreover, many Government agencies, unlike commercial concerns, have not charged interest when debtors failed to pay on time.

Government accounts receivable--amounts due from others--generally are identified as assets from the time transactions giving rise to a claim, such as sale of goods or services, are completed until payment is received or a claim is determined to be uncollectible. These receivables are included in Federal agencies' financial statements submitted annually to the Treasury for consolidation. Payments usually are required within 30 days from the billing date. Interest charges may be levied if accounts receivable are not paid when due.

RECORDING AND REPORTING OF ACCOUNTS  
RECEIVABLE NEED IMPROVEMENTS

GAO identified errors of \$1.5 billion in accounts receivable at 12 agencies. (See p. 5.) Specific problems included:

- At least \$742 million of unrecovered beneficiary overpayments not included in financial statements as accounts receivable.
- About \$48 million not included in financial statements because of billing and other delays.

--About \$380 million shown as due within the following year when the amounts actually were not due until more than a year later.

--An overstatement of about \$12 million in accounts receivable on financial statements because of clerical and miscellaneous reporting errors.

--About \$270 million shown as due on financial statements which had already been collected by the Government.

Most agencies either made no provision for uncollectible receivables or the amount established was inadequate. (See p. 14.) Errors in recording and reporting accounts receivable were attributable to a need for increased management attention to accounting system problems, more specific guidance for recording and reporting amounts, and increased internal audit coverage of financial operations.

#### MORE AGGRESSIVE COLLECTION EFFORTS NEEDED

Most Government agencies did not take prompt and aggressive collection action on delinquent accounts receivable nor adhere sufficiently to prescribed collection procedures. Although they prepared initial bills promptly, they did not collect many receivables within a reasonable period because they did not always follow established debt collection procedures. (See p. 18.)

#### Problems included:

- Delinquent accounts not promptly identified for followup action.
- Inadequate followup collection efforts.
- Administrative costs of collection actions not known may have resulted in

collection action being suspended prematurely on some accounts and excessive costs being incurred in attempts to collect others.

--Documentation not available in claims files, and delinquent receivables not being referred to GAO or the Department of Justice for further action, as required.

Agencies whose operations give rise to the indebtedness to the Government are primarily responsible for collection. All agencies' collection programs generally must be in conformity with the Federal Claims Collection Act of 1966. The act requires each agency to establish collection procedures and to prescribe criteria for collecting, compromising, suspending, or terminating collection action and for referring claims to GAO and the Department of Justice. If the collection efforts, which may include legal action, are unsuccessful, the account is written off.

Overall statistics on the number and value of claims written off by the Government were not available. During fiscal year 1976, five Federal agencies wrote off claims of about \$200 million. This volume of write offs and an increase in outstanding receivable balances are indicative of the need for better collection efforts by Federal agencies.

#### UNIFORMITY NEEDED IN CHARGING INTEREST

Some agencies did not impose interest charges on delinquent receivables; other agencies had recently established interest penalties but charges imposed were often inconsistent. (See p. 28.) Some agencies had problems identifying delinquent accounts. These agencies usually had established due dates for accounts receivable but when accounts were not identified as delinquent, interest charges for late payments were not imposed.

### ACCOUNTING SYSTEMS NEED IMPROVEMENT

Although this report discusses accounts receivable, its findings indicate that Federal managers need to strengthen financial management generally. Managers of Government departments and agencies need to make special efforts to

- assure that the financial statements submitted to the Department of the Treasury for consolidation are complete and accurate,
- obtain the Comptroller General's approval of their accounting systems, and
- assure that an adequate but balanced portion of internal audit resources are dedicated to reviewing financial statements submitted to the Department of the Treasury.

### RECOMMENDATIONS

The Secretary of the Treasury should revise the Treasury Fiscal Requirements Manual instructions for preparation of financial statements to require:

- Accounts receivable not due within a year or less to be classified as non-current assets.
- Unrecovered beneficiary overpayments to be reported as accounts receivable and identified as such.
- Consideration to be given to past collection experience in computing an allowance for uncollectible accounts.

The Secretary also should emphasize to Government agencies the need to review their financial statements for completeness and accuracy, before submitting them for consolidation.

The Director, Office of Management and Budget, in concert with the Department of the Treasury, should issue guidelines providing that Government receivables bear interest at not less than an established minimum rate unless otherwise specified or precluded by statute. The guidelines should provide that the:

- Secretary of the Treasury compute periodically the minimum interest rate to be used.
- Rates be in line with the cost of borrowing by the Treasury from the public.
- Charges be imposed on debts not paid within 30 days of the date of the invoice unless extenuating circumstances exist.

The Director, Office of Management and Budget, should emphasize to the heads of departments and agencies the need to

- obtain the Comptroller General's approval of their accounting systems and
- assure that an adequate but balanced portion of internal audit resources are devoted to reviewing financial statements submitted to the Treasury.

#### AGENCY COMMENTS

Both the Office of Management and Budget and the Treasury agreed with the recommendations and commented on recent Treasury actions to require Government agencies to charge interest on many delinquent accounts receivable. (See p. 34.) The Office of Management and Budget also raised some related issues. (See p. 17.) GAO is sending copies of this report to all departments and agencies for their information, use, and guidance in the management of their collection activities pending completion of recommended actions.