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GENERAL ACCOUNTING OFFICE

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STATEMENT OF
CHARLES A. BOWSER
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
LEGISLATIVE BRANCH SUBCOMMITTEE OF THE APPROPRIATIONS COMMITTEE
UNITED STATES SENATE
ON
BUDGET ESTIMATES FOR FISCAL YEAR 1986



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Mr. Chairman and Members of the Subcommittee:

I am pleased to discuss GAO's budget request for fiscal year 1986. The Justification of Estimates for that year, which you already have, describes our request in detail.

In FY 1986 we are requesting \$339.6 million to fund 5,250 staff years. This will provide funding for 150 staff years over those authorized in FY 1985. It is a step toward achieving the 5,500 staff year level which--barring budgetary constraints--will permit us to properly fulfil GAO's total responsibilities.

I am sensitive to the problems we face this year with the federal budget and I realize that there will need to be difficult decisions made regarding the distribution of very limited resources available to the Legislative Branch. Even in light of this, I do not believe that it is inconsistent that GAO is requesting additional resources.

The value of GAO's work will be of special importance in the next few years as we look for ways to trim deficits and improve the effectiveness of government programs. GAO's organization must be capable of responding to congressional needs during these times with high quality work which the Congress can rely on in making difficult decisions. Given the necessary resources, I believe we can respond. In addition, we continually return considerably more in savings than is appropriated to the agency. In FY 1984, GAO identified over \$5 billion in measurable savings. This was over 19 times the amount appropriated to GAO in FY 1984.

We have already put in motion some changes that I am sure will help greatly in achieving our objectives. The additional resources approved for GAO last year have made it possible for us to begin

initiatives in high priority areas where the Congress needs our assistance. I might take just a moment and update you on the status of some of these key concerns.

--We have established the Information Management and Technology Division to evaluate the application of information management resources, including computers and related systems in federal agency operations. We have not yet been able to fully staff this organization and, therefore, do not presently have in our inventory all of the skills we need to do the full range of work facing us over the next few years. We have been successful in developing a core of capability, but much is left to be done. It takes time to find the right people and hire them, and if we must rely on attrition to give us opportunity to build our skills in this area we will not have the flexibility we need to build a strong capability in a reasonable amount of time. The problems are facing us today, and it is imperative that we begin to build strong technical analytical capabilities.

--The National Security and International Affairs Division has also been functioning over the past year to provide an increased focus on a growing defense establishment. We have made some positive progress in our defense work, but as more resources have been applied to defense programs, our work in reviewing, evaluating and auditing their results has had to increase. I think it will continue to be important through the next four years at least to insure a strong audit and evaluation capability of defense programs.

The committee recognized the importance of our needs in the defense area last year, and we have proceeded to use the resources allocated by the committee for defense work to strengthen our audit program. There is still much more that needs to be done, however, and in our request today we are proposing that our defense work be further augmented to cover essential work in a rapidly growing area.

--We have also made some changes in our Accounting and Financial Management Division to address some significant financial management issues that are now and will be facing the Congress over the next few years. Many of the government's financial management systems are antiquated and lack the necessary controls to properly deter fraud, waste and abuse of government resources. GAO will need to play a major role in the overhaul of the federal government's financial management structure and in determining what is needed to serve the needs of government and the public in the last decade of the twentieth century and beyond. If we are to fully comply with the intention of the Federal Managers' Financial Integrity Act of 1982, we will need to increase our emphasis and focus on promoting effective federal agency accounting and financial reporting.

In order to meet the demands placed upon us and meet the high standards of quality and dependability that the Congress expects, several operational changes have occurred which I believe significantly contribute to our ability to reach our objectives.

--As you know from our hearings last year, we established an Office of Quality Assurance to help us implement systematically

a quality review process which would help ensure the reliability, responsiveness, and effectiveness of our work. We have now transferred OQA's report review responsibilities from OQA to four GAO divisions. We plan for the remaining 3 divisions to have that responsibility by the end of FY 1986. OQA staffing has been reduced in FY 1985 and will be reduced further in FY 1986.

--Design, methodology and technical assistance functions have been established in GAO's audit and evaluation divisions to assist in planning new job starts. These groups are staffed with people having a range of analytical skills which help assure that jobs are designed to use the proper evaluative techniques and technical tools in their execution.

--We have completed the first phase of the Post Assignment Quality Review effort we began last year. We found opportunities to strengthen our review policies, procedures and practices to help guarantee a credible product. We are now changing and adjusting policies where appropriate to incorporate findings of the review team.

We will continue to pursue these and other initiatives. We cannot slack off. GAO work must be consistently of the highest quality and remain credible when it is subjected to the kind of scrutiny that inevitably accompanies its use in connection with matters of major concern to the national interest and to the use of public funds.

GAO WORK IN FY 1984

Over the years GAO has consistently demonstrated that it saves the government many times the funds appropriated to it. In the last five years, savings attributable to GAO work totaled \$27.8 billion.

These dollar savings are real, involving as they do budget reductions and collections in addition to better uses of applied resources.

For example, the Congress reduced the armed services' fiscal year 1984 ammunition budget by \$440 million after GAO reported on several problems, including overstated costs and excessive ammunition inventory levels.

Another illustration involves the Deficit Reduction Act of 1984 which implemented GAO's recommendations that the Congress change the methods by which life insurance companies calculate their reserve deduction, taxable income, and the reevaluation of certain types of reserves. This action will result in increased tax revenues of some \$300 million in its first year of implementation as well as by a similar amount in future years.

In another case GAO reported that a plan to upgrade older nuclear weapons would contribute little to further minimizing the risk of a nuclear accident and that new bombs currently scheduled for production could be used to meet operational alert requirements before the improved older bombs would be available. Action on this recommendation reduced the number of older bombs scheduled for improvement with estimated benefits of \$256 million.

Additionally, much of GAO's work results in changes which improve the efficiency of program operations without attachment of a specific impact on public dollar value.

CURRENT AND FUTURE DIRECTIONS OF GAO WORK

We have recently completed a comprehensive reexamination of the planning for most of our work, which covers a 2 to 4 year period.

Illustrative of this approach are the following:

--Automatic Data Processing and Telecommunications. - GAO is directing its work toward improving ADP and telecommunications operations in individual agencies and government-wide over the next two to four years. We will review the effectiveness of the systems that are in place in agencies and their internal controls to assess how well they support agencies' missions and their processing accuracy, timeliness and completeness. We also will review the need for new systems, how they are acquired and whether they can be expected to effectively achieve stated objectives. Examples of systems to be reviewed include IRS' automated tax processing systems, the military services' wholesale logistics systems, the FAA's air traffic control system, the military command and control systems, and the Social Security Administration's systems modernization plans.

GAO's government-wide work on automated systems will focus on issues affecting large numbers of agencies. The type of question we will pursue will include whether proven automated personnel systems can be adopted more often, whether improvements can be made in managing the skilled personnel to develop and operate computer and telecommunications systems, and whether better ways exist for managing major systems modernization efforts. Currently, we are addressing issues associated with the government's acquisition and management of

its telecommunication resources in the wake of AT&T's divestiture, the obsolescence of government computer software, and the potential for consolidating standard administrative systems such as military retired payroll and white-collar personnel systems.

--Defense - GAO work will continue to have both a service oriented and defense-wide focus. The service oriented approach will examine issues affecting each military service. Our future work in the Army will emphasize doctrine, force structure changes, and deployment issues. Air Force future work will emphasize issues associated with the modernization of both tactical and strategic forces and those associated with the military use of space. Navy and Marine Corps work will stress fleet expansion, nuclear weapons, and naval propulsion. In our work in each service we will also deal with sustainability and readiness issues.

Currently service-oriented work includes the Air Force's aircraft and missile development activities; the Army's M-1 Tank and other weapons systems; and the Navy's missile and torpedo development programs.

Issues to be examined on a defense-wide basis will include those associated with:

- . the acquisition process and the pricing of weapons and weapons systems;
- . command, control, communications and intelligence capabilities and the survivability and interoperability of C3I systems;
- . military retirement reforms, meeting future manpower

- needs and the reserve/active force mix; and
- . logistics as an element of military capability and supply and maintenance planning.

--Financial Management - The federal government needs a more modern and effective financial management structure. Many of the existing financial management processes and systems are obsolete and face ever-increasing difficulties in coping with the demands placed on them. So that congressional and executive branch officials receive timely, reliable, and consistent information for use in decisionmaking, GAO's work will concentrate on four key elements of reform:

- . strengthened accounting, auditing, and reporting;
- . improved planning and programming;
- . streamlined budget process; and
- . systematic measurement of performance.

Currently, GAO's work in improving financial management includes prescribing requirements for federal agencies; providing technical assistance to federal agencies in responding to new legislation, and other requirements; performing audits of federal financial management systems and statements; overseeing federal audit activities and interests; and defining the conceptual framework needed for a sound financial management structure. This past year GAO issued a report on its comprehensive review of 22 agencies' implementation of the Federal Managers' Financial Integrity Act. Current work includes continued assessments of progress of federal agencies in this important area.

--Financial Markets and Services - GAO's future work will focus on changes occurring in the financial services industry, in order to assure that:

- . users of financial and related institutions are adequately served and appropriately protected;
- . institutions and regulators can deal effectively with new market risks; and
- . any necessary changes to the federal regulatory structure are properly evaluated.

In these areas we are currently examining changes in banking fees charged customers since the deregulation of interest rates; analyzing deposit insurance reform alternatives; and evaluating the Treasury bond dealer market to determine whether those dealers are adequately regulated and capitalized. Our goal is to assist in the significant legislative initiatives that will be taking place in the next two to four years.

--Food and Agriculture - This is the single largest component of the U.S. economy. It accounts for 20 percent of the nation's gross national product. However, the farm sector is currently plagued by production surpluses, growing government outlays for farm programs, declining agricultural exports, and rising farm bankruptcies. GAO work during the next two to four years will focus on issues involved with and the ways to improve:

- . the farm financial condition and credit portfolios;
- . the administration of crop assistance programs;
- . markets and trade opportunities; and
- . food assistance effectiveness.

We will work with authorizing, appropriations, and budget committees to help sort out the farm issues facing the Congress in its consideration of 1985 farm bill provisions as well as the 1989 farm reauthorizations. We will also help set the stage for future farm policy and program administration decisions. In this regard, we have recently issued reports on Payment-In-Kind, sugar, tobacco, and food stamp integrity. We are also preparing reports on dairy, marketing orders, and honey marketing. We have recently established an internal Task Force to look at the critical farm credit situation. This task force is identifying the farmers in financial distress by crop, size of farm, and location and will identify the causes of this distress. Close attention will be paid to the impact of reduced exports. Information will also be gathered on the financial health of the Farm Credit System and commercial banks serving agriculture.

--Health Care Costs and Quality of Care - Health Care containment is a continuing and growing issue facing this country. We must identify ways to contain health care costs while preserving access to quality care. GAO will analyze ways to control health financing costs through improvements and modifications to hospital and physician payment systems, identify cost effective alternatives to long-term institutional care, and examine other major issues critical to the development of a cohesive national strategy for containing health care costs. Currently, we are reviewing Medicare's new prospective

payment system that pays hospitals about \$45.0 billion a year. In the Medicaid area, GAO recently reported that the program annually pays from \$500 million to more than \$1 billion that private insurers should be paying. Our report identified two options that would improve Medicaid practices for recovering additional health care costs from available insurance resources.

Over the next two to four years GAO will identify ways to deliver health care in federal facilities more cost effectively, to eliminate unneeded planned facilities, and to modify existing ones to better serve program needs. We will also identify opportunities to enhance the effectiveness of the government's health regulation activities with particular emphasis on the Food and Drug Administration's post marketing surveillance activities for federally regulated products. We have several efforts underway to identify how DOD and VA can deliver federal health care more cost effectively. We are reviewing their programs and systems to assure that the quality of federally delivered health care meets accepted standards.

--Social Security - Probably no other federal program directly affects more Americans than Social Security. GAO is undertaking a number of integrated studies aimed at reviewing both agency operations and program financing. We will continue to study ways to improve Social Security Administration's service to the public, including an assessment of the accuracy of the \$200 billion in benefits paid out annually.

We are currently assessing how SSA measures payment accuracy and will shortly complete preliminary work on SSA's accuracy in posting and updating records of individual wage earners. We recently released a report which showed that SSA temporarily underpaid at least 2.5 million beneficiaries by about \$2 billion because of delays in computing accurate earnings amounts. We will continue to evaluate Social Security's controversial disability program with emphasis this year on the implementation of the reform legislation passed in 1984. In addition, a comprehensive study of the Social Security Administration's management is now getting underway and we are continuing to monitor the replacement of the agency's antiquated computer system. Last year, we testified before the Congressional Panel on Social Security Organization and highlighted many areas where we feel operations can be substantially improved.

--Tax Policy and Administration - According to IRS, in a recent year it received \$90 billion less in taxes than it should have, had all taxpayers correctly determined and paid their tax liability. Known as the "tax gap", this shortfall is made up of unreported income by individuals (\$52 billion); overstated expenses, deductions, and credits (\$13 billion); other noncompliance by individuals and corporations (\$16 billion); and tax losses on illegal income (\$9 billion). GAO's work will be focused on methods of reducing this tax gap by:

- . helping reduce unreported illegal source income,
- . eliminating abusive tax shelters,

- . analyzing proposals for tax reform and simplification,
- . ensuring compliance with tax laws governing international transactions,
- . improving the use of computer technology in the IRS's Philadelphia Service Center to assure accurate and timely processing of tax returns, and
- . analyzing the role of tax expenditures.

In these areas we have a number of ongoing efforts including reviews of tip income, resyndication of federal housing, consumption taxes, taxes paid by U.S. subsidiaries of foreign corporations, IRS' major ADP acquisitions, and business energy tax credits among others.

I might add that GAO work plans are developed with the input of congressional committees, and with the advice and consultation of others in and out of government. At a managers' meeting held in November 1984, GAO's division directors summarized their work plans for the next several years. It might be useful for the Committee to have additional information about GAO's work plans. We would be pleased to talk with staff about making presentations or otherwise making this information available.

UPDATE ON MATTERS DISCUSSED AT LAST YEAR'S HEARINGS

I have already discussed our recent and planned actions with respect to GAO's Office of Quality Assurance. I would like now to give you a brief update on several aspects of other GAO operations.

Consolidated Administrative Management Information System

The Senate Governmental Affairs's Committee and the Surveys and Investigations (S & I) staff of the House Appropriations Committee

have recently completed reviews of the CAMIS project. The Senate report was critical of GAO's procurement process; whereas, the S & I report concentrated on management and technical issues. We believe that the need for which CAMIS was started still exists. We recognize the need to build a credible information resources management capability and to modernize our administrative management systems. We are aware of the magnitude and difficulty of the job ahead.

We are taking steps to build our information resources management capabilities. We have recently selected the Director of our Office of Information Resources Management. One of the new director's first tasks will be to organize and staff the office to meet GAO's current and future needs. We recognize the need to properly staff the organization if we are to achieve our objectives. The new director has also been charged with developing a long-range information resources plan and thoroughly evaluating future options as set forth in the Senate and S & I reports. We will keep the committee informed of our progress.

Asbestos Removal

We are continuing to work with the General Services Administration (GSA) to remove asbestos-contaminated building components; for renovating the GAO building's heating, ventilating, and air conditioning system; and for other related projects. Renovations have been completed on the first floor and personnel have been relocated there to allow work to begin on half of the seventh floor. Paramount in these endeavors is our concern for the health of our employees during the renovation. GSA has assured us that it is and will continue to closely monitor ongoing and future contracts

involving asbestos removal. We have also received GSA's assurance that the asbestos in the GAO building poses no health hazard for building occupants until it is physically disturbed, at which time special precautions have been and will be taken to assure the health and safety of the occupants. While our dealings with GSA have been generally both amicable and productive, there remain concerns which are inherent in any landlord-tenant relationship. Chief among these concerns are our differing opinions regarding a safe level of airborne asbestos particles. The GSA is adhering to the Occupational Safety and Health Administration standard of .1 fiber per cubic centimeter, while we favor the recommendations of both the National Institute for Occupational Safety and Health and John Hopkins University of .01 fibers per cubic centimeter. Additionally, given the nature of this expensive and sensitive long-term project, we feel that GSA should further enhance its project inspection capabilities. While GSA monitors the areas under construction, our own in-house staff has been monitoring occupied areas. To date, readings by both monitoring teams have been within the safe range.

Successful and timely completion of the renovation projects is contingent on GSA's ability to deliver on the financing and construction plan presented to my staff. The plan appears to be fairly reasonable but GSA's ability to perform is heavily dependent upon OMB and congressional approvals of GSA's prospectus and funding proposals. It is our contention that if we are to succeed with the asbestos removal, strict adherence to this plan is essential by all parties concerned.

CONCLUSION

This year, we are asking for the resources to continue our program to assure that GAO is adequately staffed and effectively trained and organized to meet its responsibilities to the Congress. With your help, we have made significant progress. But more needs to be done. It will take time for us to achieve the staffing that we need in the computer area. Our request for resources recognizes this. We will build only as quickly as we can assure that increases will be effectively used in support of the Congress.

The additional resources that we are requesting--along with those currently available to GAO--will be used to assist the Congress in those areas where we can make a major contribution. We will continue to place more emphasis on identifying specific activities which will reduce government costs or increase its revenues--consistent with the direction that the Congress has established for federal agencies and their programs.

We believe that our record of accomplishment--including the substantial dollar benefits that have resulted from our work--shows that GAO is a very significant part of the Congress' deficit reduction program.