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IMPROVING GOVERNMENT

Actions Needed to Sustain and Enhance Management Reforms

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Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today to discuss progress being made in addressing management challenges facing our national government. Over the years, I have discussed with you the breadth and seriousness of the management problems undermining the effectiveness and credibility of our government institutions. This Committee has responded by taking an active leadership role and providing a much needed legislative framework for reforming government management practices.

I am pleased to report today that the many years of hard work by this Committee are now paying important dividends. I am very encouraged by the present emphasis on working toward a smaller, more efficient government which stresses accountability and managing for results. During this past year, we have seen important movement in this direction by the Congress and the administration.

This Committee's leadership has been an essential catalyst in continuing to promote effective implementation of the Chief Financial Officers (CFO) Act of 1990 and in passing the Government Performance and Results Act (GPRA) of 1993. Moreover, the administration, under the Vice President's direction, deserves much credit for undertaking a major National Performance Review (NPR), aimed at making government work better and cost less. Additionally, a commendable step was taken to slow the growth of our burgeoning budget deficit through enactment of the 1993 Reconciliation Act.

Although 1993 showed promising activity, much hard work remains to turn proposals for management improvement into meaningful, lasting results. The federal government is still far from having the most basic management foundation in place to ensure accountability and effective implementation of broader reforms. These goals will only be achieved through sustained, committed leadership of the executive branch and the continued involvement of the Congress.

The ultimate determinant in improving government management rests with the President and his leadership team. The Congress, and this Committee in particular, however, must continue their efforts to provide the necessary framework to encourage and guide real improvements. In this regard, I urge this Committee to act on legislative proposals that will enable even greater strides in improving government management and accountability. I believe these top priorities to be

(1) completing the comprehensive foundation for financial management reform the Committee established in the CFO Act by expanding its provisions for audited financial statements and

(2) strengthening existing legislation to provide an improved framework for managing information technology so that agencies produce the kind of systems and business processes needed to effectively support programs.

In addition, I suggest that the Committee

(1) continue to focus attention on high-risk programs especially vulnerable to waste and mismanagement,

(2) lay the groundwork to effectively implement the Government Performance and Results Act, and

(3) consider National Performance Review recommendations and address the need for implementation strategies.

All of these difficult reforms must be addressed against the backdrop of continued budgetary pressures and the realities of moving to a smaller, more efficient government. This environment underscores the need for strong leadership and effective executive/legislative branch partnerships.

ENABLING BETTER MANAGEMENT THROUGH AUDITED FINANCIAL STATEMENTS

A top priority is continuing the reforms to ensure basic accountability and produce the facts needed to run our government effectively. As discussed in our 1988 and 1992 transition reports on financial management, unless we achieve success here, our leaders will continue to be crippled in their ability to control costs, evaluate performance, or adequately implement calls for broader management improvements.

The CFO Act, sponsored by this Committee, provides the blueprint for essential financial management reform. Since its enactment in late 1990, we have seen progress in directly confronting serious financial management weaknesses. The act's requirement for producing annual audited financial statements, in particular, is demonstrating its value in several important ways.

First, a much clearer picture is emerging of the government's true financial condition. On the revenue side, our financial audits of the Internal Revenue Service (IRS) and the U.S. Customs Service concluded that there is little assurance that the government is collecting all the money it is due or accurately accounting for the estimated $1.1 trillion it does receive. For example, as I testified before this Committee last summer on the results of our IRS and Customs financial audits:

-- IRS's books showed that the government was owed $110 billion in delinquent taxes and would collect about $30 billion of this amount. Our audit disclosed that only about $65 billion was owed and, of that amount, IRS could expect to collect only about $19 billion.

-- The Customs Service had little assurance that the government is receiving all the duties it is owed because of poor controls over inspections and its overreliance on voluntary reporting by brokers and importers. Weak controls increase the potential for lost revenue and heighten opportunities for drugs and contraband to be illegally entered into the United States. As a result, the Customs Service is now reassessing its compliance and collection strategies.

-- Because of accounting weaknesses, IRS cannot specifically determine the amount of tax revenues that should be accrued to the excise tax trust funds. Consequently, general fund tax dollars subsidize these funds and give decisionmakers the impression that excise taxes are generating more revenue than they actually do. Over the past several years, subsidies may have totalled several billion dollars.

Financial statement audits have also provided a much more realistic portrayal of the costs the government can expect to incur as a result of its activities. The audits have highlighted billions of dollars in liabilities and potential losses to the government. Some examples follow.

-- An estimated $190 billion of liabilities for veterans' compensation and pension benefits were highlighted.

-- Liabilities estimated at $122 billion were identified for federal employee post-retirement health benefits.

-- Unfunded liabilities of over $14 billion were uncovered for the Federal Employees' Workman's Compensation Act program.

-- An estimated $18 billion in potential future liabilities associated with hazardous waste disposal and cleanup at Army installations were disclosed.

-- Increasingly greater projected losses were uncovered at the Federal Housing Administration, with the 1992 financial audit reporting an estimated $15 billion loss.

-- About $13.7 billion in liabilities for loan defaults and interest subsidies were identified for the Department of Education's guaranteed student loan program as of the end of fiscal year 1992. These liabilities related to about $63 billion in outstanding guaranteed student loans.

This is the kind of information needed to make critical decisions on budgeting, tax policies, and the overall direction of government programs. Moreover, as Members of this Committee can fully appreciate, after making wrenching budgetary decisions to curb the growth of the deficit, it is disheartening to find such efforts undermined by the unwelcome surprise of huge hidden costs. Tough budget decisions will continue to be even harder without better, more complete information on the costs and consequences of government programs and activities.

Next, in addition to shedding light on the government's fiscal posture, audited financial statements have brought much needed discipline in pinpointing waste, mismanagement, and possible illegal acts and in highlighting the gaps in safeguarding the government's assets. For example:

-- People no longer serving in the Army were, nevertheless, paid over $6 million because their names were not removed from active duty payroll files.

-- IRS did not adequately control access to its computerized taxpayer data to ensure that data were adequately protected from unauthorized change or disclosure. A consequence of this weakness was documented in an internal IRS audit which reported that some employees had used their access to monitor their own fraudulent tax returns and inappropriately browse taxpayer accounts.

-- The Department of Defense (DOD) failed to match its disbursements with obligations, resulting in substantial risk that fraudulent or erroneous payments may have occurred without detection and that total disbursements may be exceeding legal limits. According to DOD officials, Defense's total unmatched disbursements exceed $41 billion.

-- Many opportunities existed at Customs for seized weapons, currency, and illegal drugs, such as cocaine and heroin, to be stolen or misappropriated without detection.

Third, CFO Act financial audits have identified actual and potential savings of hundreds of millions of dollars. For instance:

-- Customs revamped its debt collection efforts, resulting in the reported collection of over $31 million of severely delinquent debt. This more proactive collection approach has the potential for garnering hundreds of millions of dollars in additional collections.

-- DOD identified over $204 million in potential savings from duplicate invoices, duplicate payments, and avoided interest.

Finally, the financial audits are also confirming just how little confidence the Congress and program managers can place in the information they now receive. We have identified hundreds of billions of dollars of accounting errors--mistakes and omissions that can render information provided to managers and the Congress virtually useless. This situation could be much improved if more discipline were applied in following existing policies and procedures.

This view was echoed by the CFO and inspector general (IG) communities. In commenting on the results of the CFO Act financial audits to this Committee, agency CFOs and IGs reported that the process of preparing and auditing financial statements brings much needed rigor to accounting and financial reporting and highlights where the real problems are. They also expressed their view that the full benefits are yet to be achieved.

Expanding the Requirement for Audited Financial Statements

One way to achieve additional benefits is to expand the requirement for audited financial statements uniformly throughout the government. The benefits so far have come from auditing only about 60 percent of the government's budget authority and relatively few agencies on an overall basis. For example, none of the Department of Energy funds provided to its integrated contractors are subject to the CFO Act's requirement to prepare annual audited financial statements. These contractors account for over 60 percent of Energy's annual obligations. Likewise, at the Department of Justice, nearly 90 percent of its budget authority is not subject to the requirement for audited financial statements.

Under the current CFO Act, annual audited financial statements are only required for revolving and trust funds and commercial operations. In addition, the act established a pilot program to test the viability of preparing and auditing financial statements for the entire operations of 10 major organizations. These pilots encompassed a range of government activities from the Army and Air Force to revenue collection agencies--IRS and Customs--to cabinet departments such as the Departments of Housing and Urban Development (HUD), Labor, Agriculture, and Veterans Affairs.

These pilots have been tremendously successful. Many benefits we have highlighted today and in previous testimonies before this Committee have been generated from the pilot program. The Director of the Office of Management and Budget (OMB) agrees with this assessment and reported to the Congress last November that the pilot program has been successful.

Accordingly, the OMB Director has called for the expansion of the audited financial statement requirement to cover the entire operations of all 23 CFO Act departments and agencies. Further, the NPR and its companion legislative package, H.R. 3400, seek a similar expansion of the CFO Act audit requirement. The IRS

Commissioner expressed support for this concept last August in testimony before this Committee. She stated the following:

> "First and foremost, based on our experience with the recent GAO audit, we believe that all government agencies should prepare annual financial statements and have them audited. Our experience has been that the benefits of systematically identifying problems and measuring progress are truly significant. In addition, as I have stated earlier, the real value of audited financial statements is the comprehensive view they provide of the financial management issues that confront the IRS in effectively and efficiently running our operations."

Moreover, the implementation of uniform requirements for audited financial statements has been a cornerstone of management improvement efforts of state and local governments and some other countries. State and local governments have found that mandated annual audited financial statements are an important catalyst for achieving financial management improvements and for producing quality information to assist decisionmaking, provide basic accountability, and track progress. Governments in other countries that have undergone reinvention initiatives used this same model and made audited financial statements an essential part of the management process. Similarly, the success of current U.S. management reform initiatives, such as the GPRA, will rest heavily upon having audited financial data.

We urge the Congress to enact legislation to amend the CFO Act to require audited financial statements on an annual basis for all 23 CFO Act departments and agencies. We believe it would be best for this requirement to be anchored in legislation. While administrative requirements to prepare annual financial statements go back to the 1950s, the legal force of the CFO Act, together with the interest of this Committee, is what finally moved this effort ahead.

To further assist congressional deliberations, we are preparing a status report on implementation of the CFO Act. This report will contain more detailed information on progress made by agencies in implementing the requirements of the act. We look forward to working with the Committee in the near future as it considers amending the CFO Act.

Mandating an Annual Governmentwide Financial Report

In addition to a permanent requirement for agency-level financial statements, we believe there is a need for a governmentwide financial report. The time has come for an audited governmentwide financial report that would provide the Congress and the American public with a complete picture of where its government stands financially.

This is another area where we and the administration are in agreement. The NPR calls for a consolidated annual report on the finances of the federal government and established 1997 as the first year to have these statements audited. The NPR also calls for the Department of the Treasury to prepare a simplified version of the consolidated statements--referred to as the "Annual Accountability Report to the Citizens"--for distribution to the public so that it receives an accounting of the moneys spent and results achieved.

These annual reports, which GAO, in concert with the IGs, would audit each year, would provide needed information to the Congress and the executive branch in assessing the government's financial status. It is most important that these reports be developed in a manner to assure that they are useful and relevant to the Congress and the executive branch and understandable to the public. Among the questions that could be answered by these reports would be whether the government's financial position improved or deteriorated over the period and whether future budgetary resources are likely to be sufficient to sustain public services and meet future obligations as they come due.

We look forward to working with the Committee as it considers the proposal. This action is critical to once and for all provide the proper overall financial perspective to the Congress and the American public. Moreover, it is essential to rebuilding public confidence that the federal government can be accountable.

PROVIDING A STRENGTHENED APPROACH FOR MANAGING INFORMATION TECHNOLOGY

In addition to ensuring financial accountability, a critical priority is improving the federal government's ability to take advantage of today's technology. This technology offers unprecedented opportunities to improve the delivery of government services and reduce program costs. Moreover, using it well is central to enhancing the quality and accessibility of information available to federal managers and the public.

Unfortunately, the federal government has not been able to take full advantage of these opportunities. The result is wasted resources, a frustrated public unable to get quality service, and a government ill-prepared to measure and manage its affairs in an acceptable, businesslike manner. Despite an estimated $200 billion invested in information management and systems in the last 10 years, there is too little evidence of meaningful returns.

Our transition reports in 1988 and 1992 underscored how agencies lack critical information needed to analyze programmatic issues, control costs, and measure results. Furthermore, information systems projects frequently were developed late, failed to work as planned, and cost millions--even hundreds of millions--more than expected. In an environment of shrinking resources and with the demand for service improvement, the government can ill afford to continue spending such large amounts of money with so few results.

There must be fundamental changes in approach, or the vast potential for reducing costs and improving service quality through information technology investments will not be fully realized. Let me point to a few examples to illustrate the criticality of information management to reining in costs and improving programs and service--ranging from providing a more efficient national defense to improving major domestic agency functions, such as revenue collection:

-- Our reviews of the Defense Business Operations Fund--an $85 billion annual operation--show that DOD does not have the policies, procedures, and financial systems in place to properly operate and manage the fund activities. The financial systems do not even provide the information needed to accurately price goods sold to the military services. As a result, the fund will be unable to achieve the objectives for which it was established, and the credibility of a constructive and innovative concept has been damaged.

-- Our reviews of the DOD Corporate Information Management (CIM) strategic program--designed to improve Defense's business operations in certain functional areas--have shown that DOD is not following the most commonly accepted models or approaches for implementing management improvement initiatives. DOD's CIM program is focusing on improving automated systems rather than on supporting the reengineering of business functions. Further, there is little integration of the business and technical needs across the agency, making it difficult to achieve effective and efficient results Defense-wide.

   These problems can only be corrected with increased involvement and commitment from senior management. Without this commitment, DOD invites unnecessary risk and may not achieve the projected $36 billion in savings attributed to the CIM program. DOD has made progress, however, in reengineering one important functional area outside CIM--supply distribution. Here, responsible senior program managers are directing the reengineering effort. Our best practices work in this area is a major influence in DOD's current supply distribution reengineering initiatives.

-- IRS' $23 billion Tax Systems Modernization program, designed to deliver technical support to the agency's business vision of fast, accurate, virtually paperless, and less costly tax processing, needs continuing attention to ensure that sufficient technical leadership, skills, and experience are available in managing this highly complex systems integration effort.

There are two underlying reasons for the government's problems in harnessing information technology. First and foremost, federal agencies--once leaders in using information technology--have not kept pace with the evolution of management practices necessary to control and apply expensive, risky, and constantly changing technology. Our ongoing study of best practices applied by leading private and public organizations indicates that the federal government lags behind in applying proven, contemporary management solutions.

Second, the need to embrace modern information management practices occurs against the backdrop of an inadequate basic management infrastructure throughout the government. Our studies consistently chronicle the lack of basic business planning, inadequate skills, and poorly institutionalized management processes limiting the government's ability to consistently improve its performance over time. Overcoming these persistent, long-standing problems will require both dramatic efforts by agencies to institute new management practices as well as systemic improvements in legislation that will reinforce the foundation for long-term success.

Agency senior leadership--with the strong encouragement of OMB--need to give this area top priority attention. They must move quickly to apply proven management fundamentals to reengineer agency operations and reduce the risks of using complex information technology. While agencies consistently underestimate this critical issue, billions of dollars--an estimated $25 billion in fiscal year 1993--are spent on information technology without receiving an adequate return on our investment. In the meantime, confidence in the government's ability to become more responsive and efficient has eroded.

This Committee can make an important contribution to support agency efforts by strengthening the current legislative foundation to encourage adoption of modern information management practices--similar to what it has done with financial management under the CFO Act and through the GPRA, which is intended to move the government toward results-oriented management. Presently, the Paperwork Reduction Act provides the primary legislative framework for managing information technology. In the 13 years since its passage, rapid changes in information technology have occurred which demand new approaches. We strongly encourage the Congress to refine and amend the act to

-- establish chief information officers at each agency to (1) work with agency senior management to define strategic information management priorities and (2) support program officials and the CFO in defining information needs and developing strategies, systems, and capabilities to meet those needs;

-- require agencies to implement sound strategic information management practices to ensure that information technology investments effectively support agency missions, such as making sure that information technology investments are driven by effective business plans and that effective controls over technology investments are in place;

-- establish a chief information officer within OMB who can guide the development of governmentwide plans and identify effective ways to better support information management within agencies; and

-- emphasize that information management is an integral part of government's overall management responsibility and ensure that senior agency officials and program managers are responsible and accountable for information management decisions used to achieve mission objectives.

This Committee's leadership in the information technology area is vital to the future of our government. We are committed to continuing to assist you in any of your legislative initiatives. Moreover, to support both senior agency management and this Committee in updating information management practices, we are preparing a report on the fundamentals applied by leading organizations that have produced demonstrated performance improvements through the effective use of information technology.

FOCUSING ATTENTION ON HIGH-RISK AREAS

The financial and information management legislative reforms I have discussed also will help bolster ongoing efforts to fix high-risk problems shown to be especially vulnerable to waste and mismanagement. Our work continues to show that the high-risk areas are plagued by the lack of financial information needed to effectively manage programs and by long-standing systems and personnel weaknesses that hamper program operations.

Since early 1990, we have carried out a special effort to review and report on selected high-risk areas. The support of this Committee has been important in helping to strengthen federal programs through this effort. The hearings this Committee has held on specific high-risk areas, as well as those held by other congressional committees, have been most helpful in focusing needed attention on the part of Members and agency management on actions needed to correct these serious problems.

As you know, in December 1992, we issued a series of reports on each of the areas within our high-risk program. We plan to provide you and the next incoming Congress with a major update on our program early next year. Meanwhile, to assist in this year's congressional oversight efforts, we are providing you today, as an attachment to my statement, a brief description of the areas in our program.

Our program now covers 18 areas--the 17 we testified on before you last January, and HUD, which we have recently added to the list. While efforts to address the numerous and severe problems impacting program management and delivery are ongoing at HUD, billions continue to be at risk because of long-standing organizational, systems, and staffing problems. We believe HUD warrants the special focus that comes with the high-risk designation.

Varied Progress in Fixing High-Risk Problems

Our work has clearly demonstrated that significant improvements in high-risk areas can occur if proper emphasis is placed on identifying and correcting the root causes of problems. We have seen noteworthy improvements in several high-risk areas. For example:

-- Bank Insurance Fund. The Bank Insurance Fund's condition has improved from a $7 billion deficit at the end of 1991 to a $10.5 billion positive balance as of September 30, 1993. In addition to the salutary effects of banking legislation that incorporated reforms we recommended, an extended period of low interest rates enabled banks to record substantial profits, and a number of bank failures were averted. While substantial progress has been made in rebuilding the fund's reserves through increased premiums and reduced losses, some lingering safety and soundness issues remain. Most importantly, effective implementation of certain Federal Deposit Insurance Corporation Improvement Act of 1991 reforms and improved examination practices still need to be addressed by the administration to help ensure the long-term health and stability of our nation's banking and deposit insurance system.

-- Pension Benefit Guaranty Corporation (PBGC). Recent initiatives at PBGC have had a number of positive results, including improvements to PBGC's liability measurement and internal controls. Importantly, these actions also enabled GAO, which for years had been unable to audit PBGC's financial statements because of the poor condition of its financial management systems and internal controls, to audit PBGC's balance sheet for fiscal year 1992. Our audit work has helped increase the understanding of the government's significant and increasing financial exposure, thereby enabling discussion of possible legislative remedies. Nevertheless, financial systems and internal control problems remain, and PBGC has to deal with a deficit that was $2.7 billion at the end of fiscal year 1992 in its Single Employer Insurance Fund and a huge financial exposure from underfunded insured private sector pension plans.

-- Department of Education Guaranteed Student Loan Program. Because of inadequate recordkeeping, until recently, we had never been able to complete an audit of the financial statements of this program, which has guaranteed over $100 billion in student loans. In addition to identifying an estimated $3 billion shortfall in Education's budgetary estimates of program costs for fiscal years 1992 and 1993, the financial audit resulted in a number of other important benefits, including

- helping to identify the large liabilities associated with the weakly controlled guaranteed loan program,
- highlighting the problems that need to be addressed for the administration to realize the potential savings anticipated by moving to direct loans, and
- making financial management improvements and CFO Act implementation a departmentwide high priority.

At the other end of the spectrum are those areas where progress is not yet as visible. In some, actions have been taken but agencies are just beginning to tackle the specific root causes of the high-risk problems. For example:

-- Defense Inventory Management. DOD has wasted billions of dollars on excess supplies and burdened itself with the need to maintain them. It has been estimated that $39 billion of the reported $80 billion inventory on hand as of September 1992 will not be used during the next 2 years and some may never be used. Further, force restructuring is likely to cause more stocks to be placed in these categories.

While DOD has begun attempts to address its inventory management problems, the military services continue to develop related systems independently, and plans to link those systems have not been fully developed. The Defense Logistics Agency, though, has begun conducting pilot programs to demonstrate the applicability of commercial practices and to tailor changes required.

Improvements to the inventory requirements determination process, more extensive use of commercial inventory management practices, and greatly improved financial management and changes in DOD's management culture are needed for further reductions in DOD's inventory and budget requirements. Also, more leadership is needed by DOD in order to achieve meaningful progress in this area.

-- Department of Energy Contract Management. The Department of Energy obligates about $19 billion annually for contracts. However, Energy's "least interference" contracting approach, which goes back decades, has given contractors excessive latitude, increased the government's financial risk, and restricted Energy's ability to control costs. This led, for example, to a situation where the government actually has to reimburse contractors for assets stolen by contractors' own employees and for fines that contractors incurred by violating environmental laws.

Working to change its culture of least interference, Energy has begun to include more standard provisions in its contracts to protect the government, as other agencies now have in place. But, until Energy remedies its excessive reliance on cost-reimbursable contracts, devotes more attention to costs, and strengthens its contract administration, such as requiring audited financial statements, reforms will achieve only marginal success.

Contract management will be even more important in the future as Energy faces a huge price tag for nuclear cleanup costs. It is now estimated that it will cost at least $160 billion to clean up Energy's legacy of 40 years of environmental abuse at its nuclear weapons complex. Furthermore, billions of dollars more will be needed to reconfigure the aging complex once Energy decides how and where future weapons materials can best be produced.

-- Medicare Claims. While soaring Medicare expenditures--$146 billion in fiscal year 1993 with an expected increase to $242 billion by 1998--underscore the need to manage the program judiciously, the government continues to pay little attention to activities for protecting program funds. Various reasons, including the availability of funding, have adversely impacted the Health Care Financing Administration's (HCFA) ability to detect improper payments or exercise effective contractor oversight. As a result, the government continues to lose opportunities to save billions in Medicare payments. HCFA needs to exercise stronger leadership in managing the Medicare program, improve contractor oversight, and reduce improper payments.

-- Federal Transit Administration (FTA) Grant Management. Serious shortcomings in FTA's oversight of grantees have allowed waste, abuse, and mismanagement in its over $30 billion in active grants. FTA was initially unwilling to recognize the pervasive problems in its grant oversight. In 1992, it reversed its stance, developed a meaningful action plan, and committed itself to fully implementing most of our previous recommendations. Unfortunately, in the past year, there has been an indication that FTA's commitment to correct known problems has lost momentum. FTA leadership needs to renew and then act on a commitment to strengthen its grant management.

OMB's Role

While agency leaders are responsible for solving high-risk problems, OMB also can play a key role by providing stimulus and support. OMB has provided leadership in its operation of a governmentwide high-risk program, which began at about the same time as our program. OMB's program, which entails about 100 areas, has helped elevate attention on problem areas within most agencies and has resulted in many improvements.

OMB embarked on a series of "SWAT" management reviews, which tackled finite problems affecting agency operations and, in a short time frame, resulted in the identification of needed corrective actions. For example, a joint OMB and Education SWAT team developed a plan to address escalating student loan defaults, eliminate "shoddy" schools from participating in the program, and implement organizational changes to improve Education's ability to manage its credit programs. However, the SWAT team approach is no longer being used. We think this approach should be given reconsideration as one interim way to help agencies develop implementation strategies for addressing high-risk areas. In the long run, however, a sustained effort by agency leaders is the key factor in fixing these problems.

Refining Our Early Warning System

In addition to fixing known high-risk problems, management also needs to have effective ways to identify emerging vulnerabilities early and focus on corrective measures to fix problems before large amounts of resources are wasted, embarrassing events occur, or program operations break down. The Federal Managers' Financial Integrity Act (FMFIA) is a key part of this early warning system. The act is built on the important concept of management taking responsibility for knowing about agency weaknesses and then acting decisively to correct their problems. The act also provides an approach for reporting to the Congress on what those problems are and on efforts to correct them so that the Congress is informed and top agency management is held accountable.

But two key problems have hampered FMFIA's effectiveness. First, agencies' self-reporting under FMFIA has not always worked. Last year, through our CFO Act audits and financial management reviews, we reported that six FMFIA reports did not accurately characterize or fully disclose management weaknesses. These reporting deficiencies were particularly acute at DOD and National Aeronautical and Space Administration (NASA). Their reports did not meet the intent of the act, with both agencies reporting that overall they had reasonable assurance that their internal controls and accounting systems met the act's objectives, despite having numerous serious weaknesses which were well documented, as highlighted below.

-- Despite our numerous financial audits and reports detailing long-standing management, internal control, and accounting system deficiencies that weakened DOD's ability to safeguard, manage, and control hundreds of billions of dollars in resources entrusted to it, DOD reported that its internal controls and financial systems, taken as a whole, provided reasonable assurance that the objectives of FMFIA were being achieved.

-- Similarly, NASA asserted that, except for material weaknesses and material nonconformances cited in its report, its internal management control and financial systems, taken as a whole, provided reasonable assurance that the objectives of FMFIA had been achieved. Just 2 months earlier, we had reported significant financial management and accounting system deficiencies that seriously weakened NASA's ability to safeguard, manage, and control its $15 billion in budget authority for fiscal year 1992 and over $14 billion in contractor-held property. The NASA Administrator has indicated his commitment to deal with NASA's serious financial management problems.

Second, agencies have been largely unsuccessful in fully correcting many of their deficiencies. The FMFIA process has too often produced a blizzard of paperwork, with agencies emphasizing process over results. This clearly was not the intent of the Congress in passing the FMFIA legislation.

At your request, we are considering options to streamline and strengthen FMFIA to make it more effective. OMB is also deliberating changes, and the NPR has called for simplified and consolidated reporting. We will soon be providing the Committee with our views on improvements needed.

USING THE GOVERNMENT PERFORMANCE AND RESULTS ACT TO CREATE A RESULTS-ORIENTED ENVIRONMENT

Our December 1992 transition report on government management issues and the NPR both recommended shifting the focus of federal management and accountability more towards program results and outcomes, with correspondingly less emphasis on inputs and rigid adherence to rules. The GPRA, which was enacted last summer with strong bipartisan support, incorporates many key facets of results-oriented management, and thereby provides an important framework that can be used to transform the way the federal government is managed. Full implementation of the GPRA, together with the CFO Act, will provide congressional and other decisionmakers with critical information they need to fully assess the results of federal programs and to establish future strategies.

The multiyear pilots called for under the GPRA will begin this year. GAO is fully prepared to meet the audit and evaluation responsibilities assigned to us under the act. To facilitate timely analysis and decision-making during GPRA's pilot phase, we plan to report our findings and recommendations on an ongoing basis to the Congress and the heads of pilot agencies and programs. This reporting strategy will contribute to enhanced congressional oversight of the pilots and allow pilot agency and program managers the opportunity to make necessary adjustments and improvements during the pilot phase.

The ultimate success of the GPRA will depend, in large measure, on the degree of cooperation achieved between program managers, other key executive branch officials, and the Congress. First and foremost, the Congress and the executive branch must work closely to reach agreement on the mission and objectives of programs. Achieving consensus on what federal programs are really trying to accomplish is an absolutely critical, but often difficult, first step.

Once consensus on expected program results is reached, use of accurate, timely, and relevant program outcome or performance information in the appropriations, oversight, and other key decision-making processes is vital. For example, useful program cost information needs to be produced, which will require systems and accounting changes and auditing to ensure the reliability of the data. Consistent performance information not only enhances individual program decision-making but also can provide a basis for better alignment of federal program efforts and policy initiatives that cut across agencies, such as law enforcement and job training programs.

Finally, the Congress and the agencies must work to ensure that program managers, if they are going to be held accountable for outcomes, have the needed authorities, tools, and flexibility. Agencies' efforts under the CFO Act, the GPRA, and NPR initiatives, such as downsizing and internal deregulation, as well as quality management, business process reengineering, and other management improvement initiatives, must be systematically integrated. These integrated initiatives must represent a coordinated agenda aimed at changing agencies' basic cultures from those that focus on inputs and process to those that focus on achieving common goals and results.

CONSIDERING NPR RECOMMENDATIONS AND ADDRESSING THE NEED FOR IMPLEMENTATION STRATEGIES

The NPR represents the keystone of the President's management reform agenda. Under its overall theme of "Creating a Government That Works Better and Costs Less," the NPR report emphasizes four key principles--cutting red tape, putting customers first, empowering employees to get results, and cutting back to basics. The report contains 384 recommendations covering 27 agencies and 14 crosscutting issues, such as budgeting, financial and information management, and management controls. A series of additional reports have been promised by the NPR to provide more details regarding its recommendations.

Many of the NPR report's themes and specific recommendations echo those that this Committee and we have stressed for years. They also are consistent with quality management principles and contemporary management thinking. Accordingly, many NPR recommendations, if successfully implemented, can make important contributions in addressing the government's management and programmatic problems.

The ultimate success of the NPR effort, however, will hinge largely on the detailed strategies and specific actions yet to be developed to implement its recommendations. In many cases, the NPR recommendations are unclear regarding the desired outcomes or how the desired outcomes are to be achieved. In other cases, the recommendations assume that agencies have the processes, systems, and qualified staff in place to accept additional authority and responsibility. Our management reviews of a number of large federal agencies have shown that most lack the fundamental underpinnings needed to implement the NPR report's recommendations. Specifically, we found that they had not created a strategic vision of their futures, lacked good systems to collect and use financial and program information, and did not have the skilled staff needed to accomplish their missions.

Priority attention must be given to improving agencies' management capacities so that they can accept the additional authorities implicit in the NPR philosophy and be held accountable for achieving results. Building agencies' capacities will be difficult and must be balanced against the need for budget constraint and personnel reductions. Indiscriminate, across-the-board cuts that diminish agencies' capabilities to manage their resources more productively and to deliver services to the public should be avoided.

For example, the NPR proposal to reduce the federal workforce by about 250,000, or 12 percent, over a 5-year period has engendered questions concerning the ability of some agencies to accomplish their missions with reduced staffing. While we need to move to a smaller, more efficient government, I would strongly counsel against the temptation to implement it through mechanical across-the-board reductions. Across-the-board cuts are blunt instruments, affecting both efficient and wasteful activities alike. This is another telling consequence of not having good financial, cost, and programmatic data. Calls for across-the-board reductions often are made out of frustration because reliable information is not available to make more informed decisions.

Instead, the movement to a smaller, more efficient government should be managed carefully, and needed budget and personnel reductions should be made strategically and rationally. In some cases, before long-term savings can be achieved, agencies will need to make the necessary short-term investments to modernize their critical management systems and processes.

Several NPR proposals also call for sweeping changes to fundamental processes such as the government's procurement and personnel practices. While some of the proposals may be controversial and need to be carefully weighed, they nevertheless offer excellent opportunities for serious debate and deliberation.

Clearly, there is a growing consensus that we need to change the way the federal government is managed. This situation provides an excellent opportunity to examine alternative management approaches. We should use this window of opportunity to establish a series of pilot demonstration projects to test some of the new ideas. The pilot approach has worked well in the CFO Act and has been legislated as a prudent way to implement the GPRA. Pilots provide an excellent vehicle for testing innovative proposals in a carefully controlled environment before requiring governmentwide implementation.

One area of experimentation we would suggest is expanding the pilot approach under the GPRA to develop prototype accountability reports that combine financial information from CFO Act and FMFIA materials with outcome-based programmatic information. In addition, the reinvention labs proposed by the NPR also offer a good vehicle to study new ideas and phase in carefully thought out improvements.

FACING THE BUDGET CHALLENGE WHILE ACHIEVING MANAGEMENT REFORMS

In previous appearances before this Committee, I have spoken of the need to get the deficit under control and ultimately eliminate it as a drag on both our economy and our government. The deficit not only harms long-term growth, and hence the standard of living for our grandchildren, but it also reduces the government's flexibility to respond to emerging needs and make necessary investments in management improvements. Our 1988 and 1992 transition reports on budget issues underscored the need for action.

Last year, the Congress and the President took a major step forward in the 1993 Reconciliation Act. This legislation imposed tight caps on discretionary spending and maintained the restraints on any expansion of entitlement programs. The budget caps will bring discretionary spending $69 billion below the baseline over 5 years. This has improved the deficit outlook since the time of our 1992 transition series. At that time, the most recent estimates showed a 1997 deficit of nearly $300 billion. September 1993 figures bring that estimate down to nearly $200 billion, and current updated Congressional Budget Office figures being issued, literally as I speak, are likely to be even lower.

The health of our economy has a major impact on the deficit. Although growth was slower than expected in 1992, this was offset by lower-than-expected interest rates. The economy did not impede deficit reduction. Recent growth gives reason for some optimism that the deficit may fall more in the next few years.

Unfortunately, even with this optimism and the significant step taken last year, if no further action is taken, the deficit will once again resume its upward path after 1998. Health care costs and rising federal interest payments will continue to exert upward pressure. Over the next few years, we will have to go beyond the 1993 Reconciliation Act. Further deficit reduction is inevitable.

How we go about reducing the deficit is important to future prospects for the U.S. economy and to the ability of the federal government to meet its internal management challenges. First, any effort to permanently control the deficit must rein in skyrocketing health care costs. This means addressing the system as a whole--cutting only the federal health programs merely shifts costs to other payers without reducing the burden on the economy.

Second, budget choices need to take into account the relatively low levels of investment in the United States. Within very tight budget constraints, there is a need to increase the share of federal resources going to effective investment programs that improve the nation's infrastructure, enhance the nation's human capital through education and training, and promote research and development leading to technological advances.

The deficit only increases the importance of wise investment decisions. We must look beyond spending totals and pay careful attention to the composition of federal spending. In this way, we can both support investment for the long-term future of our economy and improve the long-term capacity of the federal government to meet its responsibilities. We should not ignore the long-term implications of short-term decisions.

For example, in our recent reports on both the NPR and the President's executive order mandating reductions in administrative costs, we noted that defining "administrative" costs as distinct from program costs is not easy and can lead to unintended results. As mentioned earlier, we also noted the potential adverse impact of across-the-board budget or personnel reductions which do not distinguish between the varying roles or capacities of agencies. Although hampered by the lack of good data, downsizing needs to be part of a well-managed effort that improves the ability of agencies to achieve their missions with fewer resources.

SUSTAINING STRONG LEADERSHIP: THE KEY TO MEANINGFUL MANAGEMENT REFORM

The common denominator to the success of each initiative we highlighted today is the need for sustained, high-level commitment and leadership, whether it be implementing the CFO Act and the GPRA, reforming information management, solving high-risk problems, or addressing the wide range of NPR proposals. Management improvement must be a priority of the President and Vice President, and their personal commitment must cascade down to the department heads for meaningful progress to occur. The tempering experiences of past reform attempts consistently showed the lack of sustained commitment to be an insurmountable weakness. These efforts, which began with a flurry of activity, typically ended with little change in prevailing practices.

The magnitude of the challenge to reform federal management practices also requires that political and top career officials work together and that the administration involve the Congress early and often, in developing continuing partnerships. This is necessary because many problems are deeply rooted, long-standing, and often interrelated, making them tough to solve. There also will be difficult investment decisions where the future payoff in reduced costs and increased efficiency and service must be considered carefully in responding to short-term budgetary pressures.

The involvement of the Vice President in leading the NPR is unique. Also, the recent creation of the President's Management Council and the establishment of Chief Operating Officers in the agencies, along with the passage of the GPRA offer great potential. We are hopeful that these actions signal the administration's intention to make management improvement a continuing priority. Many of the NPR recommendations are not new ideas, but for some reason were never implemented in the past.

The inability to sustain priority attention and the lack of well-conceived implementation strategies were two key reasons past management reforms did not succeed. In this context, the specific studies underlying the overall NPR report are still being finalized, and detailed strategies for managing needed reforms are in the formative stages. Careful attention should be given to the administration's plans to implement specific NPR recommendations as they unfold.

The role of OMB and its capacity to carry out its broad management mandate also will be important determinants to the success of reform efforts. The OMB Deputy Director for Management and the Controller positions established by the CFO Act, when filled, have provided an impetus for change and have brought much needed high-level political leadership to the management arena. The selection of a new Deputy Director for Management will be very important and one barometer of the administration's commitment to management.

The administration also urgently needs to appoint a highly qualified Controller to head OMB's Office of Federal Financial Management. This position, since its creation in November 1990, has been vacant about 50 percent of the time, including the past 7 months. Without a strong Controller, we are concerned that implementation of the CFO Act will falter.

We have been encouraged by the quality of the current appointments to many of the agency CFO positions. However, we remain concerned that several of the 16 presidentially appointed CFO positions are still vacant. Strong CFO leadership is urgently needed to deal with the serious personnel and systems weaknesses that are at the heart of the government's financial management problems.

Top leadership involvement also is critical to building strong partnerships with the Congress. Such partnerships are needed to craft long-term, coordinated strategies for carrying out legislative reforms, such as the GPRA, and implementing some of the more contentious and difficult NPR recommendations.

THE IMPORTANCE OF REGULAR CONGRESSIONAL OVERSIGHT

The thrust of certain changes being contemplated by committees reviewing the organization of the Congress could help facilitate these partnerships by allowing more time for congressional oversight on the management and performance of federal programs. I believe congressional committees should be encouraged to hold comprehensive oversight hearings on major agencies annually or perhaps once during each Congress. Such hearings could use the agency CFO's annual report, the agency's audited financial statements, and annual FMFIA reports on the adequacy of their internal controls, as well as evaluation and investigative work performed by GAO, the other congressional support agencies, and the inspectors general. Federal agencies also would report on their progress against specific goals and provide information on the kind of performance measures envisioned in the GPRA.

This would help the Congress play an even more active leadership role in ensuring program results and the performance of agencies in handling financial matters, strengthening information systems, correcting high-risk areas, and monitoring progress in implementing GPRA, NPR, and other management reforms.

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Mr. Chairman, this concludes my statement. We are at a critical juncture in our national government as we address the need for real management reform and the clear message of the American people that they want a smaller, more responsive government. I view the environment today as a tremendous opportunity for change and look forward to working with the Committee as it strives for a better managed government. I will be glad to answer any questions that you or other Members of the Committee may have at this time.

DESCRIPTION OF GAO'S HIGH-RISK AREAS

LENDING AND INSURING ISSUES

Farmers Home Administration's (FmHA) Farm Loan Programs

FmHA has made billions of dollars of credit available to the nation's farmers who cannot get help elsewhere. Of the agency's $20.5 billion in outstanding loans as of June 1992, $7.6 billion, or about 37 percent, was held by delinquent borrowers, even after FmHA provided almost $8 billion in debt relief to delinquent borrowers during the period of fiscal year 1989 through the third quarter of fiscal year 1992. FmHA often fails to follow its own standards for making and servicing loans, and FmHA's loan policies--some of which are congressionally directed--do not adequately protect the taxpayers' interests. Losses can be expected to continue until the Congress tells FmHA to better balance its mission of assisting financially troubled farmers with its obligation to provide that assistance in a fiscally responsible manner. While some corrective actions have been initiated, such as providing field office lending officials with credit and financial analysis training, neither the Congress nor the Secretary of Agriculture have addressed fundamental problems involving FmHA's lax loan and servicing policies.

Student Financial Aid

During 1993, over 7 million students received $27 billion in grants and loans for postsecondary education from the Department of Education, including $18 billion in guaranteed student loans and $6 billion in Pell Grants. The large number of banks, state agencies, and schools participating in these programs, coupled with (1) federal financial and management information systems which do not adequately protect the government's financial interest and (2) little or none of the financial risk being shared by nonfederal participants, creates the potential for significant abuse and losses. Defaults during 1993 on guaranteed student loans exceeded $2.5 billion and outstanding guaranteed student loans exceeded $70 billion.

Department of Education administrative practices have resulted in inadequate oversight of program participants, erroneous payments, and lost revenue. High loan default rates, abuses by proprietary schools, and additional stress on the Department's systems related to the phasing in of direct lending, highlight the need for strengthened program management and control systems. While we believe that the guaranteed student loan program remains high risk, we want to acknowledge that Education is making financial management a departmental priority and has efforts underway to reduce financial management and control vulnerabilities.

Bank Insurance Fund (BIF)

Unprecedented numbers of bank failures and the likelihood of additional failures resulted in the Fund's reported insolvency at December 31, 1991. Weak internal controls, flawed corporate governance systems, flexible accounting rules, and lax regulatory supervision put the Fund at risk and further contributed to the problem by making any early warning of problems less likely. The Federal Deposit Insurance Corporation Improvement Act of 1991 contained provisions for rebuilding the Fund and accounting, corporate governance, and regulatory reforms designed to correct weaknesses in the deposit insurance system.

Since passage of the act, the industry's condition has improved significantly as an extended period of low interest rates enabled banks to earn record profits and recognize losses in their asset portfolios. Fund reserves increased from a $7 billion deficit at year-end 1991 to a $10.5 billion positive balance at September 30, 1993. FDIC's July 1993 projections show that the Fund will achieve its designated ratio of reserves to insured deposits in 1998 assuming continued improvement in the banking industry's condition. Based on current industry trends, the Fund may achieve the designated ratio sooner. Despite this progress, a number of safety and soundness issues such as effective implementation of certain Federal Deposit Insurance Corporation Improvement Act of 1991 reforms and improved examination practices still need to be addressed to ensure the long-term health and stability of the nation's banking and deposit insurance system.

Resolution Trust Corporation (RTC)

The RTC Completion Act, enacted in 1993, provided an additional $18.3 billion of funding for RTC to resolve the failed thrifts it has already taken control of and those that fail before July 1, 1995 and moved RTC's termination date up 1 year to December 31, 1995. RTC still has about $70 billion in assets, most of which will be difficult to sell. The potential for these assets to be sold at bargain basement prices will continue to make this area highly susceptible to fraud, waste, and abuse. RTC will face several challenges during this final phase of operation. First, it must ensure that past contracting and sales problems are corrected. Second, it must implement a series of legislated management reforms directed toward strengthening and improving RTC operations in such areas as information systems, legal contracting and oversight, minority and women-owned business opportunities, and audit followup, implementation, and oversight. Finally, it must plan for and begin the transfer to the Federal Deposit Insurance Corporation of responsibility for failed thrifts while ensuring that its own operations continue to pursue legislatively mandated goals.

Pension Benefit Guaranty Corporation (PBGC)

PBGC insures the benefits of private defined benefit pension plan participants. PBGC will pay the guaranteed portion of participants' monthly pensions if the plan terminates without being fully funded. PBGC's Single Employer Insurance Fund had a $2.7 billion deficit as of the end of fiscal year 1992. While the government could be liable for such deficits, the even bigger risk to the government is its exposure to $53 billion in underfunded liabilities associated with covered plans; about $14 billion of which relate to financially troubled companies. If several companies with large, underfunded pensions went into bankruptcy, PBGC might have to use its existing assets to pay these additional guaranteed benefits, and this, in turn, could require an infusion of general revenue financing in order for PBGC to continue to meet its obligations.

This risk would be reduced if underfunded plans improved their funding levels. However, current funding rules and proposed legislation may not provide assurances that companies will achieve the goal of full funding of all insured plan liabilities. Without full funding, PBGC and the taxpayers will continue to be exposed to this risk.

Medicare Claims

Medicare's soaring expenditures--$146 billion in fiscal year 1993, and expected to increase to $242 billion by 1998--underscore the need for the government to manage the program judiciously. But the government pays little attention to the activities to protect Medicare benefit dollars and is losing opportunities to save billions in Medicare payments. Funding for Medicare internal controls has declined consistently since 1989 and each year this reduction has adversely affected the program's ability to detect and avoid paying inappropriate or erroneous claims. Moreover, HCFA has not provided effective oversight of the contractors it uses to administer Medicare and safeguard program funds. HCFA has little information on fundamentals; such as the computerized edits and payment criteria used by contractors.

Department of Housing and Urban Development (HUD)

HUD is one of the nation's largest financial institutions, insuring and guaranteeing $400 billion of loans for single and multifamily units and spending about $25 billion a year on housing and community development assistance. HUD has had a history of fundamental management and organization problems that put billions of these dollars at risk: an organizational structure that blurs accountability; inadequate information and financial management systems which makes it much more difficult to establish adequate internal controls; and staff without the skills needed to effectively manage programs.

Our strategy will be to initially focus on single family and multifamily HUD-held mortgages and property disposition (about $13.8 billion in assets). We also will focus on HUD funding (about $6 billion annually) which supports Public Housing Agencies/Authorities whose inventories are estimated at around $70 billion. HUD expects multifamily loan defaults and property inventories to grow because of regional economic downturns, poor underwriting in the past, insufficient monitoring, lack of staff and financial resources, and legislative impediments. In addition, single family HUD-held mortgages and property disposition inventories have increased dramatically in recent years. Public housing programs are at risk because of deteriorating housing stock, high vacancy rates, weak internal controls, and ineffective management. HUD's reinvention efforts which include consolidating regional and field offices are expected to increase accountability by giving headquarters staff control over field resources. In addition, HUD has begun to develop integrated financial management and information systems but implementation is years away.

CONTRACTING ISSUES

Department of Energy Contract Management

Energy relies extensively on contractors to manage and operate the nation's nuclear weapons complex and national laboratory network. In fiscal year 1992, Energy obligated about $19 billion to 35 multinational firms and academic organizations. Historically, Energy's contractors have operated largely without oversight or financial risk, and this has placed the government's multibillion-dollar annual investment in contractors' services at risk. Energy lacks the necessary staff expertise and information systems to monitor contractors, and its contracts provide few incentives for cost-effective contractor operations.

Energy recently formed a task force to draft proposed reforms to its contract management policies. However, until Energy remedies its excessive reliance on cost-reimbursable contracts, devotes more attention to contract costs, and strengthens contract administration, reform efforts will not get beyond marginal success.

Superfund Program Management

The Congress has authorized $15 billion through fiscal year 1994 for the Superfund program, but estimates of complete cleanup costs are much higher. At the end of fiscal year 1993, the Environmental Protection Agency (EPA) had obligated about $12 billion, but completed cleanup of only 218 of 1,320 sites. EPA has wasted federal resources by not ensuring that parties responsible for cleaning up sites paid their fair share. The agency has also not effectively managed the cleanup contractors that spend a large portion of Superfund monies, although it has taken some actions to improve contract management. In addition, EPA lacks the information needed to rank comparative risks of environmental problems--it can't be sure that it is spending money on the most important areas. EPA recognizes the importance of risk-based funding decisions and is taking steps to move in that direction, but full implementation is a long way off. For example, EPA reviewed how its fiscal year 1994 budget addressed environmental problems of varying risks. However, only limited changes could be made because of information limitations and statutory constraints.

Defense Weapon Systems Acquisition

Despite defense budget reductions, DOD still spends about $85 billion annually on weapons systems. Historically, DOD's weapon acquisitions cost more than estimated, take longer to field than planned, and/or do not fully meet performance requirements. These problems have persisted over the years despite numerous studies and reform efforts.

The collapse of the Soviet Union coupled with large reductions in defense spending have introduced additional acquisition issues. The threat-based justification for many weapons has been reduced or eliminated and replaced by socio-economic and industrial base concerns associated with delaying or terminating major programs. Cutbacks will also require DOD to rely more on commercial products and practices to reduce costs and assure an adequate defense industrial capability.

GAO believes that needed acquisition reforms require fundamental change. Such changes must address DOD's acquisition culture, including parochial interests and incentives that encourage behaviors that are not in the best interest of DOD or the taxpayer.

Defense Contract Pricing

Inadequate government controls also have resulted in large excess payments to contractors. For example, during a recent 6-month period, contractors returned $751 million to the government. Most of the returns appear to have resulted from overpayments, and were primarily detected by the contractors.

Further, despite laws and regulations to protect the government, significant unallowable and questionable costs continue to find their way into contractor overhead submissions. During fiscal years 1991-93, DOD auditors questioned about $3 billion in contractor charges.

While efforts are underway to streamline the acquisition process, such reforms can only be sustained by ensuring the integrity and fairness of the procurement and contracting processes and properly protecting the government's and the taxpayers' interests.

NASA Contract Management

NASA spends about 90 percent of its funds each year on contracts--more than $13 billion in 1993. Because of serious contract management problems, which the agency has recognized, NASA cannot reasonably ensure that these contract funds are being properly used and accounted for. In some cases, inadequate contractor oversight has contributed to cost increases, schedule delays, and performance problems with space equipment. NASA's difficulties in contract management stem mostly from three major problems. First, the agency has assumed an unrealistically high level of funding. When actual funding levels came in under what was planned for, NASA has had to adjust the content and pace of work under contract. Second, some field centers do not fully comply with NASA contract management requirements. Third, NASA cannot effectively oversee its contractors in part because of inadequate accounting and property management systems.

ACCOUNTABILITY ISSUES

Defense Inventory Management

As of September 1992, DOD had inventories of spare and repair parts, clothing, medical supplies, and other support items valued at about $80 billion, and it has been estimated that $39 billion of this inventory was not needed to support DOD's operational forces.

Poor management practices relating to requirements determination, procurement, distribution, repair, control, and disposal have contributed to DOD continuously purchasing items greatly exceeding its operational and war reserve needs. More extensive use of commercial practices and changes in financial management and DOD's inventory culture are needed.

Internal Revenue Service Receivables

No meaningful improvement has been made by IRS to permit routine and accurate reporting of what is owed and collectible from its accounts receivable and, thus, no reliable assessment can be made of its collection efforts. In addition, while IRS has piloted some efforts to expedite collections, like offers in compromise, its decentralized collection process blurs lines of accountability and generally continues to be lengthy, antiquated, rigid, and inefficient, which in part is evidenced by its continued flat performance in amounts collected from year to year. IRS has not developed a plan for correcting its accounts receivable database--often referred to as the "masterfile"--to enable it to readily identify what are valid amounts owed. This, along with internal control and program weaknesses noted, limit IRS' ability to determine the effectiveness of its collection activities and devise a better strategy for collecting receivables, including optimal allocation of staffing. It also results in inaccurate routine reporting of its accounts receivable during the year to the Congress and others and shows that IRS' management of its accounts receivable continues to need top priority attention.

Management of Seized and Forfeited Assets

The government's seized and forfeited assets program, with an estimated $1.9 billion of seized inventory in 1992, has historically experienced mismanagement, weak leadership and oversight, poor internal controls, inefficient operations, wasted resources and lost revenues, and unreliable program information. Responsibility for the program rests with the Department of Justice and the Department of the Treasury.

Work we performed between 1986 and 1992 confirmed the existence of such serious problems. Although some management and systems changes have improved program operations, our audit of the U.S. Customs Service's fiscal year 1992 financial statements, its first under the CFO Act, revealed inadequate safeguards over, and incomplete and inaccurate accounting and reporting of seized property. While Customs has devoted considerable attention to its seized property program activities, and policies and procedures have now been put in place to help ensure proper accountability and stewardship, these requirements have not always been met. As a result, millions of dollars of cash, luxury items and tons of illegal drugs have been vulnerable to theft and misappropriation.

Managing the Customs Service

The U.S. Customs Service needs to address several programmatic and financial management problems. Our work indicates that Customs financial management systems do not provide accurate and reliable information to adequately (1) control its financial resources and (2) report on its financial operations. In addition, over time, interrelated weaknesses in mission planning, organizational structure, performance measurement, financial management, information management and human resources management have diminished Customs' capability to detect trade violations in imported cargo and to collect applicable duties, taxes, fees, and penalties.

In response to our September 1992 general management report, Customs embarked on an effort to improve mission planning, develop an effective trade enforcement strategy, create new performance measures, and revitalize its organizational structure. Also, Customs officials are currently seeking solutions to correct the agency's financial management problems identified during our general management review and financial statement audit of Customs. While these efforts are in the early stages, Customs seems to be moving in the right direction. But, it will take a significant and sustained commitment by its top management to resolve the problems.

Management of Overseas Real Property

The State Department is responsible for managing about 10,000 properties overseas, 1,750 of which are government-owned at a value of $10 billion. State has estimated the backlog of maintenance on these government-owned properties to be about $350 million. This program has been historically plagued by lax oversight, inadequate information systems, poor planning and mismanagement. Corrective actions over the years have been minimal, but recently State has begun to show a commitment to address these issues, and has initiated some important management reforms, particularly in the maintenance area. Sustained commitment to these reforms is needed to correct the chronic management weaknesses.

Federal Transit Administration Grant Management (formerly UMTA)

The Federal Transit Administration (FTA) currently manages over 4,000 active grants with a value of over $30 billion and awards over $3 billion in new grants each year. FTA has had serious shortcomings in oversight of grantees, allowing waste, abuse, and mismanagement of scarce transit resources. Despite these problems, FTA has, for the most part, asserted that its level of grantee oversight was sufficient. In 1992, however, FTA reversed its stance and recognized that there were serious pervasive problems in its oversight function, developed an action plan, and made a commitment to meaningful improvements. Unfortunately, there now are indications that FTA's commitment to correct the identified problems has lost momentum.

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