

GAO

Testimony

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Fiscal Year 1996 Budget Estimates for the
General Accounting Office

Statement of
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Before the
Subcommittee on Legislative
Committee on Appropriations
U.S. House of Representatives



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I am pleased to be here today to testify on GAO's fiscal 1996 budget request.

GAO assists the Congress in its legislative oversight of the executive branch. We see our mission as seeking to achieve honest, efficient management and full accountability throughout government. To accomplish this mission, we are prepared to follow the federal dollar wherever it goes and to evaluate the efficiency and effectiveness of federal programs. We serve the public interest by providing Members of the Congress and other policymakers with accurate information, unbiased analysis and objective recommendations on how to best use public resources.

Both GAO and the Bureau of the Budget (now the Office of Management and Budget) were created in 1921, the outgrowth of efforts at that time to modernize federal budgeting and accounting practices after World War I. In return for creation of the Budget Bureau, which centralized the budget authority of the executive branch in the Office of the President, Congress insisted upon creation of GAO within the legislative branch to monitor and audit federal expenditures.

GAO has always existed to serve the needs of the Congress. At first, in an era of limited government, this involved simple auditing of vouchers to make certain that federal payments were correct. But just as Congress adapted to an increasingly complex

world as the decades passed, so GAO changed to help Congress grapple with more difficult and complex issues.

GAO is a nonpartisan agency staffed with specialists in many disciplines--accountants, computer scientists, public administrators, business school graduates, engineers, statisticians, lawyers, actuaries, economists and others.

GAO's authorized staff level for the current fiscal year is 4,700, down from 5,325 employed by the agency in 1992. As I will discuss later in this statement, GAO is prepared to implement further reductions that would bring down our staff level to 3,975 in 1997. At that size, GAO would employ fewer workers than at any time since the late 1930s--and far below the 14,000 people employed by GAO during World War II.

At this year's authorized staff level of 4,700, GAO is about the same size as it was in 1963, when the federal budget was just approaching \$100 billion for the first time. In comparison, the federal budget today is more than \$1.5 trillion, a 15-fold increase, and many agencies audited by GAO have grown several times over since the early 1960s. GAO has worked hard to keep pace with the increasing demands placed upon it in those intervening years. By continually working to increase productivity, to take advantage of modern technology, and to improve the skills and expertise of its staff, GAO has been able to keep pace with the added

requirements and responsibilities that it now faces as a result of the growth in size and complexity of the federal government.

And we are proud of the results of our efforts. Although total audit coverage has never been possible, we have contributed significantly over the years to saving billions of dollars for the American taxpayer. In 1994 alone, GAO contributed to legislative and executive branch decisions and actions that resulted in more than \$19 billion in measurable financial benefits. This means we returned \$43 dollars in savings for every dollar appropriated.

FY1996 BUDGET REQUEST

The General Accounting Office is committed to being a model government agency of the future--smaller and at the same time achieving efficiencies through effective use of technology and quality management principles. GAO began downsizing in 1992 when it had a staff of about 5,325. With the support of this committee, we were able to offer retirement incentives in FY 1994 which resulted in the elimination of over 400 positions. This, combined with early out authority, a hiring freeze that has been in place since 1992, and a reduction in our field structure, has brought GAO to its lowest staffing level in a quarter of a century. Our FY1996 budget estimates were originally based on the assumption that we would continue to downsize to a level of 4,626. However, as a result of our discussions, Mr. Chairman, we have revised our

estimates to support a plan that will bring the agency to a level of 3,975 by 1997.

We believe that we can accomplish this reduction by maintaining our existing hiring freeze, offering additional early retirements, and consolidating and streamlining functions. This will result in a cumulative 25 percent reduction from the 1992 level. While these further staff cuts will necessitate reductions in some of our work, we will still be able to meet our core audit, evaluation, and investigatory responsibilities. In the final analysis, we believe GAO can demonstrate it is possible for federal agencies to absorb significant personnel reductions and at the same time still perform their assigned missions with some efficiency gains.

This plan will save millions of dollars. The recurring salary and benefit savings realized by a 25 percent staff reduction are nearly \$130 million each fiscal year. In 1996 it will require a budget of \$413 million for staff of 4,225, and in 1997 about \$389 million for a staff of 3,975 plus whatever amount, if any, Congress mandates in the meantime for salary and benefit increases for federal employees. GAO's fiscal year 1995 budget, by contrast is \$443 million.

GAO has already invested considerable resources in a number of state-of-the art technologies. It has installed voice mail

throughout its operations and connected all of its regional offices to a video conferencing network, which allows the agency to save tens of thousands of dollars in travel costs. GAO is now in the process of installing computer networks to allow rapid exchange of data without paper. The agency also plans to implement a full-scale program for computerized data collection and analysis, which will enable it to work more efficiently and with less staff. Complementing the technology program is GAO's facility modernization plan which stems from the need to remove miles of asbestos duct work in the agency's headquarters building. Completion of this effort will result in upgrading heating, air conditioning and electrical systems and will allow GAO to consolidate its Washington staff in a modern, functional, and safer building, while saving millions of dollars in costs for leased space.

If the agency is required to undergo too precipitous a drop in its budget and staff, our ability to meet our audit and investigatory responsibilities would be crippled and billions of dollars of financial benefits that flow from GAO's work each year might well be jeopardized.

If GAO's budget were to be cut by 25 percent in one year, wide-spread reductions-in-force would be required. This would seriously impair the agency's ability to provide essential audit coverage of federal programs and meet our statutory and other

responsibilities while costing the taxpayer over \$20 million to pay severance pay, unemployment compensation and administrative expenses associated with these layoffs.

In this regard, GAO takes a good deal of pride in the work it has performed in recent weeks for the committees of Congress -- work that reflects the agendas of the new committee leadership. This work includes helping target budget reductions, proposals for civil service reform and downsizing government, privatization of the Federal Aviation Administration and other programs, and welfare reform. GAO's audit and investigatory expertise needed to support these and other efforts would be seriously jeopardized if we were to lose staff with specialized skills and knowledge of ongoing federal programs because of precipitous budget reductions.

BENEFITS FROM GAO'S WORK

GAO studies help assure a more efficient and cost-effective government.

Each year, GAO's work leads to legislative and executive actions that provide financial savings and other benefits of several billion dollars. In 1993 for example, Congress acted to limit special tax incentives for corporations operating in U.S. possessions after GAO found that a disproportionate share of these incentives go to companies that generate relatively few jobs. In

another example, the Congress acted in response to GAO work when it terminated NASA's Advanced Solid Rocket Motor program in 1994. The cost of the program had doubled while an existing motor was performing safely and reliably. These decisions each provided benefits to the American taxpayer of well over \$1 billion. In total, GAO's work has led to budget reductions, cost avoidance, appropriation deferrals and revenue enhancements of nearly \$200 billion over the past decade, including \$19 billion in fiscal 1994.

GAO evaluations expose waste, fraud, abuse and mismanagement.

After the scandal at HUD in the late 1980's, GAO developed a list of "high risk" programs it continues to monitor for waste, fraud, abuse and mismanagement. GAO's work on unneeded inventory at the Defense Department, for example, has highlighted the waste associated with DoD's estimate of \$36 billion in supplies that are not needed to satisfy current operations or war reserves, as well as the cost and burden associated with storing and managing that inventory. In another example, GAO has reviewed such wasteful practices as Medicare's reimbursement of physical therapy billed at as much as \$600 an hour even though therapists' salaries are as little as \$20 to \$35 an hour. After GAO highlighted the growing loss from student loan defaults--\$3.2 billion in fiscal 1991--Congress acted to make changes which have led to significant progress; loan defaults declined to about \$2 billion in fiscal

1994. Our latest high-risk series were issued on February 22 and emphasized the need to continually focus on ways to eliminate practices that waste taxpayer dollars.

GAO expertise can help target reductions necessary for a balanced budget.

One of the major challenges facing Congress is how to cut federal spending by a cumulative \$1 trillion or more over the next 6 years to balance the federal budget. Each year, GAO works with the Appropriations committees to find potential savings from the Administration's proposed budget, and typically finds as much as a billion dollars in savings. GAO also works with the budget and authorizing committees to identify potential savings that would result from modifying, limiting or abolishing entire programs. GAO studies, for example, provided the initial impetus for the decision to close more than 1,200 field offices of the Department of Agriculture. Savings associated with these closings and the restructuring of USDA headquarters organizations are projected at \$3.6 billion over 5 years. In another example, GAO's detailed knowledge of AMTRAK is expected to be of major benefit to deliberations on whether to eliminate or trim the passenger railway's \$900 million annual subsidy. This expertise is available to congressional committees on programs that span the breadth of federal activities, from the Defense Department and NASA to the

Small Business Administration and the Department of Housing and Urban Development.

GAO offers insights on how plans to "downsize" government can best be accomplished.

As the Congress considers plans to require major reductions in the size and scope of federal agencies, GAO offers a breadth of knowledge about the federal civil service; the way in which government agencies contract for goods and services; and experience, some of it first-hand, on how best to accomplish downsizing goals. GAO itself, for example, is in the midst of its own downsizing, now well on the way to achieving its goal of reducing its staff by 25 percent. Meanwhile, GAO has closed half of its 40 field offices in the past decade while retaining high productivity. GAO has already implemented reforms now being proposed elsewhere, ranging from "pay-for-performance" to scrapping the rigid structure of federal GS pay schedules and substituting a system in which employees are placed in three broad bands, offering flexibility to managers and encouraging greater employee involvement. In other areas, GAO has monitored the closing of military bases, has done several studies on the defense force structure in light of decisions to reduce the size of the U.S. military, and has tracked the results of previous downsizing efforts at Social Security and other agencies.

Financial and information management and accountability are GAO watch words.

GAO, long an advocate of financial management reform for the federal government, worked with bipartisan congressional leaders to write the Chief Financial Officers Act, a law that now requires major federal agencies for the first time to prepare financial statements and undergo annual financial audits. The CFO Act passed after GAO studies and audits showed that federal agencies cannot account for tens of billions of dollars, that books cannot be balanced, and that mismanagement has led to billions of dollars in waste each year. GAO has a major responsibility to monitor progress under this new law, including a requirement to audit the Consolidated Financial Report to be issued to the American taxpayer on federal finances each year. More important, data developed as a result of these new requirements will provide congressional leaders with a wealth of information on how to reduce spending and ensure ongoing accountability, and will contribute to successful implementation of the Government Performance and Results Act, which makes performance measurement a key element of federal program management. GAO has also advocated better utilization of the estimated \$25 billion the federal government spends each year on computer and information technology. In 1994, GAO produced a widely-recognized study outlining how "best practices" in information technology can be used to better serve the public.

QUALITY MANAGEMENT

Starting in fiscal year 1994, GAO adopted a multi-year plan to significantly improve its operations under its Total Quality Management (TQM) approach. Using information from Members of Congress and their staffs, survey results from GAO's own staff and analysis of internal GAO data, GAO has focused its TQM efforts in four broad areas: improving congressional satisfaction with its products and services, improving the quality of its work and processes, better supporting GAO staff in their efforts to serve Congress, and improving the value of GAO to the taxpayer.

REVIEWS OF GAO

In 1994 GAO underwent a review by the National Academy of Public Administration. The Academy conducted the review at the request of the Senate Governmental Affairs Committee. NAPA's report, released in October 1994, includes several recommendations that GAO is using to improve its operations. In addition to the NAPA study, the House directed that GAO fund a broad-based, organizational performance review done by a qualified, private organization. Using that authority, GAO has retained the accounting firm of KMPG Peat Marwick. GAO is currently drafting a task order to present to the contractor and will coordinate it with its appropriations and oversight committees prior to sending it to Peat Marwick.

CONCLUSION

A strong GAO is critical to Congressional oversight of the executive branch. In addition to our financial audits, GAO is uniquely positioned with staff and expertise to watch for accelerating costs in big programs, alert the Congress to emerging problem areas, help pursue efficiency and effectiveness in major programs, and to be a critical element in ensuring accountability and integrity in the use of scarce federal funds and resources.

GAO is prepared to work with you and others in Congress to define the appropriate size for our agency, and we are prepared to help develop and implement plans to reach that level. Properly managed, a phased reduction will allow GAO to maintain its core audit, investigatory and evaluation functions that serve the needs of Congress and the taxpayers.

I would be happy to answer any questions you might have.