

GAO

## Testimony

Statement before the Group of States Against  
Corruption (GRECO) Evaluation Team

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# U.S. GENERAL ACCOUNTING OFFICE

## The Role of GAO in Assisting Congressional Oversight

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Members of the Evaluation Team of the Group of States Against Corruption:

I am pleased to appear before you today to discuss the role of the United States General Accounting Office (GAO) in assisting the United States Congress in conducting oversight of the executive branch. GAO's mission is to support the Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the benefit of the American people.

GAO is an independent, professional, nonpartisan agency in the legislative branch that is commonly referred to as the investigative arm of the Congress. The Congress created GAO in 1921 in the Budget and Accounting Act in order to assist it in the discharge of its core constitutional powers—the power to investigate and oversee the activities of the executive branch, the power to control the use of all federal funds, and the power to make laws. We have seen our role evolve over the decades as the Congress has expanded our statutory authority and called on us with greater frequency for oversight, insight, and foresight in addressing the growing complexity of government and our society. All of GAO's efforts on behalf of the Congress are guided by three core values:

*Accountability:* We help the Congress oversee federal programs and operations to ensure accountability to the American people. GAO's analysts, auditors, lawyers, economists, information technology specialists, investigators, and other multidisciplinary professionals seek to enhance the economy, efficiency, effectiveness, and credibility of the federal government both in fact and in the eyes of the American people. GAO accomplishes its mission through a variety of activities, including financial audits, program reviews, investigations, legal support, and policy analyses.

*Integrity:* We set high standards for ourselves in the conduct of GAO's work. Our agency takes a professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced approach to all activities. Integrity is the foundation of reputation, and the GAO approach to work ensures both.

*Reliability:* We at GAO want our work to be viewed by the Congress and the American public as reliable. We produce high quality reports, testimonies, briefings, legal opinions, and other products and services that are timely, accurate, useful, clear, and candid.

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GAO examines a broad range of federal activities and programs, publishes thousands of reports and other documents annually, and provides a number of other services to the Congress. We also look at national and international trends and challenges to anticipate their implications for public policy. By making recommendations to improve the practices and operations of government agencies, we contribute not only to the increased effectiveness of federal spending, but also to the enhancement of the taxpayers' trust and confidence in their federal government.<sup>1</sup> In keeping with our mission and responsibilities, we have identified four strategic goals and related objectives that will guide our work to serve the Congress in fiscal years 2002–2007.<sup>2</sup> Our four strategic goals are as follows:

- provide timely, quality service to the Congress and the federal government to address current and emerging challenges to the well-being and financial security of the American people;
- provide timely, quality service to the Congress and the federal government to respond to changing security threats and the challenges of global interdependence;
- help transform the federal government's role and how it does business to meet 21st century challenges; and
- maximize the value of GAO by being a model federal agency and a world-class professional services organization.

We develop and present this information in a number of ways to support the Congress, including:<sup>3</sup>

- evaluations of federal programs, policies, operations, and performance;
- oversight of government operations through financial and other management audits to determine whether public funds are spent efficiently, effectively, and in accordance with applicable laws;

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<sup>1</sup>U.S. General Accounting Office, *Fiscal Year 2003 Budget Request: U.S. General Accounting Office*, GAO-02-518T (Washington, D.C.: May 8, 2002). The testimony and all other products referenced in this statement are available at [www.gao.gov](http://www.gao.gov).

<sup>2</sup>For GAO's current strategic plan, which is being updated to reflect the goals shown above, see U.S. General Accounting Office, *Strategic Plan 2000-2005* (Washington, D.C.: Spring 2000). GAO's strategic planning and performance and accountability publications are available at [www.gao.gov/sp.html](http://www.gao.gov/sp.html).

<sup>3</sup>For additional information on GAO's current products and performance, see U.S. General Accounting Office, *Performance and Accountability Highlights* (Washington, D.C.: Spring 2002).

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- investigations to assess whether illegal or improper activities are occurring;
  - analyses of the financing for government activities;
  - constructive engagements in which GAO works proactively with agencies, when appropriate, to help guide their efforts toward achieving positive results;
  - legal opinions to determine whether agencies are in compliance with applicable laws and regulations;
  - policy analyses to assess needed actions, develop options, and note the implications of possible actions; and
  - additional assistance to the Congress in support of its oversight, appropriations, legislative, and other responsibilities.

The GAO documents that are referenced in the footnotes throughout my statement provide details on the full scope of our responsibilities, activities, and accomplishments. Today, I will highlight five specific ways that we support the Congress and seek to meet our strategic goals that are most relevant to today's discussion.

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## Specific Recommendations for Improvements and Cost Savings

Each year, we issue well over 1,000 audit and evaluation products to assist the Congress in its decision making and oversight responsibilities. As one indicator of the degree to which the Congress relies on us for information and analysis, GAO officials were called to testify 151 times before committees of the Congress in fiscal year 2001. Our audit and evaluation products issued in fiscal year 2001 contained over 1,560 new recommendations targeting improvements in the economy, efficiency, and effectiveness of federal operations and programs that could yield significant financial and other benefits in the future. History tells us that many of these recommendations will contribute to important improvements. At the end of fiscal year 2001, 79 percent of the recommendations we made 4 years ago had been implemented. We use a 4-year interval because our historical data show that agencies often need this length of time to complete action on our recommendations.

Actions on the recommendations in our products have a demonstrable effect on the workings of the federal government. During fiscal year 2001, we recorded hundreds of accomplishments providing financial and other benefits that were achieved based on actions taken by the Congress and federal agencies, and we made numerous other contributions that provided information or recommendations aiding congressional decision making or informing the public debate to a significant extent. For example, our findings and recommendations to improve government

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operations and reduce costs contributed to legislative and executive actions that yielded over \$26.4 billion in measurable financial benefits. We achieve financial benefits when our findings and recommendations are used to make government services more efficient, improve the budgeting and spending of tax dollars, or strengthen the management of federal resources. Not all actions on our findings and recommendations produce measurable financial benefits. We recorded 799 actions that the Congress or executive agencies had taken based on our recommendations to improve the government's accountability, operations, or services. The actions reported for fiscal year 2001 include actions to combat terrorism, strengthen public safety and consumer protection, improve computer security controls, and establish more effective and efficient government operations.

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## Performance and Accountability Series and High-Risk Update

In 1990, we began an effort to identify for the Congress those federal programs, functions, and operations that are most at risk for waste, fraud, abuse, and mismanagement. Every 2 years since 1993, with the beginning of each new Congress, we have published a summary assessment of those high-risk programs, functions, and operations. In 1999, we added the Performance and Accountability Series to identify the major performance and management issues confronting the primary executive branch agencies.<sup>4</sup> In our January 2001 Performance and Accountability Series and High-Risk Update, we identified 97 major management challenges and program risks at 21 federal agencies as well as 22 high-risk areas and the actions needed to address these serious problems.<sup>5</sup> Figure 1 shows the list, as of May 2002, of high-risk issues including the Postal Service's transformational efforts and long-term outlook, which we added to the high-risk list in April 2001.

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<sup>4</sup>For information on our criteria for identifying high-risk and major performance and management issues, see U.S. General Accounting Office, *Determining Performance and Accountability Challenges and High Risks*, [GAO-01-159SP](#) (Washington, D.C.: Nov. 2000).

<sup>5</sup>U.S. General Accounting Office, *2001 Performance and Accountability Series*, [GAO-01-242](#) through [262](#) (Washington, D.C.: Jan. 2001); U.S. General Accounting Office, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: Jan. 2001); and U.S. General Accounting Office, *Major Management Challenges and Program Risks: A Governmentwide Perspective*, [GAO-01-241](#) (Washington, D.C.: Jan. 2001).

**Figure 1: GAO's High-Risk List as of May 2002**

<b>High-risk areas</b>	<b>Year designated high risk</b>
<b>Addressing Governmentwide High-Risk Areas</b>	
Strategic Human Capital Management	2001
Information Security Weaknesses	1997
<b>Ensuring Major Technology Investments Improve Services</b>	
FAA Air Traffic Control Modernization	1995
IRS Tax Systems Modernization	1995
DOD Systems Modernization Efforts	1995
<b>Providing Basic Financial Accountability</b>	
DOD Financial Management	1995
Forest Service Financial Management	1999
FAA Financial Management	1999
IRS Financial Management	1995
<b>Reducing Inordinate Program Management Risks</b>	
Medicare	1990
Supplemental Security Income	1997
Earned Income Credit Noncompliance	1995
Collection of Unpaid Taxes	1990
DOD Infrastructure Management	1997
DOD Inventory Management	1990
U.S. Postal Service Long-Term Outlook and Transformation	2001
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Student Financial Aid Programs	1990
Asset Forfeiture Programs	1990
<b>Managing Large Procurement Operations More Efficiently</b>	
DOD Weapon Systems Acquisition	1990
DOD Contract Management	1992
Department of Energy Contract Management	1990
NASA Contract Management	1990

Source: GAO.

Congressional leaders, who have historically referred extensively to these series in framing oversight hearing agendas, have strongly urged the administration and individual agencies to develop specific performance goals to address these pervasive problems. In addition, the President's recently issued management agenda for reforming the federal government mirrors many of the issues that GAO has identified and reported on in these series, including a governmentwide initiative to focus on strategic management of human capital. We will be issuing a new Performance and

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Accountability Series and High-Risk Update at the start of the new Congress this coming January.

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## Audit of the Consolidated Financial Statements of the United States Government

The Government Management Reform Act of 1994 requires (1) GAO to annually audit the federal government's consolidated financial statements and (2) the inspectors general of the 24 major federal agencies to annually audit the agencywide financial statements prepared by those agencies. Consistent with our approach on a full range of management and program issues, our work on the consolidated audit is done in coordination and cooperation with the inspectors general. The Comptroller General reported on March 29, 2002, on the U.S. government's consolidated financial statements for fiscal years 2001 and 2000. As in the previous 4 fiscal years, we were unable to express an opinion on the consolidated financial statements because of certain material weaknesses in internal control and accounting and reporting issues. These conditions prevented us from being able to provide the Congress and the American citizens an opinion as to whether the consolidated financial statements are fairly stated in conformity with U.S. generally accepted accounting principles.

While significant and important progress is being made in addressing the impediments to an opinion on the U.S. government's consolidated financial statements, fundamental problems continue to (1) hamper the government's ability to accurately report a significant portion of its assets, liabilities, and costs, (2) affect the government's ability to accurately measure the full costs and financial performance of certain programs and effectively manage related operations, and (3) significantly impair the government's ability to adequately safeguard certain significant assets and properly record various transactions.

In August 2001, the principals of the Joint Financial Management Improvement Program (JFMIP)—Secretary of the Treasury O'Neill, Office of Management and Budget Director Daniels, Office of Personnel Management Director James, and Comptroller General Walker, head of GAO and chair of the group—began a series of periodic meetings that have resulted in unprecedented substantive deliberations and agreements focused on key financial management reforms issues such as better defining measures for financial management success. These measures include being able to routinely provide timely, accurate, and useful financial information and having no material internal control weaknesses or material noncompliance with applicable laws, regulations, and requirements. In addition, the JFMIP principals have agreed to (1) significantly accelerate financial statement reporting so that the

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government's financial statements are more timely and (2) discourage costly efforts designed to obtain unqualified opinions on financial statements without addressing underlying systems challenges. For fiscal year 2004, audited agency financial statements are to be issued no later than November 15, with the U.S. government's audited consolidated financial statement becoming due by December 15.<sup>6</sup>

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## Standards Setting, Guidance, and Management Tools

GAO also issues a wide range of standards, guidance, and management tools intended to assist the Congress and agencies in putting in place the structures, processes, and procedures needed to help avoid problems before they occur or develop into full-blown crises. For example, the Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires GAO to issue standards for internal control in government.<sup>7</sup> Internal control is an integral part of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. As such, the internal control standards that GAO issues provide an overall framework for establishing and maintaining internal control, and identifying and addressing major performance and management challenges and areas at greatest risk to waste, fraud, abuse, and mismanagement. A positive control environment is the foundation for the standards. Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. One factor is the integrity and ethical values maintained and demonstrated by management and staff. Agency management plays a key role in providing leadership in this area, especially setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate. In addition to setting standards for internal control, GAO participates in the setting of the federal government's accounting standards and is responsible for

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<sup>6</sup>U.S. General Accounting Office, *U.S. Government Financial Statements: FY 2001 Results Highlight the Continuing Need to Accelerate Federal Financial Management Reform*, [GAO-02-599T](#) (Washington, D.C.: Apr. 9, 2002).

<sup>7</sup>U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999).



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setting the generally accepted government auditing standards for auditors of federal programs and assistance.<sup>8</sup>

GAO also assists congressional and executive branch decision makers by issuing guides and tools for effective public management. For example, in addition to setting standards for internal control, we have issued detailed guidance and management tools to assist agencies in maintaining or implementing effective internal control and, when needed, to help determine what, where, and how improvements can be made.<sup>9</sup> We have also issued guidance for agencies to address the critical governmentwide high-risk challenge of computer security.<sup>10</sup> This work draws on lessons from leading public and private organizations to show the Congress and federal agencies the steps that can be taken to protect the integrity, confidentiality, and availability of the government's data and the systems it relies on. Similarly, we have published guidance for the Congress and managers on dealing with the other governmentwide high-risk issue—human capital.<sup>11</sup> These guides on human capital are assisting managers in adopting a more strategic approach to the use of their organization's most important asset—its people. Overall, GAO has undertaken a major effort to identify ways agencies can effectively implement the statutory framework

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<sup>8</sup>See, for example, U.S. General Accounting Office, *Government Auditing Standards*, [GAO/OCG-94-4](#) (Washington, D.C.: June 1994).

<sup>9</sup>U.S. General Accounting Office, *Internal Control Management and Evaluation Tool*, [GAO-01-1008G](#) (Washington, D.C.: Aug. 2001). The tool also provides citations of related documents we have issued to assist agencies in improving or maintaining effective operations. For an example of GAO guidance to address a specific internal control issue, see U.S. General Accounting Office, *Strategies to Manage Improper Payments: Learning from Public and Private Sector Organizations*, [GAO-02-69G](#) (Washington, D.C.: Oct. 2001).

<sup>10</sup>See, for example, U.S. General Accounting Office, *Executive Guide: Information Security Management, Learning From Leading Organizations*, [GAO/AIMD-98-68](#) (Washington, D.C.: May 1998).

<sup>11</sup>U.S. General Accounting Office, *A Model of Strategic Human Capital Management*, [GAO-02-373SP](#) (Washington, D.C.: Mar. 15, 2002) and U.S. General Accounting Office, *Human Capital: A Self-Assessment Checklist for Agency Leaders*, [GAO/OCG-00-14G](#) (Washington, D.C.: Sept. 2000).

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that the Congress has put in place to create a more results-oriented and accountable federal government.<sup>12</sup>

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## Special Investigations

GAO has an investigations unit that focuses on investigating and exposing potential criminal misconduct and serious wrongdoing in programs that receive federal funds. The primary mission of this unit is to conduct investigations of alleged violations of federal criminal law and serious wrongdoing and to review law enforcement programs and operations, as requested by the Congress and the Comptroller General. Through investigations, our special investigations team develops examples of misconduct and wrongdoing that illustrate program weaknesses, demonstrate potential for abuse, and provide supporting evidence for GAO recommendations and congressional action. Investigators often work directly with other GAO teams on collaborative efforts that enhance the agency's overall ability to identify and report on wrongdoing. Key issues in the investigations area are:

- fraudulent activity and regulatory noncompliance in federal procurement/contract administration systems;
- unethical conduct by federal employees and government officials, as well as organizational misconduct;
- fraud and misconduct in grant, loan, and entitlement programs;
- adequacy of federal agencies' security systems, controls, and property as tested through proactive special operations; and
- integrity of federal law enforcement and investigative programs.

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<sup>12</sup>For example, for results-oriented management, see U.S. General Accounting Office, *Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking*, [GAO/GGD/AIMD-10.1.18](#) (Washington, D.C.: Feb. 1998); U.S. General Accounting Office, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, [GAO/GGD-10.1.16](#) (Washington, D.C.: May 1997); and U.S. General Accounting Office, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996). For financial management, see U.S. General Accounting Office, *The Chief Financial Officers Act: A Mandate for Federal Financial Management Reform*, [GAO/AIMD/12.19.4](#) (Washington, D.C.: Sept. 1991) and U.S. General Accounting Office, *Core Financial System Requirements: Checklist for Reviewing Systems Under the Federal Management Improvement Act*, [GAO/AIMD-00-21.2.2](#) (Washington, D.C.: Feb. 2000). For information technology, see U.S. General Accounting Office, *Executive Guide: Maximizing the Success of Chief Information Officers: Learning From Leading Organizations*, [GAO-01-376G](#) (Washington, D.C.: Feb. 2001) and U.S. General Accounting Office, *Executive Guide: Measuring Performance and Demonstrating Results of Information Technology Investments*, [GAO/AIMD-98-89](#) (Washington, D.C.: Mar. 1998).

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One example of these collaborations between our investigations team and audit and evaluations teams is the use of forensic audit techniques to identify instances of fraud, waste, and abuse at various agencies. This approach combines financial auditor and special investigator skills with data mining and file comparison techniques to identify unusual trends and inconsistencies in agency records that may indicate fraudulent or improper activity. For example, by comparing a list of individuals who received government grants and loans to a list of people whose social security numbers indicate they have died, we identified people improperly receiving benefits. Data mining techniques have also been used to identify unusual government purchase card activity that, upon further investigation, were determined to be abusive and improper purchases.<sup>13</sup>

Overall, in 2001 GAO referred 61 matters to the Department of Justice and other law enforcement and regulatory agencies for investigation, and its special investigations accounted for \$1.8 billion in financial benefits.

GAO also maintains a system for receiving reports from the public on waste, fraud, and abuse in federally funded programs. Known as the GAO FraudNET, the system received more than 800 cases in 2001. Reports of alleged mismanagement and wrongdoing covered topics as varied as misappropriation of funds, security violations, and contractor fraud. Most of the matters reported to GAO were referred to inspectors general of the executive branch for further action or information. Other matters that indicate broader problems or systemic issues of congressional interest are referred to GAO's investigations unit or other GAO teams.

In summary, as a congressional "watchdog," GAO has broad responsibilities for assisting the Congress in its oversight of executive branch activities. We are pleased and honored that for over 80 years, the

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<sup>13</sup>For recent examples of work on these topics, see U.S. General Accounting Office, *Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments*, [GAO-02-406](#) (Washington, D.C.: Mar. 28, 2002); U.S. General Accounting Office, *Financial Management: Internal Control Weaknesses Leave Department of Education Vulnerable to Improper Payments*, [GAO-01-585T](#) (Washington, D.C.: Apr. 3, 2001); U.S. General Accounting Office, *Financial Management: Poor Internal Control Exposes Department of Education to Improper Payments*, [GAO-01-997T](#) (Washington, D.C.: July 24, 2001); U.S. General Accounting Office, *Financial Management: Poor Internal Controls Expose Department of Education to Improper Payments*, [GAO-01-1151](#) (Washington, D.C.: Sept. 28, 2001); and U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, [GAO-02-32](#) (Washington, D.C.: Nov. 30, 2001).

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Congress has relied on GAO for help in meeting its constitutional responsibilities and we look forward to continuing to work with and support the Congress in its efforts to improve the performance and accountability of the federal government for the benefit of the American people.

This concludes my statement. I would be pleased to respond to any questions that the Evaluation Team may have.

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## Contact and Acknowledgments

For further information on this statement, please contact J. Christopher Mihm, Director, Strategic Issues on (202) 512-6806 or at [mihmj@gao.gov](mailto:mihmj@gao.gov). Individuals making key contributions to this statement included Dan Blair, Rebecka Derr, Sandy McGraw, Dottie Self, and Lisa Shames.