

GAO

Testimony

For Release on
Delivery
Thursday,
March 24, 1988

Fiscal Year 1989 Budget Estimates for the
General Accounting Office

Statement of
Charles A. Bowsher
Comptroller General of the United States

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



135361

041638 - 135361

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss GAO's budget request for fiscal year 1989. The Justifications of Estimates/Fiscal Year 1989, which you already have, describes our request in detail.

We are requesting \$393,864,000 to fund 5,200 average positions. About twenty-seven percent of the \$64 million increase over the fiscal year 1988 appropriation is to meet mandatory pay and related costs (\$11.17 million) and price level changes (\$6.06 million). About forty percent of the increase is for a 100-average-position increase (\$5.74 million) and other program enhancements (\$19.67 million). The balance of 33 percent (\$21.4 million) is for the purchase of much needed equipment (\$14.4 million), alterations to modernize the GAO Building (\$6.4 million), and purchase of telecommunications services (\$0.6 million).

The Congress is faced with some very difficult tradeoff decisions as we attempt to get the federal deficit under control. It is during these times that GAO can make its most valuable contribution. A strong GAO comprising well qualified, highly motivated personnel equipped with modern audit and evaluation tools will be of critical importance to the Congress for the next several years.

In fiscal year 1987, over \$18 billion was saved as a direct result of GAO's work. We are proud of this record and will continue to do everything we can to ensure that GAO contributes in the most substantial way possible. But we are concerned that without adequate resources we will not be able to meet the demands placed upon us by the Congress at a time when you need our services the most.

The currently funded staffing level has remained essentially unchanged since 1981. Although we believe that the optimum staffing level for the agency is around 5,500, we are only requesting an incremental increase of 100 average positions in fiscal year 1989 to help offset the increasing demands placed upon us through legislatively mandated work and increased congressional request activity.

The volume of job requests from committees and members as well as requirements established legislatively continues to grow. GAO was assigned 26 specific jobs by the Continuing Appropriations Resolution for 1988 and the 1987 Budget Reconciliation Act alone. In addition, the conference reports on these 2 bills require another 11 new jobs and indicate future requests for 6 more.

The level of GAO resources devoted to direct assistance to the Congress has risen every year since 1981 and reached 82 percent in FY 1987. This is good news for GAO, for it indicates that our work continues to be valuable to you. However, at the 82 percent level, GAO is losing its capacity to shift resources

from work initiated pursuant to GAO's basic legislative responsibilities to congressional request work, and we are being forced to curtail undertaking some congressionally requested work.

We nevertheless need to maintain some flexibility for planning and conducting some part of our work under our basic legislative responsibilities so that important areas which GAO itself identifies as needing investigation can be addressed. This work also helps us maintain staff continuity and expertise on the wide variety of important issues GAO must be prepared to address throughout the world and enhances our capability to respond quickly and expertly when congressional requests are received.

There also has developed a backlog of assignments waiting for resources, and it is growing. We will do everything we can to meet these demands, including seeking the assistance of committee chairmen to help in prioritizing the congressional requests in areas where we have overloads, and moving of resources wherever possible.

We believe that during these difficult fiscal times we need the capability to be responsive and more productive. In FY 1987, we issued 767 reports of which 626 or 82 percent were issued at the request of committees and members. We testified before House and Senate committees 161 times. We believe these efforts contributed significantly to helping the Congress deal with critical, and often urgent issues, and we are anxious to maintain

the capability of providing the level of support that is necessary to meet all congressional needs.

Building Strong Resources

In order to maintain this capability, we need to be able to continue to hire more of the excellent people we have attracted to work on important issues for the Congress. We need to have the resources to make sure that these people get the proper training to supplement their strong academic skills and to provide the proper work environment, which can foster maximum effectiveness and efficiency in the development of reports and other products for the Congress.

An efficient, highly motivated workforce becomes more important to us as we continue to meet increasing demands to do more with less. We need to find better ways of compensating our staff and recognizing them for outstanding achievements. We need to be able to give them a modern, safe and healthy office environment and necessary ADP and telecommunications tools. At the same time, we recognize the need to do everything we can to improve our productivity with what we already have. We are investigating every avenue available to us to control our costs and to minimize the amount of dollars that we must request of the Congress. Some of these efforts involve seeking ways to reorganize our field structure to gain greater efficiencies and flexibility in staff assignments. We are now reviewing the

locations of those Washington, DC audit sites which are not physically located with the agency being evaluated or in the GAO building. We believe that we could realize significant savings by moving many of these sites into the GAO building and eliminating the rent we now pay for these remote locations.

Additionally, I announced on March 4 the dissolution of our Washington (DC) Regional Office and the reassignment of Washington Regional Office staff to our 7 program and technical divisions to strengthen management accountability and flexibility. This will significantly enhance efficiency by reducing supervisory overhead. Direct control of the centralized resources to plan and conduct our work in the Washington area now resides in the divisions responsible for that work.

We have also instituted an Operations Improvement Program to enhance the efficiency and effectiveness of our work. Currently, there are 153 operations improvement projects in five broad areas: (1) responsiveness to congressional needs; (2) timeliness and quality of our work; (3) efficient use of resources; (4) staff motivation and skills; and (5) working cooperatively as a GAO team.

We share your concern, Mr. Chairman, that taxpayer money be used to maximize government productivity, and especially GAO's, and we value the support you have given us in these efforts in the past. We intend to continue to support the Congress with the highest quality work using whatever resources the Congress can make available. Also, I want to express my appreciation for the

opportunity we will have in the coming year to support Congress' legislative and oversight efforts to maintain and improve the efficiency, economy, and effectiveness of government programs.

Highlights of GAO Work

Since we last appeared before this committee, we have addressed many issues of considerable importance to the Congress and provided much valuable information to Members of Congress to help deal with a wide variety of complex and difficult problems. Some of the many visible issues on which we have provided assistance are: the continuing problems with our nation's budget and trade deficits, insider trading on Wall Street, the Iran/Contra controversy, the deteriorating financial condition of the federal savings and loan industry and the Farm Credit System, the medical malpractice controversy, defense affordability issues, financial services industry issues, and the stock market crash. There are, of course, many others. But I would like to outline our accomplishments and plans on these few.

--Reducing the Deficit

During FY 1987, the government continued to struggle with the twin problems of a budget deficit and the international trade deficit. With no quick or easy solutions to these problems in sight, the threat posed by these deficits will have serious consequences for our future standard of living and the defense

capability of our nation. GAO continued to play an important role in advising the Congress through reports and testimony on ways of dealing with the deficits.

In dealing with the federal government's budget deficit, GAO recommended ways the government can perform essential functions at lower costs. During this era of limited resources, GAO suggested specific ways to improve efficiency or to manage resources more carefully. In addition, GAO played an important role in identifying budget items which can be delayed or eliminated without crippling programs.

As the trade deficit continued to increase this past year, the U.S. became the world's largest debtor nation. A national policy debate on the causes of and solutions for the deficit intensified. The debate focused on the development of trade legislation. GAO was at the forefront of this debate, warning against unwarranted protectionist policies and posing ways to strengthen U.S. trade laws.

To respond to unfair foreign trade barriers, GAO identified many ways to strengthen government efforts to combat such practices. For example, GAO suggested ways to improve government efforts to stop imports of counterfeit goods, enforce U.S. rights under international trade agreements, and combat foreign subsidies for agricultural exports. The omnibus trade legislation includes many of GAO's suggestions.

GAO will need to play a key role in assisting the Congress and providing members with information and analysis across a broad range of programs and issues. We will be ready to meet that challenge.

--Monitoring Insider Trading

Last year Wall Street was shaken by one of the largest insider trading scandals in its history--involving officials at highly respected securities trading firms engaging in sophisticated market manipulations. At the request of Congress, GAO began in 1987 to evaluate methods of detecting and investigating insider trading.

We pointed out that the Securities and Exchange Commission and the exchange self-regulatory organizations invested millions to develop sophisticated computer surveillance systems to detect suspicious trading activity.

We evaluated the initiatives taken by the self-regulatory organizations and the SEC to improve their operations and are assessing the overall systems from a management and accountability standpoint. We also are studying special difficulties created for regulators when traders use international securities markets and banks to conduct their business.

--The Iran/Contra Affair

Government accountability continues to be an important theme of GAO's work, especially in the wake of the Iran/Contra Affair, the investigations of which focused attention on the continuing dilemma confronting the government concerning how to safeguard national security within our constitutional system of checks and balances. GAO played a major supporting role to the Senate and House Select Committees investigating the affair. We found, in one of our examinations, that controls over humanitarian aid provided to the Contras were extremely lax. In another report, GAO documented the arms sales to Iran.

Following the Iran/Contra hearings, legislative proposals for increased oversight were developed. Bills introduced in the Senate and House would provide GAO with greater access to records of the Central Intelligence Agency to assist the Congress in striking an appropriate balance between secrecy and accountability.

We are requesting twenty-five additional average positions to intensify our efforts in government accountability. These efforts encourage agencies to use uniform and consistently applied accounting and reporting principles. They also encourage agencies to develop and maintain accounting and internal control systems which produce complete, reliable, and timely information on the results of operations for use by agency and congressional decisionmakers.

--Helping the Nation's Lending Institutions

GAO continued in FY 1987 to examine the financially troubled banking and Farm Credit systems. The financial positions of the Federal Savings and Loan Insurance Corporation (FSLIC) and the Farm Credit System continued to deteriorate in 1987. Through reports and testimony, GAO detailed the developments that led to the current financial crises of both institutions.

In recommendations to the Congress, GAO championed a need for prompt recapitalization of FSLIC. In 1987, Congress passed legislation allowing the insolvent FSLIC to sell \$10.8 billion in bonds. Concerning the Farm Credit System, Congress designed a plan, incorporating many of GAO's proposals for correction of accounting practices, that would create an independent oversight board and an insurance fund.

--Dealing with Medical Malpractice Problems

One of the most debated public policy issues affecting the delivery of health care services in the U.S. is medical malpractice. Over an 18-month period, we issued a series of reports examining the causes of the current malpractice crisis, which is characterized by a continuing increase in the number of claims, and the size of malpractice awards and settlements as well as rapid growth in malpractice insurance premiums.

GAO recommended actions by all groups affected--physicians, lawyers, hospitals, insurers, and patients--to improve the efficiency, predictability, and equity of the way

medical malpractice claims are resolved. We identified appropriate changes in state tort laws and suggested viable alternatives to the tort system. We identified the extent to which regulatory agencies have and use information to make decisions about insurers' rates and solvency, and suggested better ways to educate patients as to what their expectations should be from the health care system.

To focus debate and interest at the federal, state, and local levels and to generate the actions needed to collectively address medical malpractice problems, GAO also produced a 10-minute video, which is a new way GAO is selectively communicating the results of some of its work. The video was distributed to governors, state legislators, and interest groups having the capacity to act on malpractice problems and was shown via closed-circuit television to members of the Congress and their staffs.

--Defense Affordability

In 1987 GAO continued to report on the widening gap between Pentagon spending plans and the budgets available to finance them. GAO played a major role in support of congressional efforts to control defense spending without weakening the nation's military strength. GAO also continued to conduct reviews of defense budget submissions, acquisition practices and weapon systems programs.

For fiscal year 1989 we are requesting twenty-five additional average positions in the defense area to provide more coverage on defense procurement matters, military personnel issues, and military readiness/sustainability. The increase is needed to respond to increasing congressional needs relating to areas such as the feasibility of technology to build and deploy strategic defense programs; cost, schedule, and performance of civilian space programs; concerns over the management of DOD's covert programs; issues which adversely affect DOD's ability to negotiate fair and reasonable prices and protect against unreasonable contractor costs; and monitoring and evaluating implementation and impacts of the Goldwater-Nichols Defense Reorganization Act of 1986. This act affects almost all aspects of DOD--including strategic and contingency planning, acquisition, the military command structure, personnel policies, staffing levels, and the organization of the Military Department headquarters.

--Financial Services Industry Issues

We were asked by the Congress to perform exhaustive studies of two major financial services industry public policy issues in fiscal year 1988. The first review involved a comprehensive response to questions posed to us on how to best protect bank safety and soundness, avoid conflicts of interest and regulate international banking operations if the Congress repeals the Glass-Steagall laws that have separated the banking and

securities industries for the past half century. This work required the collective efforts of a number of the GAO's senior staff to produce a report within an extremely tight two-month timeframe. Congressional testimony was presented on this report in mid-February.

--Stock Market Crash

The second review involved an exploration of the causes of the stock market crash of October 1987 and resulted in a January 1988 report of preliminary observations on ways to lessen the effects of major changes in investor psychology on markets should the events repeat themselves. This work had to be completed within two months and required the mobilization of 40 individuals from a number of GAO organizations, as well as a panel of experts to assist us in our work. Our preliminary report was only the first step in a process that will involve the long-term commitment of GAO personnel to assist the Congress in resolving some of the more complex questions raised by the market crash. We have testified before several congressional committees on this report and are planning to issue additional products later in the year.

Overall, the focus of GAO work in the financial institutions area has been on significant national issues that face the Congress. Our work has been more responsive to congressional needs than ever before in providing analysis of complex financial issues. We expect a continuing increase in demand in the coming

year to provide the Congress with these types of insights because of the extremely dynamic nature of the entire financial services industry and the need for the Congress to continuously reconsider the regulatory approach it wants to take.

In the light of potential changes in the banking industry arising from Glass-Steagall amendments, the recent turbulence in the securities markets industry, and the need to assess ways to improve regulation as well as the need to assess how to best deal with the savings and loan industry, we are requesting for FY 1989 twenty-five additional average positions to respond to strong congressional interest in the soundness of the financial services institutions and markets. The financial services industry is facing crises in the thrift industry, the commercial banking system, and the domestic and international securities markets and exchanges.

Requested Increase in Staffing

In summary, then, we are requesting congressional approval of another 100 average positions for fiscal year 1989 to meet the increasing demands placed upon us.

This represents a modest increment needed to effectively respond to the volume of congressional requests and congressionally mandated requirements. We are requesting 25 additional average positions in the defense area, 25 to expand the number of audits of agencies' financial statements, and 25 to

examine the soundness of the financial services institutions and markets. We are also requesting 25 additional average positions to help meet defined objectives in reviews of complex government-wide ADP and telecommunications programs. The increase will help us in responding to the increased level of congressional interest in the issues related to these areas.

We recognize that the Congress is faced with some difficult funding decisions this year, and authorizing an increase in staffing may prove difficult. But I believe our request is justified especially when we consider the role GAO plays in identifying opportunities for billions of dollars in improvements in the operations of government programs. As I mentioned earlier, our measurable dollar savings in 1987 were over \$18 billion. This is a significant achievement for us, and I want to express my thanks to this committee and the Congress for the support that has made it possible.

Governmental Accounting Standards Board

In FY 1989 we will be making our final payment to the Governmental Accounting Standards Board. I want to thank the committee for its support of the full implementation of this Board. We are optimistic that the Board's goal of developing uniform standards for state and local governments will be helpful to federal agencies as well. We intend to adopt some of the Board's rules as part of our regular process of setting federal

accounting standards so that all levels of government in the United States will be able to use the same accounting standards and principles.

Pay-for-Performance

During last year's hearings I mentioned that we were moving ahead with planning for a pay-for-performance system for our evaluator and evaluator-related staff. We are continuing to do so, and I am even more convinced today that through an improved compensation system we can both enhance productivity and better compete for the kind of talent we need to do the Congress' work.

I firmly believe GAO's greatest strength is its staff's competence, dedication, and enthusiasm. We need to find ways to recruit, retain, and motivate highly qualified people with these characteristics. This is especially challenging under the lower growth conditions in today's environment. We are developing a pay-for-performance system which bases employee rewards on job performance more than longevity and promotes the most effective and efficient use of our human resources.

Operating in a low-growth environment for some time, we have worked diligently on improving our internal systems to maximize staff motivation in that environment. To provide that motivation, we need pay and classification systems that expand staffing flexibility, and allow our staff and managers to directly influence pay through job performance. We believe that

our pay-for-performance proposal will provide these benefits. For example, the existing within-grade pay system bases pay changes largely on time-in-grade. Our new performance-based system will not use time-in-grade pay increases. Instead, we will directly relate pay changes to performance and capability. Recently, we discussed our plans with the staff of several congressional committees including our Appropriations and Oversight Committees.

Because we will eliminate a basic part of the existing system, we need to make a one-time adjustment to compensate our staff for their pro-rata share of within-grade pay increases. For example, if a staff member had earned one-half of a within-grade pay increase at the time we change systems, we would compensate the employee for that pro-rata share. This one-time expenditure will permit our entire staff to begin the new system on an equal basis and will prevent an inequity for those who have earned a share of a within-grade pay increase. The total cost of this one-time adjustment would be \$976,000.

We recognize the change from the current system to a more appropriate and flexible system will be a significant event for many of our staff. Consequently, we have involved all of our employee groups and many of our managers and staff in developing the final design of our system. We are confident that with their help and insight we will ensure that all views and perspectives are adequately represented and that our final system design will be the best in the government.

Modern Technical Support for Evaluators

As we have examined ways to improve the efficiency and enhance the productivity of our professional staff, it has become apparent that their use of modern ADP and telecommunications tools is essential. We must recruit more staff who have been trained in the use of computers and telecommunications tools. GAO needs to provide an adequate number of these tools for their use. However, at the present time, we do not have enough microcomputers for our staff. There are frequently waiting lines to use the equipment, and there are delays in processing data for many of our jobs due to equipment insufficiency.

If we are able to obtain funding to implement our long range Information Resources Management Plan, we can provide our staff with microcomputers at their workstations which can be tied into a mid-level processor through a modern telecommunications network. This equipment configuration will provide our staff with the data processing and communications capability that we need. Regions will be able to share data with headquarters and vice versa, organizations working on a job will be able to share files, and we will be able to analyze very large data files without incurring the programming and set up time--not to mention cost--of a mainframe computer. This is the way efficient organizations work today.

Our people are acquiring the skills to use this technology much faster than we are able to provide it, and they are forced to do their work in less efficient ways. They often become frustrated by the resulting inefficiencies and loss of productivity. Also, as our people become more computer-literate, we are finding that they need access to computing capability that goes beyond what a microcomputer can provide. Job methodologies require the use of larger computing capabilities, and we need to provide a mid-level ADP resource to our people that will let them run jobs too small for a mainframe computer but too large for a microcomputer.

Our long range Information Resources Management Plan also provides for the integration and consolidation of our administrative systems. We have identified the Department of Agriculture's National Finance Center (NFC) in New Orleans as the best host site for many of our administrative systems, and are currently working with NFC personnel on several systems. By taking advantage of NFC's capabilities we believe that we can achieve considerable efficiency while avoiding cost escalation experienced at contractor facilities. Our supply system will be operational at NFC in FY 1988, and we are beginning work on transferring our Property System to New Orleans. Transfer of our Personnel/Payroll processing to their facility should be completed by the end of FY 1988, with full operation to begin in FY 1989. We are also considering the development and operation of our Assignment Management and Tracking System at NFC. This

system provides important status information on all GAO jobs and is currently run by a contractor. Our ultimate objective is to consolidate as many of our administrative systems as possible at the National Finance Center in New Orleans.

Telecommunications Initiatives

In the telecommunications arena, we worked with the Architect of the Capitol and other Legislative Branch agencies in the development of the Legislative Branch Telecommunications Network Plan, issued in December 1987. The plan sets the stage for GAO to meet its telecommunications requirements within the framework of Legislative Branch systems. This plan is the first step toward final definition and implementation of a telecommunications system that will meet present needs and provide flexibility for future growth. In FY 1989 we are requesting funding for contractor assistance to complete necessary studies called for by the plan, as well as for the subsequent procurement of a telecommunications system for the GAO headquarters building.

Modernizing the GAO Building

In the early seventies GSA initiated a project to renovate the heating, ventilating and air conditioning system in the GAO Building. That project was modified in the 1980s to remove

health-threatening asbestos. Our building has over 35 miles of asbestos-composition duct work as well as other asbestos materials in areas such as pipe & wire closets and some ceilings. The air ducts in the building are actually made of asbestos; they are old and becoming "friable"--that is they are decomposing and crumbling--creating an urgency to remove them from the building. We are on top of the problem and are most concerned about protecting the health and safety of our people. GSA has removed asbestos from the 1st, the 7th, and half of the 2nd floors. Smaller abatement projects have been completed in the basement and sub-basement. Also, asbestos abatement is almost complete on the top floor where the air handling and air-conditioning systems are located.

But our progress has been much too slow, because we must compete for funding from GSA and OMB with all other projects in the national capitol area. Mr. Chairman, this project has already been underway for more than 15 years, and if we cannot do something to speed it up, it will still be unfinished 8 or 10 years from now. We have worked with GSA on the problem and have agreed that if we were to transfer ownership of the GAO building to GAO, we would stand a much better chance of achieving our objectives. Right now we are paying GSA over \$19 million per year for rent of the GAO building. If we owned the building and could use that money to maintain it and to remove asbestos, we are convinced that we could complete the project much more quickly, with corresponding cost savings to the government.

Right now GSA is planning to spend about \$12 million in FY 1989 on the Asbestos Removal Project. No money has been earmarked for FY 1990, and we don't know whether we will be able to proceed or not when OMB and GSA make FY 1990 spending decisions.

Additional efficiencies could be realized if we ran the program. Staff efficiency gains would be made. Additionally, under the current program GSA is funding asbestos removal, and we have to fund space restoration costs once the asbestos has been removed. Having one contractor, working for GSA, taking out asbestos and another, working for us, restoring the space adds time and cost to the entire project. We believe that if we can get control of the building and have one contractor responsible for the entire project, we can achieve our objectives sooner and for less overall project cost than we can now.

As space is restored following asbestos removal, we are anxious to renovate it so that our people can have use of desktop microcomputers and telecommunications systems in a safe, pleasant, and efficient work environment. Air conditioning and electrical systems will be upgraded to support the use of microcomputers in evaluator work stations, and we are confident that, when complete, the GAO Building will provide a highly professional work environment with the necessary tools available for our people to do the best work possible.

Amending GAO's Appropriation Language

Since fiscal year 1976 GAO's appropriation language has authorized \$5,000 for official representation. These funds are used to cover representation expenses with foreign visitors, officials from state and local governments, and experts and consultants who assist and advise GAO on a wide range of issues. We have not had an adjustment to this account since 1976 to cover inflationary impact on representation expenses. The Consumer Price Index has risen 100 percent since 1976. We are requesting a modest increase of \$2,000 in this authority.

We are also asking for funds that can be used for planning the 1992 Congress of the International Organization of Supreme Audit Institutions, which is composed of my counterpart officials in countries all over the world. This Congress meets every 3 years, and this will be the first time that United States will have been the host country. Much work will have to be done to arrange for all the necessary details of such an event. This authorization will permit us to move forward.

Annual Report

GAO's 1987 annual report includes the financial statements for the office, audited by Price Waterhouse & Co. Additionally, it incorporates commentary on GAO's ongoing efforts to improve its operations and internal controls, similar to that required of

executive branch agencies by the Federal Managers Financial Integrity Act. It is my hope that eventually every major federal government agency will issue a similar annual report with clear and understandable financial information. Such reports would assist the Congress in its oversight role and inform the American taxpayer about agency operations.

Conclusion

This year we are requesting the resources to meet the growing volume of requests from the Congress as it deals with difficult funding problems while sustaining effective administration of government programs. The additional resources we are requesting will enhance our ability to use up-to-date tools and to properly recognize our people for strong job performance in providing the Congress with an appropriate level of support and with quality products that can be relied upon in supporting critical decisions facing the Congress over the next few years.

We strongly believe that our record of accomplishment warrants the support that you have given us in the past. We hope that you will continue to support us in the coming years.

This ends my formal statement, Mr. Chairman. I am pleased to have the opportunity to respond to your questions.