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Improving Government Management and Accountability

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

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Committee On Governmental Affairs
United States Senate

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Mr. Chairman and Members of the Committee, I am pleased to discuss today the need to strengthen and improve the government's overall financial management systems and agency operations and accountability.

Demands to fund current programs as well as to provide for new investment in national defense and capital improvements continue unabated. However, with annual deficits exceeding $200 billion and an accumulated deficit over $2 trillion, the shortfall in meeting government outlays is critical, and our management processes have not been able to cope with this situation.

As the Congress and the President grapple with the budget deficit, it is imperative that ongoing operations be as efficient and effective as possible. We must be sure that every dollar is spent wisely and that there is full accountability.

Based on audits and evaluations of the major programs and operations of the government that GAO has completed during the 6 years I have been Comptroller General, I believe there are four areas that demand our immediate attention if we are to bring about necessary improvements.

First and foremost, I **believe that the deficit of the federal government is the major problem which faces us today, and it must be dealt with.**

Second, **the financial management systems used and concepts followed by the federal government are inadequate** to deal with a trillion dollar federal government operation.

Third, **I have major concerns about the management of the operations of some of our major government activities and programs**, such as the IRS, FAA, the Farm Credit System, and the Social Security Administration's computer modernization program, which affect the lives of millions of our citizens.

Lastly, **I believe that the accountability to both the public and the Congress in such areas as Defense procurement, international assistance, and intelligence is inadequate.**

Yesterday I gave a speech in San Francisco on the deficit issue, which I am submitting for the record. This morning I would like to focus on the other three issues, financial management, agency management, and accountability, since they are important both to insuring that we effectively and efficiently carry out our public mandate and to dealing ultimately with our federal deficit. I would like to outline for you the problems in these areas and then focus on a series of suggestions which we believe would begin to deal with these problems.

FINANCIAL MANAGEMENT

Focusing first on financial management, we have serious, long-standing internal control weaknesses which have resulted in a litany of horror stories. For example, serious flaws in controls over Defense's $160 billion inventory have resulted in fraud, waste, and abuse which has been documented in many Defense and GAO reports. Also, many agencies continue to have serious problems in systems used to collect and account for the government's reported $300 billion in receivables, with billions of dollars going uncollected or being written off.

Our accounting systems are old and in bad shape. The basic structure was laid out in World War II, and many of the systems are built around 1950's vintage concepts and computers. The systems have become inefficient as new requirements have been layered on old without changing the basic structure. They are costly to operate and maintain, and they still do not produce the complete, consistent, reliable, and timely data needed for deciding policy or managing day-to-day operations. For example, the Veterans Administration cannot tell you how much it actually costs to care for a patient or to run a hospital, which is information that is necessary to control costs and effectively manage its programs.

Current financial reporting and budget practices do not disclose the actual costs of operations or the current and probable future costs of investment decisions, such as the

procurement of major weapons systems. They do not permit comparison of actual costs and accomplishments to budget plans and do not disclose the financial position of the government.

Finally, the accuracy and reliability of financial information about the federal government is uncertain because most of the information is unaudited and financial statements are not prepared. The Farm Credit System, which I will touch on shortly, demonstrates what can happen when we lack adequate financial statements and financial audit.

Improved financial management systems will not make difficult decisions easy, but they will give policymakers and the public the information they need to better understand the issues, the choices available, and the consequences of those choices for the American people. Improved systems will help us in controlling resources and establishing accountability, and will provide agency managers the information they need to manage the day-to-day operations of our government.

AGENCY OPERATIONS

The government's financial problems are compounded by serious problems in the management of agency operations. In the past year, we have seen critical program operations in trouble. The problems the IRS experienced in processing returns in 1985

seriously diminished public confidence in the agency. The near-record 561 deaths from U.S. airline accidents in 1985 heightened public and congressional concern over how well FAA is overseeing aviation safety. The Farm Credit System, our country's largest agricultural lender, is in serious financial distress, in part because of poor management practices and decisions. The Social Security Administration's efforts to improve its service to the public by modernizing its computer system have experienced a number of problems, and service continues to be less than it should be.

A panel of experts at the National Academy of Public Administration concluded in a 1983 report, Revitalizing Federal Management, that the government had experienced a decade of declining managerial effectiveness despite efforts to solve specific management problems. I see no evidence that this has changed.

The need for strengthened management systems has been borne out by the general management reviews GAO has completed in six departments and agencies. These reviews have shown that current approaches to management in the federal government are not getting the job done well. The problems resulting from frequent turnover of top level agency leadership; little or no focus on long-term planning; and difficulty in maintaining an effective federal workforce are common themes that have emerged from these

reviews. There is also a need for greater attention to developing adequate support systems, such as strengthened financial management and reporting systems, which can help to increase accountability within the federal government.

ACCOUNTABILITY

I have been concerned about accountability for some time, especially accountability for contractor profitability in government contracts. There is ample reason for concern when government procurement is almost $200 billion a year, much of which is awarded through negotiated, non-competitive contracts.

The cost of our national defense has increased by almost 100 percent since 1980, and procurement is a major share of this growth. Over the past two decades, Defense has performed two major studies to assess its contractor profit policies; the latest, completed in 1985, was the Defense Financial and Investment Review (DFAIR). GAO performed a review of the DFAIR study for this Committee and found the profitability information in DFAIR to be seriously misleading. We concluded that profits of defense business were substantially greater than reported and substantially higher than in the commercial sector.

Another important facet of government accountability is the audit of and proper control over all government accounts,

including sensitive accounts. Establishing proper accountability over some programs is difficult because of their very nature. For example, our reviews of U.S. foreign assistance programs in the Philippines and other countries identified control and accountability problems which resulted in diversion of funds to unauthorized use.

Concerns about accountability frequently surface over government activities and programs which are not subject to normal public scrutiny, such as very secret military weapons projects--sometimes called "black" programs--and sensitive intelligence activities. Programs of this nature require special access and are known to a relatively small number of people. Over the past several years, we have increased our audits and reviews of these activities. We have been successful in obtaining access to review highly classified weapons programs and tactical and strategic command, control, communications, and intelligence programs.

The one major exception has been Central Intelligence Agency activities. Here we have been unsuccessful in gaining similar access. The CIA takes the position that GAO's involvement in reviewing CIA activities is not necessary because the select committees on intelligence are the Congress' oversight mechanisms.

SOLVING THE GOVERNMENT'S MANAGEMENT PROBLEMS

There are solutions to the problems I have outlined for you today. These solutions require strong leadership from both the Executive branch and the Congress.

1. First, we have seen through the experience of state and local governments and other organizations we have studied that a successful program of improving financial management is possible. There are five elements to the program:

   -- Centralized leadership and the development of a financial management reform plan.

   -- Audited financial statements to achieve discipline and accountability.

   -- Upgraded accounting systems that not only provide fund control but needed financial and management information as well.

   -- Budgets that include costs and long-term investments along with receipts and outlays.

   -- Focus on improving internal controls.

In 1985, GAO proposed a conceptual design for a modern financial management system in our report, Managing the Cost of Government, which I am submitting for the record along with a joint study on federal reporting that we conducted with the Auditor General of Canada. In 1986, I also commented extensively on this issue in a letter to Senator Proxmire which I have also included for the record.

2. Second, we need to upgrade our major agency operations. GAO plans to continue its agency management reviews to focus on high level management problems. The agencies' leadership has reacted positively to our management reviews. I would hope that the Congress will use these reviews and other means to begin to address long-standing major problems. The Congress, together with GAO, needs to focus on the major operations of the government.

3. Third, we need a program for defense contractor profitability reporting. We have a recent exposure draft outlining a program for contractor reporting and verification of that data by external auditors as a means to begin to deal with this problem and help assure fair and reasonable profit in the negotiation of government contracts. I am providing you a copy of that draft which contains suggested legislative language for a bill to implement an acceptable profitability reporting program.

4. Finally, we need to improve accountability and oversight of sensitive government activities. If the Congress were to determine that GAO should be involved, legislation to clarify this matter would facilitate our auditing of the CIA. We are prepared to carry out that responsibility. And I believe GAO could be very helpful in assisting the Congress in its oversight of these important and sensitive activities.

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In conclusion, Mr. Chairman, while the problems I have outlined are significant and long-standing, there are ways we can begin to solve them. I believe there is a positive role for the Congress in addressing each one of these issues, and we want to work with you and your Committee in improving government management. I have attached a more detailed discussion of these issues.

This concludes my remarks. I would be happy to answer any questions.

 ATTACHMENT I

This attachment provides GAO's detailed views on the need to strengthen and improve the government's management systems, structure and accountability together with GAO's suggestions for beginning to deal with problems in these systems. These systems and structure are the heart of the our government's ability to provide quality services economically and efficiently, with full accountability for the expenditure of public funds.

Demands to fund current programs as well as to provide new investment in national defense and capital improvements continue unabated. However, with annual deficits in the range of $200 billion and an accumulated deficit on the order of $2 trillion, the shortfall in meeting government outlays is critical. Every day of the year, the government spends about $500 million more than it takes in.

As the Congress and the President grapple with the budget deficit, it is imperative that ongoing operations be as efficient and effective as possible. The government must be sure that every dollar is spent wisely and that there is accountability.

Efficient and effective operations can only be accomplished if the government has adequate management systems. Unfortunately, despite some progress, the government does not have these systems, nor does GAO see the programs underway to develop them.

--The financial management systems used and concepts followed by the federal government are inadequate to deal with a trillion dollar federal government operation.

--The management of the operations of a number of major government activities and programs, such as the IRS, FAA, the Farm Credit System, and the Social Security Administration's computer modernization program, which affect the lives of millions of our citizens, need to be strengthened.

--Accountability to both the public and the Congress in such areas as Defense procurement, international assistance, and intelligence is inadequate.

URGENT NEED FOR FINANCIAL MANAGEMENT REFORM

Reform of the government's management systems and operations is needed. The first priority is comprehensive overhaul of the government's financial management systems. Controls over government programs and operations are often either nonexistent or inadequate. Furthermore, the government's antiquated accounting systems often do not provide either timely and reliable program and financial information or accountability over the government's resources and their use.

Improved systems will not make difficult decisions easy, but they will give policymakers and the public the information they need to understand the issues they face, the choices available, and the consequences of those choices for the American people. Improved systems will help ensure that government resources are properly controlled and that we have financial accountability. Without these fundamentals, government cannot hope to regain the confidence of the American people. Likewise, improved systems will provide agency managers the information they need to manage the day-to-day operations of our government.

The federal approach to financial management has not fundamentally changed since World War II, despite the major advances in computer and telecommunications technology. Many of the systems are built around 1950's vintage concepts and computers. The systems have become inefficient as new requirements have been layered on old without changing the basic structure. They are costly to operate and maintain, and they still do not produce the complete, consistent, reliable and timely data needed for deciding policy or managing day-to-day operations.

 ATTACHMENT I

Strengthening Management Controls

Serious and often long-standing internal control weaknesses have resulted in wasteful spending, poor management, and losses involving billions of dollars. In some cases, outright fraud has occurred, and in others, the government's ability to carry out crucial public services has been hampered.

As shown in agency's reports under the Federal Managers' Financial Integrity Act--an act passed under the leadership of the Senate Governmental Affairs Committee--these problem areas persist in a wide range of areas.

Comparison of the Number of Agencies
Reporting Material Weaknesses by Category

Category	Number of Agencies (out of 18) 1983	1984	1985	1986
Financial management and accounting systems	17	17	17	17
Procurement	14	14	13	13
Property management	14	15	16	16
Cash management	12	12	12	13
Grant, loan, and debt collection management	13	13	14	11
Automated data processing	10	14	17	17
Personnel and organizational management	10	12	11	16
Eligibility and entitlement determinations	9	10	9	8

Agency Financial Integrity Act reports, inspectors general audits, and GAO reviews have shown the serious impacts of continuing internal control weaknesses. For example:

--Flaws in the armed service's management of Defense's $162 billion inventory have been documented in well over 300 prior Defense and GAO reports. The lack of basic internal controls makes it impossible for Defense to effectively manage its inventories and has resulted in untold fraud,

waste, and abuse. We reported last year that the Army could not determine how much ammunition and explosives are lost each year. Large quantities are stolen, including such lethal military items as C-4 explosives, grenades, and claymore anti-personnel mines which have reportedly fallen into the hands of extremist organizations. Equally important, the Army's ability to effectively manage its inventory in support of its mission is hampered.

--Agencies continued to disclose serious weaknesses in automated systems that control billions of dollars in federal funds. For instance, the Department of Health and Human Services (HHS) continues to have control problems in the systems designed to ensure accurate, complete, and timely recording of earnings on over 300 million earnings records. The Veterans Administration does not have adequate contingency plans to deal with any long-term disruption at its data processing centers which process about $24 billion annually in veterans benefits, medical care, and pensions. In our 1985 survey of ADP security at 17 agencies, all 25 of the automated systems we looked at were vulnerable to error, fraud, waste, abuse, and destruction because essential controls and security safeguards were lacking.

--Agencies, collectively reporting over $21 billion in delinquent debts at the beginning of fiscal year 1986,

92 percent of the government's total, reported having material weaknesses in debt collection. The Debt Collection Act of 1982, sponsored by the Committee, provided agencies with the tools they needed, but agencies have been slow in getting the act implemented. Billions continue to go uncollected, and additional billions are written off annually. In August 1986, the Director of OMB, in imploring agencies to address this problem and the effects of "decades of financial mismanagement and bureaucratic inertia," stated that the "failure to employ every conceivable tool at our disposal to bring this situation under control would be an abdication of our responsibility to the taxpayer . . ."

--Despite progress since passage of the Prompt Payment Act of 1982, also enacted under the leadership of the Senate Governmental Affairs Committee, agencies are still not paying contractors on time. In August 1986, we reported that about one-fourth of all contractor invoices were paid late. At the same time, payment of a significant part of its invoices earlier than due continues to cost the government millions of dollars in lost interest.

--Agriculture continues to have problems recovering overpaid benefits in its $11 billion Food Stamp Program. Losses due to overpayment of benefits are nearly $1 billion annually. States have experienced difficulties in their

collection practices, with only about 3 cents on every overpayment dollar recovered during fiscal years 1981 through 1984.

Strengthening Accounting Systems

Adding to the government's dilemma is the overall poor condition of agency accounting and financial management systems. Although conformity with the Comptroller General's accounting requirements was mandated by the Congress 36 years ago, many accounting systems still do not conform or provide the financial information needed to manage the government efficiently and effectively. At the end of 1986, agencies' Financial Integrity Act reports cited hundreds of material weaknesses in their systems. Billions of dollars are not being adequately accounted for, managed, or financially controlled.

The Department of Defense, which reported that 52 of its 114 accounting systems do not conform, does not have adequate accounting control over assets, liabilities, and capital, totaling billions of dollars. For example, despite the issuance of over 50 GAO, inspectors general, and internal audit reports over the past 15 years, Defense has been unable to maintain full accounting and financial management control over its multibillion dollar foreign military sales program. In addition to other

problems, Defense cited its inability to consistently reconcile differences between its cash disbursement and delivery reporting records. At one point in 1986, the unreconciled differences were $742 million.

The Veterans Administration's (VA) financial management systems do not capture and report actual per hospital or per patient cost information. Consequently, VA officials are forced to use unreliable medical program cost estimates when developing plans, formulating budget requests, and executing approved budgets. They do not have the information needed to plan and manage VA medical programs most efficiently and effectively.

Improving the Budget

We need to improve the structure and content of the budget. The last major reform of the budget, entailing the creation of the modern unified budget, was in the late 1960's, the result of the work of the President's Commission on Budget Concepts. That earlier reform must be built upon and a more useful budget developed.

Particular attention needs to be given to developing a budget that better distinguishes between capital and operating amounts and between trust and non-trust fund amounts, and a

budget that does not treat loan programs the same as grants by charging off the full loan amount in the first year. For instance, by combining capital and operating amounts, we blur an important distinction which can result in a bias against major long-term investments, such as replacing the government's antiquated computers and systems.

Dealing with the budget deficit also requires that we deal with the issues at hand rather than finding artificial numbers' solutions. We are concerned that many of the proposed "savings" for fiscal year 1987 are questionable, since they merely shift outlays or collections from one fiscal year to another, with no impact on the structural deficit we face. Members in both houses of the Congress and on both sides of the aisle have spoken out about the "blue smoke and mirrors" being used to meet the deficit targets; this is an area which concerns us greatly and which further contributes to the lack of public confidence in our government.

Improving Accountability

Another essential component of strengthened financial management is the preparation and audit of agency and government financial statements. It is time for federal agencies to prepare annual financial statements so that the Congress and the public,

not to mention the agencies themselves, have complete, accurate, and timely information on their financial position and results of operation. Since 1934, publicly-held corporations have been required by law to prepare annual financial statements which can withstand the scrutiny of an independent audit. The Single Audit Act of 1984, passed under the leadership of the Senate Governmental Affairs Committee, likewise requires state and local governments receiving federal assistance to have comprehensive audits of their financial statements. The public deserves no less from the federal government.

The Government Accounting Standards Board summed up well the importance of accountability through financial reporting:

> ". . . financial reporting plays a major role in achieving public accountability in a democratic society. Public accountability is based on the belief that the taxpayer has a 'right to know,' a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives."

The problems of the Farm Credit System, which have been extensively reported and which we will touch on later, demonstrate graphically what can happen when financial statements do not follow acceptable practices and financial audits are not performed to assure the reliability of data and reports.

In another example, the federal government's plans to sell loan portfolios to the private sector could be hampered by the lack of reliable financial information on the value and condition of the underlying loans. Financial auditing could have helped pinpoint the sad condition of the government's loan account balances and records long ago. The Education Department, for instance, found that it could cost the Department about $75 million to prepare its supporting loan files for sale.

Yet another example involves the Maritime Administration (Marad), which was authorized in 1972 to encourage the construction of vessels in the United States by guaranteeing loans to U.S. citizen shipowners. This program faces serious financial problems. Yearly defaults, which were running at $100 million or less through 1984, began to increase significantly in 1985 and climbed to about $1.4 billion last year. The fact that the program's expenses exceeded its revenues, however, was not clearly shown in Marad's latest financial statements, and Marad budget estimates have been consistently understated. Marad has advised us that it will take corrective action to make these disclosures in future financial statements. Marad's financial reporting needs to be improved so that the Congress is not led to make policy decisions it would not make if the program's true financial condition was clearly presented.

Developing a Blueprint for the Future

So far we have focused on the problems. There are solutions. Lasting reform is achievable, and we must begin now. GAO has looked long and hard at the issue of financial management and has tried to determine what can be done to improve it. Although we have concluded that there are indeed solutions, we have at the same time concluded that there are no painless, easy or magical ones. However, the problem can be attacked under a longer-term approach.

For the federal government to be successful in reforming financial management, improvements must be guided by a cohesive framework and an overall plan with clear objectives. We must agree on where we want to go. We must assure continuity across successive administrations and work toward a common set of long-term financial management goals. We will need strong leadership in the Executive branch and support from the Congress.

In 1985, GAO proposed a conceptual design for a modern financial management system in our report, Managing the Cost of Government. Last year, we issued a joint study on federal reporting that we conducted with the Auditor General of Canada, and we commented extensively on financial management reform in a letter to Senator Proxmire.

We must start now to lay the groundwork for a new federal financial management structure that encompasses:

--strengthened federal accounting, auditing, and reporting;

--improved planning and programming;

--a streamlined budget process;

--comprehensive use of cost-based reporting;

--systematic measurement of performance; and

--improved and strengthened internal controls.

Such a structure would not only improve program planning but also help control costs by providing both the Congress and agency management with reliable, timely, consistent financial data to judge how well program decisions are implemented and to identify emerging problems so that corrective actions can be taken as necessary.

An improved financial management structure should also expand performance measurement in the federal government. Currently, attention is focused on the obligation and cash information needed to control appropriations and calculate the deficit. This approach provides information on valid cash management and fiscal needs, but it omits important information about the long-term costs of government.

There are solutions to the problems we have outlined. These solutions require strong leadership from both the Executive branch and Congress. GAO has seen through the experience of state and local governments and other organizations it has studied that a successful program of improving financial management is possible. There are five elements to the program:

1. Centralized leadership and the development of a financial management reform plan.
2. Audited financial statements to achieve discipline and accountability.
3. Upgraded accounting systems that not only provide fund control but financial and management information as well.
4. Budgets that include costs and long-term investments along with receipts and outlays.
5. Focus on improving internal controls.

BUILDING AN EFFECTIVE MANAGEMENT STRUCTURE

An area vital to our national well being is strengthening our government's capacity to manage its operations more effectively. We are concerned about the overall deterioration of our government management structure.

Management improvement efforts of the past decade or more have been relatively ineffective. GAO studied centrally directed, government-wide management improvement programs conducted in the 1970's, and found that few initiatives had lasting impact. Similarly, a panel of experts at the National Academy of Public Administration concluded in a 1983 report, Revitalizing Federal Management, that the government had experienced a decade of declining managerial effectiveness despite efforts to solve specific management problems. They reported that improvement efforts have been sporadic, poorly planned, and inadequately backed and staffed. We see no evidence that this has changed.

Need To Strengthen Program Operations

Our overall agency management systems need to be upgraded. In recent years, we have seen serious management problems in a number of our most critical government programs which highlight the practical consequences of management issues to government service to the public. The following focuses on five such programs.

The Internal Revenue Service. Probably no other federal agency has as great an impact on public perceptions of the efficiency and fairness of government as the Internal Revenue

Service (IRS). The IRS has attributed the recent increasing concern about citizen noncompliance with the tax laws to public frustration with a system that is perceived as unfair. The problems experienced with processing returns in 1985 further diminished the nation's trust in the agency's ability to administer the tax laws.

Although recovering from those processing problems, the IRS is now faced with the challenge of restoring public confidence, while implementing the most far-reaching revision of the Internal Revenue Code in 30 years. Negative public reaction to the new W-4 form is but one indication of how IRS will be tested in implementing the new law.

--Under the President's fiscal year 1988 budget proposal, IRS would receive 9,500 new employees to help it achieve the goal of increasing tax collections by $2.3 billion. Achieving this goal will be complicated by the absence of IRS agency-wide systems to determine where additional resources could best be allocated or whether existing allocations provide for the best use of IRS resources. For example, although IRS' inventory of owed but unpaid taxes rose by 31 percent between December 1984 and December 1985 (to a total of $45 billion), IRS has not fully defined that inventory or identified the reasons

behind it. IRS thus does not have all the information it needs to determine how its resources can best be used to deal with these unpaid taxes.

--Heavily dependent upon computers, the IRS could find itself unable to meet its computer capacity needs over the next several years. IRS has not completed the necessary workload analyses nor has it monitored the performance of its current systems to have adequate information to determine the useful life of its computers. Accordingly, IRS could find itself short of computer capacity earlier than anticipated, without enough warning to take corrective action.

The Federal Aviation Administration. The near-record 561 deaths from U.S. airline accidents in 1985 heightened public and congressional concern over how well the Federal Aviation Administration (FAA) is overseeing aviation safety. Since airline deregulation in 1978, airline competition, increased air traffic, and aging air traffic control equipment have challenged FAA's ability to maintain air safety and ensure airline compliance with safety regulations. Specifically,

--FAA presently has fewer air traffic controllers than it did in 1981 even though air traffic has reached record levels. Controllers and their supervisors told us they

are overworked and believe their ability to maintain an adequate margin of safety could eventually be impaired.

--FAA's National Airspace System Plan, designed to upgrade FAA air traffic control equipment and facilities, has been delayed because FAA underestimated its technical complexity. The delays mean that projected productivity gains will also be delayed, adding to pressures on the controller workforce and the equipment they must continue to use.

The Farm Credit System. The Farm Credit System, our country's largest agricultural lender, is in serious danger of not being able to fulfill its congressional mandate of providing reasonable credit to the nation's farmers. Due to adverse economic forces and poor management practices, this private, borrower-owned network is experiencing severe financial distress. It incurred over $4 billion in operating losses during 1985 and the first three quarters of 1986, as its loan portfolio and surplus deteriorated significantly.

The System's viability is in serious doubt, raising the strong possibility that the Congress may have to provide assistance to rescue some of the System's 37 banks. While this condition resulted partly from factors beyond the System's control, such as decreasing agricultural income and falling land

values, it also resulted from poor management practices and decisions. These include:

--banks' lax credit management standards and mismanagement of interest rate risks, causing excessive interests costs;

--failure to follow acceptable practices in preparing financial statements and conducting financial audits to inform decisionmakers of the true dimensions of emerging problems;

--inadequate controls over operating costs; and

--incompatible automated data systems.

However, the most fundamental obstacle to addressing the System's problems is its management structure. The System is a complex decentralized organization consisting of hundreds of legal entities devoid of centralized decisionmaking, accountability, and authority. As the System is now organized, these entities are collectively liable for Systemwide debts but do not have the centralized decisionmaking needed to solve Systemwide problems.

The Social Security Administration. The Social Security Administration (SSA) touches the lives of almost all Americans and its program and administrative expenses presently account for about one quarter of the entire federal budget. A great deal of attention has always been focused on policy and benefit levels

for various social security programs. However, SSA is experiencing problems in providing high quality service to the public in several areas due to inattention to various management programs.

For example; each year SSA puts out more than 40 million fully or partially computer generated notices to individuals concerning their benefit levels or eligibility. Most are fully computer generated. Unfortunately, these notices are often confusing, incorrect, or contain contradictory information. As a result, individuals must contact SSA by phone or visit a field office to get problems resolved. These efforts are often frustrating because SSA's field office employees frequently do not have access to the information needed to clarify the notice or resolve the problem.

SSA's computer systems are critical to its ability to provide quality public service. SSA's current efforts to modernize its systems began in 1982, and the agency estimates that through fiscal year 1988 it will have spent over $640 million on this effort. However, SSA is experiencing significant problems in its computer modernization program because a major thrust of the program--improving deficient computer software--has been delayed. Leadership problems are a primary factor underlying these delays. SSA has had frequent turnover in

commissioners and has lacked technical and managerial control over the modernization effort. Consequently, needed improvements in public service, such as improving notices, which are closely tied to SSA's computer modernization effort, must wait until systems improvements are made.

The Department of Energy and The Nuclear Regulatory Commission. The 1986 Chernobyl accident has rekindled interest and concern over safety and environmental issues surrounding our nation's nuclear power facilities. The Congress, in assessing the government's role in operating nuclear facilities safely and regulating nuclear power plants, found much cause for concern.

The Department of Energy (DOE) produces nuclear power largely free of outside monitoring and oversight. However,

--DOE internal management procedures do not adequately determine whether nuclear facilities are operating at an acceptable level of risk. Key safety analysis reports used to show risk levels differ from plant to plant and are developed by DOE contractors and reviewed by DOE personnel, rather than by an outside independent source.

--Some states believe DOE's nuclear waste disposal practices create potential health threats. DOE is not subject to the same regulatory control over its nuclear wastes as is private industry. Continuation of existing waste disposal

practices, without independent review, may lead to ground water and soil contamination.

In another matter involving nuclear power, the Nuclear Regulatory Commission (NRC) which is charged with oversight of commercial nuclear plants, lacks an Inspector General, who could provide the independence and expertise necessary to monitor and evaluate NRC operations and procedures.

Solving Our Management Problems

How do we correct long-standing management problems and prevent others from occurring. The answer lies in improving the management in our individual departments and agencies: building a better capacity to anticipate emerging issues; providing clear direction; developing a skilled workforce; and generating more reliable information on performance.

Recently, GAO began assessing major agencies' general management and recommending ways of strengthening their management capacity. To date, we have completed six general management reviews (the Departments of Housing and Urban Development (HUD), Labor, Justice, and Transportation and the Defense Logistics Agency (DLA) and SSA and are in the process of

reviewing the Environmental Protection Agency, IRS, the Reserves and National Guard, and HHS.

While each agency has a unique operating environment and thus different problems, four common management and accountability themes are emerging from our completed work. The first of these, the need to gain better financial management control over operations was discussed earlier. The other three themes are:

--providing more effective leadership,

--better preparing for the future, and

--cultivating a more productive and motivated workforce.

Providing More Effective Leadership

The average term of political appointees over the past two decades has been slightly over 2 years. Such frequent turnover in leadership has presented recurring problems in the agencies we reviewed. For example, in the last 10 years, SSA has had 7 different Commissioners, two of whom operated in an acting capacity for extended periods. This situation has hampered SSA's ability to undertake critical and costly efforts to modernize its computer systems and to resolve long-standing problems impacting on its ability to serve our citizens efficiently and effectively.

The problem of frequent turnover of leadership is exacerbated by the growing number of appointed positions, as reported by the National Academy of Public Administration in its November 1985 study, "Leadership in Jeopardy - The Fraying of the Presidential Appointment System." That study seriously questioned the government's capacity to recruit and evaluate the large number of people now needed to fill all appointed positions.

Frequently, there also is insufficient accountability at the top levels of an agency for day-to-day management issues associated with running complex and large organizations. Former Deputy Attorneys General and other top Justice officials, for instance, recounted their preoccupation with legal issues and inability to adequately address important management concerns, such as developing the Department's computer capacity and coordinating policy initiatives. Our management reports on Justice, Labor, SSA, and HUD all contained suggestions for focusing greater accountability for management at top levels within the Departments, usually at the Undersecretary or Deputy Commissioner level. This is critical to sustaining actions to resolve long-standing problems and to providing a more cohesive institutional approach for directing and controlling operations.

Adequately Preparing for the Future

Our government's ability to provide needed public services, whether it is ensuring public air travel safety, dealing with problems caused by the deregulation of the financial services industry, or coping with skyrocketing farm and medical care costs, hinges largely on our capacity to meet the challenges of emerging economic, social, and technological trends.

Yet, we have typically found agencies operating in a reactive posture, consumed by crisis or implementing short-term agendas, with little or no focus on long-term planning. Often, objectives are not clearly defined and information systems are inadequate to produce the data needed to measure performance or make informed program decisions. Consequently, congressional program objectives are often not met and decisions to invest large sums in new computer systems are not made wisely. Some examples follow.

--SSA did not have a long-term plan setting forth its future service delivery goals and how it should be structured to meet these goals. Consequently, SSA's Office of Systems was using its own assumptions about SSA's future direction as a blueprint to guide the agency's massive computer modernization effort, which has come under widespread criticism. Also, the Administration

was proposing to eliminate 17,000 SSA staff positions over several years, and SSA had no firm basis for deciding how best to absorb those cuts and still maintain efficient and effective service.

--Until 1985, nearly 7 years after deregulation, FAA did not have the nationwide workload data, staffing standards, and performance measures to justify to the Congress the number of inspectors needed to meet air safety and deregulation goals. As a result, FAA appeared unresponsive to public safety concerns, and the Congress imposed increases in inspection staffing in the absence of adequate data.

--The Labor Department did not have a comprehensive, long-term strategy for enforcing the Employee Retirement Income Security Act, and its strategy for selecting plans to review was weak. Plan selection methods were inconsistent among field offices, and little was done to evaluate the methods' effectiveness, hampering the effective use of limited program staff resources. As a result, there was little confidence in the government's ability to provide adequate coverage in this important area involving millions of workers. In 1986, Labor took actions to improve its methods for selecting plans to review.

Cultivating a More Effective Workforce

An agency's success in accomplishing its mission will be influenced significantly by how well it manages the recruitment, development, and performance of its people. However, we are finding several human resource management problems. For example, SSA is undergoing a number of changes, including staff reductions, computer modernization, and workload shifts. SSA will need to depend on its managers to address these challenges. But, SSA is facing potential retirements of over 300 managers over the next 5 years without effective agency-wide programs for identifying and developing potential Senior Executive Service or mid-level managers.

Labor's workforce has experienced considerable turmoil over the past 5 years. Several of its missions have been redefined, and the Department's workforce has been reduced through nine reductions in force. While some disruption is inevitable, a more systematic workforce planning process could have minimized the lengthy delays in filling critical vacancies, the resultant loss of efficiency, and the need to fill vacant positions with inexperienced personnel. Moreover, 51 percent of the Department's program managers we surveyed believed that the training and development programs for supervisory personnel were not very effective. In response to our recommendations, Labor

developed and implemented a new human resource planning process and has developed a plan for improving training.

Achieving Positive Change

The political leadership in the agencies has reacted positively to our completed management reviews. For example, Secretary Brock designated the Undersecretary as the key management official for the Labor Department's improvement efforts, and established a system of long-term goals which includes a means of tracking progress. During a follow-up review, we found that Labor is off to an excellent start in addressing our recommendations.

Justice established a Department Resources Board to provide central management leadership and developed a comprehensive management and productivity improvement program. SSA has begun several actions, including creating a central planning function; developing SSA-wide objectives and a tracking system to hold managers accountable; and changing the leadership of its computer modernization efforts. The leadership in Transportation and DLA have also undertaken corrective actions.

However, history tells us that successful implementation of these improvement initiatives will be difficult. Active congressional oversight can help assure that corrective actions

are sustained, and GAO is prepared to assist the Congress in providing that oversight. Our agency management reviews can serve to help establish agreement between the agencies and the Congress on a viable management improvement agenda.

We also plan a series of reviews at the central management agencies--the Office of Management and Budget (OMB), the General Services Administration, and the Office of Personnel Management--which will assist the Congress in assessing central agency performance. Additionally, GAO stands ready to assist the Congress in evaluating OMB's annual management reports. Such a broad, annual presentation of the Administration's management agenda provides a useful basis for continuing congressional oversight.

NEED TO IMPROVE ACCOUNTABILITY OVER DEFENSE CONTRACTS AND VISIBILITY OVER PROFITABILITY

Another key area of concern to GAO is the accountability for contracts and contractor profitability. The cost of our national defense has increased by almost 100 percent since 1980, with procurement a major share of this growth. GAO has done extensive work in the past few years looking at this area.

A major issue with accountability over government contracts is contractor profitability. With procurement currently

amounting to almost $200 billion a year, much of which is awarded through negotiated, non-competitive contracts, there is ample reason for concern.

Profits, payment policies, and other contract elements that affect contractor profitability are negotiated in accordance with the procuring agency's profit policies. Currently, information on the profitability of the contracts negotiated by Defense is not routinely collected. Consequently, it cannot be determined whether the profits negotiated are achieving intended results.

Over the past two decades, Defense has performed two major studies to assess how these profit policies are working. The data used in these studies was provided by contractors who participated voluntarily. The responsibility for performing these ad hoc studies was different in each instance as were the methodologies used to analyze and evaluate the data.

The last study, completed in 1985, was the Defense Financial and Investment Review (DFAIR). GAO performed a review of the DFAIR study for this Committee. We found the profitability information in DFAIR to be seriously misleading and concluded that profits of defense business were substantially greater than reported and substantially higher than in the commercial sector. In a December 1986 report, we recommended, among other things,

that the Congress establish a legislative requirement for a profitability reporting program and for periodic profit studies which should help assure fair and reasonable profit in the negotiation of government contracts.

Also, in this regard, in November 1986, GAO issued an exposure draft for a Proposal for a Program to Study the Profitability of Government Contractors. This draft contains suggested legislative language for a bill we believe is necessary to implement an acceptable profitability reporting program. The key elements of this program are:

--a consistent and appropriate analytical methodology to evaluate profitability;

--a means to verify contractor-furnished data; and

--mandatory contractor participation.

To provide increased accountability over government contracts, Congress in 1970 established the Cost Accounting Standards Board. The Board's purpose was to narrow options in cost accounting practices available to government contractors and increase accountability over government contracts by providing increased uniformity and consistency in cost accounting practices. The Board issued 19 cost accounting standards. GAO believes that those standards have helped significantly to

establish the integrity and credibility of numbers used in government contract costing.

Since 1980, however, the Board has remained inactive for lack of appropriations. During the past 6 years, no governmental group has functioned to amend standards when desirable or to provide interpretations, waivers, exemptions, or perform other duties previously performed by the Board. We are concerned that the absence of a body to administer cost accounting standards has had and will continue to have a negative impact on the effectiveness of standards and the increased accountability they provide.

NEED TO AUDIT AND PROPERLY CONTROL SENSITIVE FUNDS

GAO is also concerned about accountability through the audit of and proper control over all government accounts, including sensitive accounts.

Establishing proper accountability over some programs is difficult because of their very nature. For example, in 1986, GAO reported that the State Department did not have sufficient controls to ensure that U.S. humanitarian aid to the Nicaraguan Contras was used as intended by law or to determine how over $225 million in foreign aid to the Philippines was used. As we

reported last year, some Contra humanitarian funds were used to purchase ammunition and grenades, and massive amounts of funds were allegedly diverted, misused, or transferred out of the Philippines. Accountability has been hindered because many cash transfers have been commingled with other recipient government revenues, making a specific accounting for some of these resources impossible. We will continue to work on controls and accountability over foreign aid programs in selected countries during 1987.

Concerns about accountability frequently surface about government activities and programs which are not subject to normal public scrutiny. One such area is unvouchered accounts.

Concerned over the authority of the President and Vice President to spend money out of certain accounts without audit, the Congress in 1978 enacted Public Law 95-570 that authorized GAO access to the accounts and required a report to the Congress when such examinations were made and on any improper payments. Similarly, in 1980, the Congress amended the basic authority of GAO to provide broad access to audit unvouchered accounts in the federal government. This law requires the Director of OMB to provide GAO a list of all unvouchered accounts annually. It also requires the reporting of unresolved expenditures to selected congressional committees and provides the President authority to

exempt from audit sensitive transactions involving intelligence or law enforcement.

We have issued seven reports on our examinations of unvouchered accounts of the Offices of the President and Vice President and the Departments of State and Defense which account for over 95 percent of unvouchered expenditures governmentwide. Although for the most part, the expenditures we reviewed were proper, our reports on State and Defense discussed some questionable expenditures, mostly in the area of entertainment.

Other areas which raise concern involve secret military weapons projects--sometimes called "black" programs--and sensitive intelligence activities. Programs of this nature require special access and are known to a relatively small number of people. Over the past several years, we have increased our audits and reviews of these activities. We have been successful in obtaining access to review highly classified weapons programs and tactical and strategic command, control, communications, and intelligence programs.

The one major exception has been Central Intelligence Agency activities. Here we have been unsuccessful in gaining similar access. The CIA takes the position that GAO's involvement in reviewing CIA activities is not necessary because the select

committees on intelligence are Congress' oversight mechanisms. If the Congress were to determine that GAO should be involved, legislation to clarify this matter would facilitate our auditing of the CIA. GAO is prepared to carry out that responsibility, and believes it could be very helpful in assisting the Congress in its oversight of these important and sensitive activities.

THE IMPORTANCE OF THE INSPECTORS GENERAL

One way government accountability and management have been improved in recent years has been through the operations of independent federal inspector general organizations, an initiative strongly supported by the Senate Governmental Affairs Committee. Most major departments and agencies have had inspectors general since passage of the 1978 Inspector General Act.

GAO has long supported the inspector general concept, and would like to see it extended to several other agencies, most notably the Departments of Justice and Treasury. We have supported previous bills before the Congress that would establish inspectors general in Justice and Treasury, and we have previously recommended the establishment of inspectors general at the Nuclear Regulatory Commission and the Federal Emergency Management Agency.