

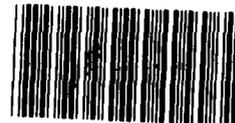
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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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STATEMENT OF  
DONALD L. SCANTLEBURY  
DIRECTOR, ACCOUNTING AND  
FINANCIAL MANAGEMENT DIVISION,  
AND CHIEF ACCOUNTANT OF THE  
UNITED STATES GENERAL ACCOUNTING OFFICE  
BEFORE THE COMMITTEE ON THE BUDGET  
HOUSE OF REPRESENTATIVES  
CONCERNING [WAYS TO REDUCE THE FEDERAL BUDGET  
THROUGH IMPROVED GOVERNMENT  
FINANCIAL MANAGEMENT PRACTICES ]

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Room 4118

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Mr. Chairman and Subcommittee members:

I am pleased to be here today to participate in the panel discussion on government-wide financial management practices and processes which, if improved, revised, or eliminated, could result in dollar savings. The General Accounting Office's financial and compliance, economy and efficiency, and program results audits and detailed investigations of Federal programs have clearly identified areas where savings could be realized, and have resulted in recommendations of corrective actions needed to make the programs more effective and efficient.

I would like to discuss several areas this morning where literally billions of dollars could be saved if the weaknesses we have identified are corrected.

BUDGETARY SAVINGS THROUGH  
BETTER DEBT MANAGEMENT

Debts owed the Federal Government are enormous and growing each year. Federal agencies reported that receivables due from U.S. citizens and organizations were \$126 billion at the start of fiscal 1980--a 23 percent increase over the previous fiscal year. It was anticipated that an estimated \$6.3 billion would be uncollectible--also a 23 percent increase over fiscal year 1979. Federal agencies reported that they wrote off more than \$1 billion as uncollectible receivables in fiscal 1979. Further, at the start of fiscal 1980, Federal agencies reported that \$24 billion due from U.S. citizens and organizations was delinquent. Unfortunately, these gloomy statistics are materially understated

because the accounting systems of many agencies do not provide accurate information on receivables, expected losses, and writeoffs.

We have identified specific weaknesses in debt collection programs and have recommended a number of specific corrective actions to improve the recording and collection of debts owed to the Government. In general, there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, many agencies have not aggressively attempted to collect amounts owed the Government. Second, present collection methods are expensive, slow, and ineffective when compared with commercial practices.

Our recommendations, unfortunately, have not always been implemented. Until all Federal agencies aggressively pursue the collection of debts, hundreds of millions of dollars will continue to be lost. Based on our many reviews and numerous discussions with agency officials, we conclude that top management does not devote sufficient attention to collecting outstanding debts. In our view, they have been more concerned with delivering services and disbursing funds. Debt collection is a low priority item and generally only limited personnel are involved.

In addition to initiating a number of needed changes to the Federal Claims Collection Regulations, we have been actively working with the Congress and have recommended and supported

legislation to eliminate the impediments which hamper the Government's ability to collect its debts. The Comptroller General has testified on additional actions, legislative and administrative, that are needed to improve the Government's debt collection. These include:

- Reporting delinquent debts to private credit bureaus, which would be especially useful in the Government's efforts to collect debts on which, due to their size, it is not practical to take legal action.
- Obtaining better information on debts.
- Charging interest on delinquent debts. This is already required by Federal regulations as a payment incentive; however, some major agencies are not complying. Further, in some major programs, the rates prescribed by law or set administratively are far below the current prime rate.
- Preventing overpayments.
- Contracting for collection assistance through use of private collection firms.
- Collecting by offset, such as through the withholding of the salary of a Federal employee and by offsetting Federal tax refunds to collect delinquent debts.
- Removing restrictions from the use of IRS locator assistance.

Passage of needed legislation in this area, along with improved credit management and debt collection systems, can result in significant budgetary savings. As the Comptroller General testified before your Committee on March 3, 1981, in addressing the President's Program for Economic Recovery, possibly as much as \$6 billion in delinquent accounts and loans receivable could be collected by the Government. To help achieve this end, it would be most helpful if the Committee would emphasize to the new administration the need for expeditious collection of accounts receivable.

In October 1979, prompted by growing concern resulting from a number of GAO reports and Congressional hearings, a debt collection project, for which responsibility presently rests with OMB, was established. This project is one of the most comprehensive and thorough studies of these issues ever made and it is important that the Government makes effective and timely use of the information in improving its debt collection programs.

SAVINGS AVAILABLE BY  
RESOLVING BILLIONS IN  
AUDIT FINDINGS

Although Federal agencies' systems for resolving audit findings have improved in the past 2 years, overall progress has been disappointing. The Government continues to lose billions of dollars because agencies are not acting on audit

recommendations to recover funds, avoid costs, and improve operations.

In 1978, we identified \$4.3 billion in unresolved findings involving potential recoveries, penalties, revenues, or savings at 34 agencies. We now report \$24.9 billion in unresolved findings. I have included a chart as an appendix to my testimony which shows there was a \$2.4 billion increase in nonregulatory audit findings and a \$7.6 billion increase in audit findings of possible overcharges by oil refiners and fuel suppliers to their customers. These unresolved energy regulatory audits represent potential rebates to customers from oil refiners and other fuel suppliers that violated energy regulation. They do not represent potential Federal budgetary savings.

We also now report an additional \$10.5 billion in unresolved contract proposal audits and \$170 million in unresolved findings at agencies not included in the 1978 report. We consider the numbers to be conservative and believe they would be even higher if some agencies kept better records of audit findings.

It cannot be assumed that all dollars associated with unresolved audit findings are potentially returnable to the Treasury. Findings are sometimes settled without a return of funds, or are not concurred with by program officials for valid reasons. Other findings result in a cost avoidance. The unresolved \$10.5 billion in contract proposal audit findings, which identify avoidable costs, falls into this category.

Nevertheless, we estimate that of the total nonregulatory unresolved audit findings, between \$3 and \$4 billion could be resolved in the Government's favor.

Agency audit reports also contained thousands of unadopted procedural recommendations that would improve government operations and have a substantial dollar impact as well.

SAVINGS BY REPLACING OLD,  
INEFFICIENT COMPUTERS

Another area where savings could be achieved involves replacement of the Government's old and inefficient computers. On December 15, 1980, we reported that much of the Government's inventory of medium and large-scale ADP equipment was obsolete, and that it was costing more to operate and maintain than it would to lease, operate, and maintain more modern equipment of similar capacity. Newer equipment costs less to operate and maintain because fewer people are required, less energy is consumed, and less floor space is required. In just four installations analyzed in detail, we found that \$1.4 million could be saved annually with newer equipment. When you consider that there are over 1,000 computers of similar vintage in the Federal inventory, the potential savings become extremely significant.

In view of the potential savings Government-wide, we made specific recommendations to the Office of Management and Budget and the General Services Administration so they could act without delay to realize these savings as well as the many side benefits

the newer equipment offers. Although OMB has expressed similar concern for the seriousness of this problem, it recently placed a temporary freeze on all procurements, including ADP equipment. Because of the negative impact on savings in this particular instance, Mr. Staats recently wrote Mr. Stockman urging him to grant an exception for replacing old computers. Mr. Stockman replied and indicated he is making up a five-year computer management plan and will consider all of our recommendations in this plan.

In my opinion, this is one of our most significant reports in the ADP area. Not only is there a potential for substantial savings Government-wide, but there is an opportunity to improve ADP resource management which will have continuing benefits. Considering the importance of this subject and its potential for reducing Federal operating costs, the Committee may wish to inform both OMB and GSA of its desires for expeditious actions on this matter.

SAVINGS FROM PRODUCTIVITY IMPROVEMENTS  
IN ADMINISTERING PROGRAMS

Another area of potential savings involves program operating costs. All programs incur costs for performing daily administrative functions. The magnitude of administrative or operating costs for Federal programs is often overlooked because they are generally small in proportion to the total program. Yet, program administration is often significant when considered alone. For example, administering the Social Security Retirement and

Disability Insurance program costs over \$1.5 billion per year and the Supplemental Insurance program costs over \$500 million a year. Since administrative operations are required to run all Federal programs, I believe improved productivity in these operations is essential and that it presents significant budget reduction potential.

Specific programs such as social welfare programs are not alone in requiring large administrative costs. Other common functions, which are scattered throughout the agencies, also present opportunities for reducing administrative costs. For example, \$200 million per year is needed to operate the 1,100 Federal payment centers. We recently reviewed 22 of those centers and reported that productivity improvements there could save \$750,000 per year.

SAVINGS AVAILABLE BY IMPROVING  
FEDERAL TRAVEL MANAGEMENT

The Federal Government also can make substantial reduction in its travel costs. As you know, GAO has issued several reports on Federal travel in which we recommended specific improvements in travel management. These improvements can result in substantial savings. Some of the agency actions necessary to help improve travel management are:

- Greater use of discount airline fares by those who travel at Federal expense. This is becoming increasingly important with the skyrocketing air fares.

- More auditing of the travel function.
- Better reporting of past travel expenditures and improved budgeting for future travel.
- Tighter management control over travel authorization procedures.
- Greater efforts by agencies to hold managers accountable for failure to follow travel policies.

Another area impacting on Federal travel costs is the spending of Federal funds by nonprofit organizations such as grantees and contractors for travel. Under current guidance these organizations are not required to follow Federal travel regulations, but rather those procedures normally allowed by the organization in its regular operations. As I understand it, frequently these nonprofit organizational procedures are more lenient than Federal travel reimbursement regulations.

Processing Federal employee claims for travel expenses costs several million dollars more than necessary annually. Although the total cost of processing such claims is not known, GAO estimated that the amount could have been as much as \$400 million in 1979--about 16 percent of the total spent for travel. We believe this amount could be cut significantly by:

- Replacing the reimbursement method used for high cost areas with the method of reimbursing for lodging, plus a flat fee for meals and miscellaneous expenses,

- Eliminating redundant, overly detailed supervisory reviews and unnecessary typing of vouchers, and
- Improving voucher auditing activities at payment centers.

In addition, the General Services Administration has proposed to limit reimbursement for enroute travel where the lodgings-plus method of reimbursement is used. We believe this proposal needs to be revised because it will increase, perhaps double, the processing costs for lodgings-plus vouchers.

SAVINGS POTENTIAL IN  
FOREIGN MILITARY SALES

In recent years, we have issued more than 30 reports to Congress and the Department of Defense on Defense's continued failure to implement systems, including cost accounting systems, adequate to identify and recover costs for goods and services provided to foreign countries under the foreign military sales program. These reports discuss specific cases where we found more than \$1 billion in costs which should have been but were not recovered from foreign countries. For example, in 1978 we reported to the Congress that because Defense had not charged for the use of U.S. plant and equipment for foreign military sales as required by law, over \$100 million had been lost just on those cases reviewed.

Congress, particularly the House Appropriation Committee, has for many years expressed concern that Defense is not recovering all costs for goods and services sold to foreign governments

and has reduced Defense appropriations to encourage the Department to improve its systems to recover such costs. Defense has begun to take corrective actions to improve its cost recovery procedures. These actions and the reductions imposed by Congress amounted to about \$1 billion in savings for fiscal year 1977 through fiscal year 1980.

INTEREST SUBSIDIES ON WATER  
PROGRAMS COST MILLIONS

Our current evaluation of interest issues includes an examination of the Federal policy that (1) does not require the payment of interest on irrigation water supply costs, and (2) requires the payment of interest on the costs of municipal and industrial water supply.

While we have not completed our work and have not reached firm conclusions, our efforts indicate that it may now be time for the Congress to reevaluate the interest-free repayment of irrigation costs. Such a subsidy involves hundreds of million of dollars. Also, our audit efforts indicate that Federal policies and practices for recovering interest costs on municipal and industrial water supply are, in certain cases, questionable and not equitable to the Federal Government. Such interest costs also involve considerable sums.

MORE COMPETITIVE CONTRACTING  
COULD SAVE MILLIONS

The Government has always had a requirement for competitive procurement of goods and services but has authorized exemptions to this requirement. A great many procurements are made on a

sole source basis under the exemptions by many agencies, particularly Defense. Not all such procurements can be made in any other way but we believe enough could be awarded competitively to achieve significant savings. No conclusive information exists on what the savings could be on individual procurements, but former Defense Secretary McNamara estimated it would be over 25 percent. An example from my own experience may help illustrate what can be achieved in particular cases. For several years we used a GSA sponsored computer service. In 1980 we competitively obtained the service at a cost of \$700,000. If we had continued to use computer services obtained by GSA on a non-competitive basis, the service would have cost us more than \$2 million. While not offered as typical, this case shows what can be done by competitive procurement.

MILLIONS IN INTEREST LOST DUE TO  
EXCESSIVE CASH WITHDRAWALS

We are extremely concerned over the problem of grantees, contractors, and other recipients drawing and holding cash in excess of their current needs.

Treasury Circular 1075 requires that:

Cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

Information reported to the Department of the Treasury indicates that cash payments made in advance to grantees, contractors, and others for future services have increased from \$1.3 billion in fiscal year 1975 to \$15 billion in fiscal year 1979. Moreover, we have noted instances where recipients have drawn cash by letters of credit far in excess of their immediate requirements and well in advance of the time the money would be needed. The Government is losing millions of dollars in interest on these excess funds drawn by program participants.

#### CONCLUSION

Mr. Chairman, improvements in the areas I have discussed could result in a reduction of billions of dollars in the Federal budget without a reduction in Federal programs. The problems discussed point out the need for improvements in basic management functions. To achieve these savings better management and management accountability are what is needed.

This concludes my prepared statement. I will be pleased to respond to any questions you or other members of the committee may have.

REPORTED UNRESOLVED MONETARY  
AUDIT FINDINGS

<u>Major category</u>	<u>Unresolved monetary findings</u>	
	<u>1978 report</u>	<u>1981 report</u>
	-----millions-----	
Nonregulatory audits-- original 34 agencies	\$2,582	\$ 4,936
Energy Department regu- latory audits	1,762	9,343
Contract proposal audits	-	10,482
Additional agencies	-	170
	<u>\$4,344</u>	<u>\$24,931</u>
TOTAL		