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STATEMENT OF
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BEFORE THE

HOUSE GOVERNMENT OPERATIONS COMMITTEE

ON

"THE GOVERNMENT FACES SERIOUS INTERNAL CONTROL
AND ACCOUNTING SYSTEMS PROBLEMS"

Mr. Chairman and members of the committee, I am pleased to appear today to discuss the government's efforts to improve its internal control and accounting systems under the Federal Managers' Financial Integrity Act. Your hearing today on this act is particularly timely. As a result of the persistently high federal deficits, we have entered an era of budgetary constraint, and we are now confronted with many hard choices. However, we lack reliable systems to ensure that we have the information necessary to make important judgments and to ensure that our decisions can be effectively implemented. Implementation of this act is essential if we are to have the systems necessary to get the most for every dollar we spend and thereby enhance the public's confidence in its government.

Mr. Chairman, as I testified before you 2 years ago, your sponsorship of the Integrity Act was a major step toward achieving two primary objectives: first, requiring federal managers to evaluate annually their internal control and accounting systems, and publicly report on the status of their completed and planned improvements; and second, providing an incentive for managers to correct long-standing weaknesses through increased manager accountability.

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In December 1985, we issued a report which provided an overall perspective on the internal control and accounting systems problems facing the government after 2 years under the act. We have recently completed our review and analysis of 18 agencies' reports filed at the end of 1985, the third annual reports under the act, and I would like to share with you some of our observations.

STATUS OF GOVERNMENT SYSTEMS

After 3 years of effort under the act, agencies have progressed in identifying and reporting internal control and accounting system weaknesses and their plans for corrective actions, an important and necessary first step toward the ultimate correction of these internal control and accounting system problems. However, frankly, I had hoped that after 3 years, the agencies would have been further along in correcting identified material weaknesses, especially since many of these weaknesses were already well known when the act was passed in 1982.

Agencies' initial reports under the act, inspectors general audits, and GAO reviews showed that weaknesses and breakdowns in agency systems of internal control frequently resulted in wasteful spending, poor management, and losses totaling billions of dollars. In some cases, outright fraud had occurred, and, in others, the government's ability to carry out crucial public services had been hampered. For example, our December 1985 report pointed out that serious internal control problems continuing across a wide range of areas had resulted in:

--overpriced spare parts and cost growth in the Defense Department's \$100 billion procurement program,

- increased vulnerability to failure and fraud in systems which processed over \$174 billion annually in social security benefit payments,
- inability to effectively collect amounts owed the government, contributing to delinquent debts in excess of \$17 billion, and
- increased vulnerability to fraud and mismanagement in automatic data processing systems which made payments to millions of beneficiaries and process billions of dollars a year.

We also pointed out in our December 1985 report that, adding to the government's dilemma, was the overall poor condition of agency accounting and financial management systems. Many systems neither conformed to the Comptroller General's accounting requirements nor provided the financial information needed to manage the government efficiently and effectively. The agencies we reviewed reported that 226 of their 427 operating accounting systems, or 53 percent, did not conform to GAO requirements, or had not been sufficiently evaluated by the agencies to know whether they conformed.

We recognized when this legislation was enacted three years ago that resolving the serious problems facing the government's managers would not be easy nor would they occur overnight. Unfortunately, agencies' latest statements show that there has been even less progress in eliminating long-standing problems than we had hoped for. While agencies have extensive efforts underway to strengthen their systems and report correcting many problems, the following table shows that, for the most part, the uncorrected weaknesses 18 agencies reported at the end of 1985 encompassed the same eight categories as those cited in their 1983 and 1984 annual statements.

Comparison of the Number of Agencies
Reporting Material Weaknesses by Category

<u>Category</u>	<u>Number of agencies</u>		
	<u>1983</u>	<u>1984</u>	<u>1985</u>
Financial management and accounting systems	17	17	17
Procurement	14	14	13
Property management	14	15	16
Cash management	12	12	12
Grant, loan, and debt collection management	13	13	14
Automated data processing	10	14	17
Personnel and organizational management	10	12	11
Eligibility and entitlement determinations	9	10	9

Loss of Confidence

Compounding the adverse impact on government operations of the weaknesses themselves, is the loss of credibility that the government suffers as a result of the public's perception that its tax dollars are being wasted through mismanagement.

It is very discouraging to read almost daily accounts of more management problems coming to light, knowing that many of them stem from the very thing we are talking about here today--a fundamental breakdown in internal control and accounting systems.

Within the past 6 months, the following have been reported:

- The administration overestimated inflation rates, resulting in the Department of Defense receiving an inflation dividend of \$44.5 billion between fiscal years 1982 and 1986. However, DOD's systems were not able to account for the disposition of the inflation dividend.

- The Federal Aviation Administration has not maintained records of what airlines it has inspected, what types of inspections it performed, or what it found. Consequently, the agency cannot say with assurance whether airlines are complying with safety regulations.
- Problems with inaccurate and unreliable information have hampered the Department of Education's attempts to solve long-standing problems in collecting billions of dollars of delinquent debts.
- Flaws in the armed services' management of its inventories of explosives and ammunition have resulted in untold waste, loss, and theft. For example, the Army reports having lost unknown quantities of ammunitions, including plastic explosives, artillery shells, land mines, and rockets. Defense officials have expressed their concern that these missing munitions may fall into the hands of criminal groups.
- Massive amounts of funds were allegedly diverted, misused, or transferred out of the Phillippines, highlighting long-standing concerns over the adequacy of controls governing economic assistance to foreign countries.

WHERE DO WE GO FROM HERE?

Mr. Chairman, I believe there are four key factors which must be in place if we are to achieve the bottom line of the act--correcting the government's internal control and accounting systems problems:

1. Managers' Role

The **first** factor needed to improve systems is that managers' must use the act to improve control over government operations. All managers, particularly top-level managers, such as political appointees and senior civil servants, must be actively involved. All too often, crucial management controls receive the scrutiny they deserve only after a major breakdown occurs or a situation makes headlines. A manager's systems should focus on operational "risks," or potential problems,

against which controls are needed. In this respect it is important that managers not lose sight of the need to focus their efforts on the act's second overall objective of assuring that they have effective internal control and accounting systems in place while continuing to streamline their evaluation and reporting efforts.

The audit community has a key role to play in this area. Consequently, I have directed that GAO's audit work focus greater attention on better identifying specific control weaknesses and on determining whether effective, prompt actions have been taken to correct management control problems. It is encouraging to see that many inspectors general are now moving in the same direction.

2. Reshaping Financial Management Reform

A fundamental reshaping of our approach to financial management reform in the federal government is the **second** factor needed to make system improvements. No comprehensive structure or mechanism now exists to guide governmentwide financial management improvements, or to ensure continuity across successive administrations. Strong central leadership and coordination of the financial management responsibilities presently split among the Office of Management and Budget (OMB), the Office of Personnel Management, (OPM) and Treasury is needed to effectively resolve many of the government's cross-cutting financial management problems.

3. Commitment of Resources

The **third** factor that we must deal with is the need for a sustained resource commitment to correct our problems. We must avoid the temptation to be penny-wise and pound-foolish. I am concerned that, under the current environment of Gramm-Rudman initiatives, many needed system improvement efforts may fall victim to the budget cutting ax.

4. Congressional Support

The **fourth** factor necessary to strengthen the government's systems is to build on the congressional support provided to date. I am encouraged by your continued support for the Integrity Act as exhibited by this hearing, and by the interest in FIA expressed by several authorization and appropriation committees. I urge others in the Congress to expand on these efforts. Without the vital role the Congress must play in ensuring that the executive branch effectively implements long needed systems improvements, the act's full potential will not be realized.

Mr. Chairman, the time to win public support for strengthening the government's ability to manage itself is now. Managers, top officials in the executive branch including OMB, the General Accounting Office, and the Congress, all must work together if we are to seize the opportunity provided by the Integrity Act.

I sincerely believe that if we emphasize correction of the many known material weaknesses in our systems, the act's bottom-line, we will realize monetary benefits from more efficient and effective delivery of crucial government goods and services and, equally important, increased public confidence in our government's ability to manage its programs and funds.

This concludes my remarks. I will be happy to answer any questions you or other members of your subcommittee may have.