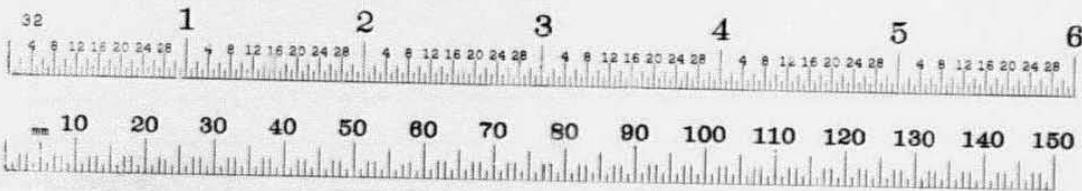
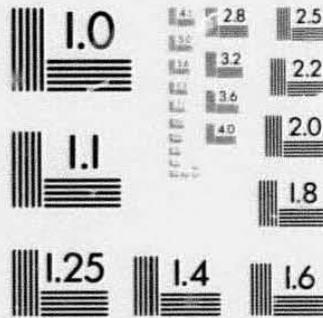
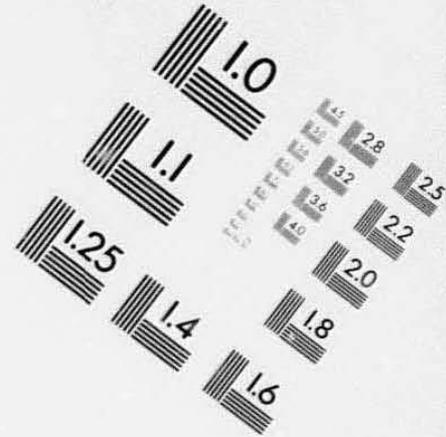
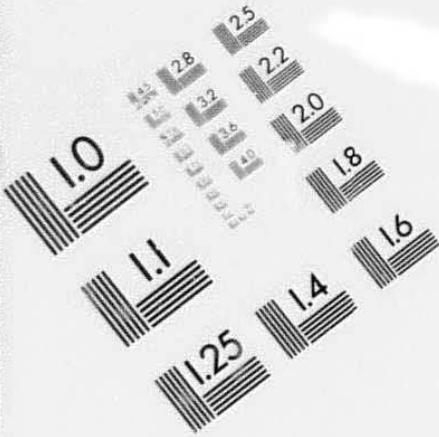
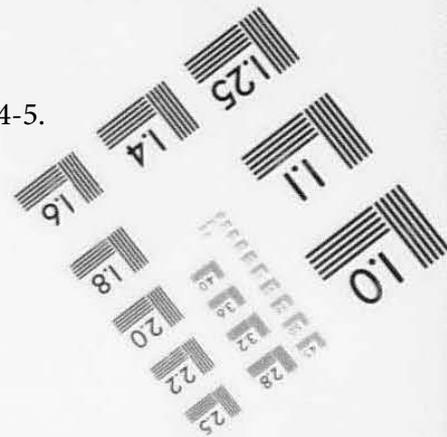
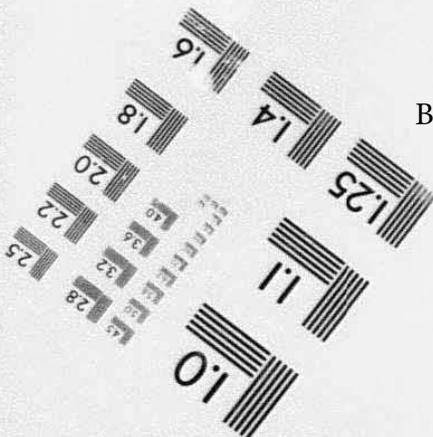


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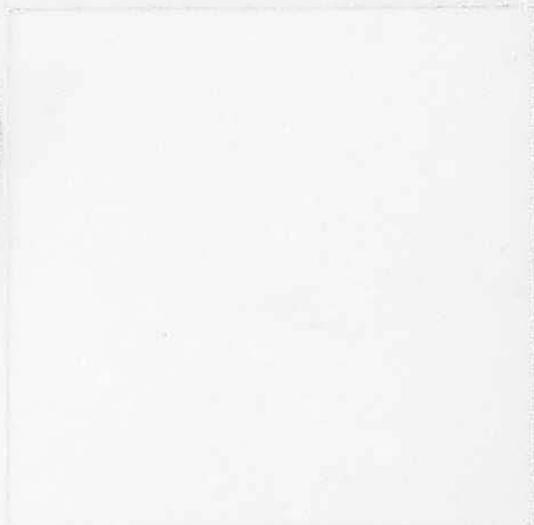


Best copy available. GAO copy is missing pages 4-5.



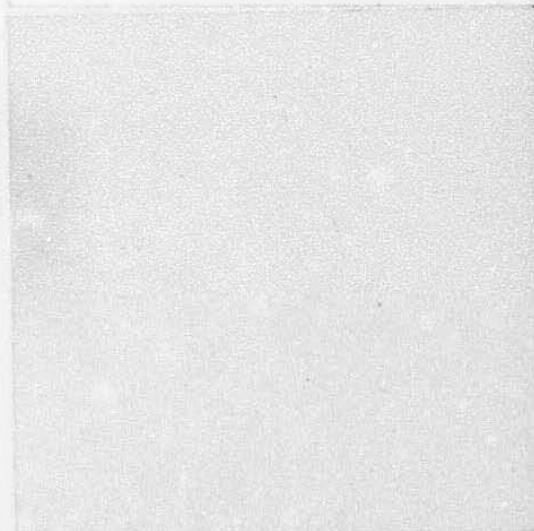
APPLIED IMAGE
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United States General Accounting Office

GAO

An Address by
Charles A. Bowsher
Comptroller General
of the United States

March 1993

**Accountability:
More Vital Than
Ever**

Accountability: More Vital Than Ever

An address by Charles A. Bowsher,
Comptroller General of the United States,
before the Institute of Internal Auditors,
March 29, 1993, in Washington, D.C.

I sometimes wonder why "accountability" has never caught on as a national rallying cry. Perhaps the word itself just lacks the ring of "truth, justice, and the American way." Yet members of the accounting and auditing professions have always understood the importance of accountability. Today, after some of our most trusted public and private institutions have been shaken by scandals or mismanagement, more people than ever are coming to realize that accountability is more than a dry and abstract principle. Accountability is, in fact, at the heart of how our country was meant to operate.

Whether it's business or government we're talking about, accountability is essential because it enforces standards of responsible leadership. Responsible leadership creates trust. And the public's trust is crucial to any business or government enterprise that wants to survive and flourish. Corporations depend on the public's willingness to invest money in them. The government depends on the public's willingness to abide by the law, go to the polls, and pay taxes. These things, too, constitute an investment. Just as private investors are shareholders in corporations and have a stake in holding executives accountable for their performance, American citizens are shareholders in their government and have a stake in holding their elected officials accountable for the way they govern.

What all this means is that "the American way" cannot work if there is no means of maintaining trust in the system. Accountability is that mechanism.

If a corporation loses the confidence of its shareholders, the price of its stock will

fall—and so will the fortunes of its executives. Likewise, elected officials who lose the confidence of their constituents tend to be voted out. But if, over decades, the government itself loses the confidence of its citizens, the consequences will go far beyond who wins or loses elections. Each new generation of elected officials will find the public's confidence a little more shallow than did the last. They will find citizens less willing to invest in making their government succeed.

This can be especially serious for a nation facing problems as imposing as the ones we face today. Our health care system needs a major overhaul, our defense establishment needs to be reduced and restructured, and our workers need to be educated and retrained for a more demanding workplace and a more competitive global economy.

And while we grapple with these and other challenges, federal deficits continue to sap the government of its resources and the nation of its savings.

Health care reform, defense restructuring, education and training, the deficit—our leaders may be willing at last to face up to the tough choices on these issues and to call at last for sacrifices, but they will make very little headway without the support of the American people. That support will depend a lot on how much the American people trust their government.

Accountability—particularly in the area of financial management—has been allowed to deteriorate for more than four decades.

Just how much should they trust the government? The public well remembers the scandals at the Department of Housing and Urban Development, where developers and lenders found it easy to cheat the government out of millions of dollars. It remembers the Defense Department's "Ill Wind" investigation, which involved not just private consultants and defense companies and industry executives, but DOD officials as well. And it remembers the savings and loan debacle, in which the federal government failed to prevent the single largest financial loss in American history.

If public trust in government is shaky, these kinds of scandals and financial disasters have a lot to do with it. Yet the government has done surprisingly little to establish and maintain an environment in which such things won't happen. Accountability—particularly in the area of financial management—has been allowed to deteriorate for more than four decades. I'll cite just a few examples:

- The Budget and Accounting Procedures Act of 1950 gave the executive branch agencies the responsibility for their own accounting and financial reporting. But from the start, the agencies failed to give these functions the emphasis they deserved. In 1990, for instance, we issued a report on our audit of the Air Force—the first ever comprehensive financial audit of a military department. We found that the Air Force—reporting enormous assets of over \$275 billion and annual appropriations of almost \$90 billion—lacked the financial management systems and internal controls necessary to provide accurate and reliable financial information. GAO's audits of the Air Force

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controls be signed by the agency heads and sent to the President and Congress.

Second, the Single Audit Act of 1984 called for more systematic oversight of federally funded programs in the states and localities. It required a single annual financial statement and compliance audit for any state or local entity receiving more than \$100,000 in federal funds in a given year.

Third, the Chief Financial Officers Act of 1990—known as the CFO Act—established a new framework for financial management throughout the departments and agencies. It included provisions that focus not just on compliance but on results.

These were all good-faith efforts. The disturbing truth, however, is that they have yet to accomplish what they set out to do. We know that the Financial Integrity Act has not achieved its goal of improving internal controls throughout the government. We know that the reporting and auditing requirements of the Single Audit Act have become a major controversy. And we know that the CFO Act, for all its promise, is far from achieving the revolution in federal financial management for which it was created.

GAO has noted this lack of progress many times. In 1985, we outlined the federal government's financial management problems in a comprehensive study called *Managing the Cost of Government*. We cited the same problems in a series of transition reports we issued following the 1988 election. After last fall's election, when we prepared our 1992 transition

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reports, the same problems were evident once again—some more severe than ever.

So while Congress has recognized the need for better financial management systems and tighter internal controls, the government as a whole still has not taken the lesson to heart. The U.S. government spends about \$1.5 trillion a year—more than the entire Gross Domestic Product of Germany, which has the third largest economy in the world. Yet the federal government continues to operate without the reliable information it needs to make sound decisions. It still spends almost a quarter of the U.S. Gross Domestic Product using unreliable systems and ineffective controls. And its departments and agencies still manage hundreds of programs without adequate knowledge of their financial condition or the results they achieve.

The CFO Act offers our best hope yet of remedying this situation. It establishes a much-needed leadership structure within the federal government, so that financial management may finally receive the continuous attention it deserves. The act requires that financial statements be prepared for all government revolving and trust funds and commercial operations, and for 10 pilot agencies. It requires inspectors general to audit these statements to verify information and underlying controls. It ties the annual reporting of internal control weaknesses under the Financial Integrity Act to reporting by the CFOs. And it calls for OMB to develop a 5-year improvement plan and for each agency to tailor its own program to translate OMB's plan into meaningful change.

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Furthermore, the CFO Act makes financial reporting focus on results. The act requires agency CFOs to oversee agency budgets—in other words, how appropriations are spent on operations and programs. It further requires agencies to systematically measure performance and develop cost information. And it directs each chief financial officer to prepare an annual status report showing where the agency stands financially, what it has achieved, and what the future may hold for its finances.

What a difference this act could make in the way the government handles the taxpayers' money. But how much the act achieves will depend on how well we follow through. In the two years since the CFO Act was passed, less progress has been made than any of us could have wished. GAO's 1992 Transition Report on Financial Management Issues discusses the CFO Act's implementation problems and suggests a number of solutions. But what it boils down to is this: A blueprint for financial management improvement is now on the books. Making it work deserves top priority. Agency heads need to be held accountable for getting it done and they need the resources to do it. If that means spending what is needed for modern systems, personnel development, and expanded financial reporting and auditing, so be it. Getting the government's financial house in order will be worth the price.

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Federal oversight must extend to those private sector entities whose financial management shortcomings threaten to cost the taxpayers money.

But as usual, there's something else to think about. The federal government's finances are tied to other entities whose shortcomings in accountability expose the government to potentially huge costs. Effective federal oversight must extend to those private sector entities—such as financial institutions, defense contractors, and health care providers—whose shortcomings in financial management and internal controls threaten to cost the taxpayers money. We learned a \$300 billion lesson, for example, when the savings and loan industry—deregulated, insufficiently supervised, but backed by federal deposit insurance—went out on a limb and the limb broke. The legislation bailing out the thrifts included new measures to ensure accountability—but they came a little late.

Let's hope the FDIC Improvement Act of 1991 was not too late to impose sufficient accountability on the banking industry. By the time this legislation was enacted, the Bank Insurance Fund was already insolvent, so along with provisions for tighter controls on the industry, Congress had to authorize \$70 billion worth of borrowing from the Treasury.

Congress enacted the FDIC Improvement Act's safety and soundness reforms to control risks to the deposit insurance system. But the facts are that banking is a much riskier business than it used to be, bank supervision is weak, and the efficiency of the regulatory structure is questionable. To ensure that the reforms of the FDIC Improvement Act are implemented, we believe that the effectiveness and efficiency of the entire regulatory structure should be reexamined and viable alternatives be developed.

That's an issue for Congress and the administration to study in tandem, and we hope they will do so in the near future.

Banking regulation and oversight is an urgent concern because of the potential federal liability due to deposit insurance. But other segments of the financial services industry require close attention as well. Now some segments of the insurance industry are ailing, and while there is no specific federal obligation to rescue the insurance industry should it falter, a string of bankruptcies would surely lead to calls for federal help.

The securities industry, growing more complex every day, includes new elements, such as derivatives, that are not fully understood by many leaders of the industry itself, let alone by those in government who must protect the public's interest.

The nation's private pension system is protected under the Employee Retirement Income Security Act of 1974. But the Pension Benefit Guaranty Corporation, which insures private pension plans, is already running a deficit, and finds it difficult to control the government's exposure to risks from underfunded plans. PBGC's financial systems and internal controls are so weak that it cannot even prepare a reliable estimate of its future liability.

One other example, but a telling one. The U.S. government, through its Medicare and Medicaid programs, is the nation's single largest payer of medical expenses. As mentioned earlier, how Medicare's payment safeguard system depends on a network of private contractors who are

falling short in recovering improper payments and investigating claims of fraud. And I mentioned that fraud and abuse may account for as much as 10 percent of all health care costs in the United States. How much is this costing the government? We don't know. But we do know that we can't hope to control Medicare's losses until the entire health care industry is made less vulnerable to fraud and abuse.

The tone at the top will determine whether or not we sustain and build upon the initiatives already begun.

The broader lesson here is that demands on the federal purse often stem from waste, fraud, abuse, and mismanagement among entities outside the government. There is no barrier insulating the federal government from the problems of outside institutions. We all remember the federal bailouts of Lockheed, Penn Central, Chrysler, and New York City. Each was an instance of the federal government having to come to the aid of a nonfederal institution that could not be allowed to fail. There will be other such instances if accountability does not receive the attention it deserves from state and local governments and the private sector.

The private sector needs to look to its own house and treat accountability with the same seriousness with which it treats profit and loss. I spoke to that issue in January 1992, in a speech to the Securities Regulation Institute in Coronado, California. I'll repeat today the message I delivered then: Corporate accountability has become an issue. Leaders with vision have recognized that strong corporate accountability is good business. It protects the corporation while serving the interests of shareholders, the public, and even the taxpayer.

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I hope that here in government, our leaders will not forget just how crucial and how visible the issue of accountability has become. The tone at the top will determine whether or not we sustain and build upon the initiatives already begun.

That's where you come in. As auditors and advocates for responsible financial management, your energy and dedication will help determine just how far this government will go in giving accountability the stature it deserves. At a time when this nation faces its greatest policy challenges even while struggling to make ends meet, its citizens deserve the last ounce of value from their investment. They put their trust in our hands. We cannot allow it to slip through our fingers.

Thank you very much.

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