



Testimony

Before the Subcommittee on Government Management,
Information and Technology, Committee on Government
Reform and Oversight, House of Representatives

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HIGH-RISK AREAS

Update on Progress and Remaining Challenges

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss major government programs and operations we have identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. In 1990, we began a special effort to review and report on such activities, and yesterday we issued a series of reports providing the current status of the 20 high-risk areas we have been monitoring since our last major progress report 2 years ago.

Over the past 7 years, we have called attention to critical government operations that are high risk. To help improve this situation, we have made hundreds of recommendations to get at the heart of these problem areas, which have at their core a lack of fundamental accountability.

Today, we will highlight the legislative and agency actions that have resulted in progress toward fixing these problems. Such actions have established a solid foundation to help ensure greater progress, but much remains to be done to fully implement the corrective actions needed to remove the high-risk designation from these areas.

In addition, we will discuss five new areas that we have just designated as high risk. These new areas have been added because they are serious, growing problems and provide opportunities to achieve significant savings and better service to the public.

Without additional attention to resolve problems in the 25 areas that are the current focus of our high-risk initiative, the government will continue to miss huge opportunities to save billions of dollars, make better investments to reap the benefits of information technology, improve performance and provide better service, and more effectively manage the cost of government programs. Effective and sustained follow-through by agency managers is essential to make further headway and achieve greater benefits. Continued oversight by the Congress, such as this hearing by the Subcommittee, will add essential impetus to ensuring progress as well.

Landmark legislation passed by the Congress in the 1990s has established broad management reforms, which, with successful implementation, will help resolve high-risk problems and provide greater accountability in many government programs and operations:

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- The expanded Chief Financial Officers (CFO) Act of 1990 requires agencies to prepare financial statements that can pass the test of an independent audit and provide decisionmakers reliable financial information.
 - The 1993 Government Performance and Results Act requires agencies to measure performance and focus on results.
 - The 1995 Paperwork Reduction Act and the 1996 Clinger-Cohen Act provide a basis for agencies to make wiser investments in information technology.
 - The Debt Collection Improvement Act of 1996 strengthens federal agencies' debt collection practices and authorities.

Progress in Resolving High-Risk Program Areas

Overall, agencies are taking high-risk problems seriously, trying to correct them, and making progress in many areas. The Congress has also acted to address several problems affecting these high-risk areas through oversight hearings and specific legislative initiatives. Full and effective implementation of legislative mandates, our suggestions, and corrective measures by agencies, however, has not yet been achieved because the high-risk areas involve long-standing problems that are difficult to correct.

The following discussion provides a quick synopsis of progress and remaining challenges related to many high-risk areas. Detailed information on the current status of all 25 high-risk areas, which are listed in appendix I, is available in our overview report, quick reference guide, and individual reports included in our set of 1997 high-risk reports. Reports included in this series are listed at the end of this testimony.

Providing for Accountability and Cost-Effective Management of Defense Programs

Our high-risk initiative has monitored five areas that affect accountability and cost-effective management of Department of Defense (DOD) programs: financial management, contract management, inventory management, weapon systems acquisition, and the Corporate Information Management (CIM) initiative. These areas are key to effectively managing DOD's vast resources, including a budget of over \$250 billion in fiscal year 1996 and over \$1 trillion in assets worldwide. While improvement activities have been started, DOD's high-risk problems are especially serious and much remains to be done to resolve them.

First, DOD's lingering financial management problems are among the most severe in government. For example, the Department has acknowledged over 30 material weaknesses that cross the spectrum of its financial operations, including continuing problems in accurately accounting for

billions of dollars in problem disbursements. Also, DOD has reported that of its nearly 250 financial systems only 5 conform fully with governmentwide financial systems standards. Further, financial audits have highlighted significant deficiencies in every aspect of DOD's financial management and reporting, resulting in the failure of any major DOD component to receive a positive audit opinion. Since 1990, auditors have made over 400 recommendations aimed at helping to correct these weaknesses.

Deficiencies such as these prevent DOD managers from obtaining the reliable financial information needed to make sound decisions on alternate uses for both current and future resources. DOD's financial management leaders have recognized the importance of tackling these problems and have many initiatives under way to address widespread financial management problems. Fixing DOD's financial management problems is also critical to the resolution of the Department's other high-risk areas.

In addition, as DOD seeks to streamline its contracting and acquisition processes—including contract administration and audit—to adjust to reduced staffing levels, new business process techniques will be key to accomplishing effective and efficient oversight in the future. DOD contracts now cost about \$110 billion annually. Without an improved and simplified contract payment system, DOD continues to risk overpaying contractors millions of dollars. DOD is aware of the seriousness of its payment problems and is taking steps to address them. Also, DOD needs to further strengthen its oversight of contractor cost-estimating systems, which are critical to ensuring sound price proposals and reducing the risk that the government will pay excessive prices. While DOD has improved its oversight of contractors' cost-estimating systems, poor cost-estimating systems remain an area of concern at some contractor locations.

Further, about half of DOD's centrally managed inventory of spare parts, clothing, medical supplies, and other secondary inventory items, which totaled about \$70 billion in September 1995, does not need to be on hand to support war reserves or current operating requirements. DOD has had some success in addressing its inventory management problems and is in the midst of changing a culture that believed it was better to overbuy items than to manage with just the amount of stock needed. Also, with reduced force levels and the implementation of some of our recommendations, DOD has reduced its centrally managed inventory by about \$20 billion. DOD has implemented certain commercial best practices, but only in a very limited manner and has made little progress in developing the management tools needed to help solve its long-term inventory management problems.

Consequently, inventory managers continue to have difficulty managing DOD's multibillion dollar inventory supply systems efficiently and effectively.

Also, despite DOD's past and current efforts to reform its acquisition system, wasteful practices still add billions of dollars to defense weapon systems acquisition costs, which are about \$79 billion annually. DOD continues to (1) generate and support acquisition of new weapon systems that will not satisfy the most critical weapon requirements at minimal cost and (2) commit more procurement funds to programs than can reasonably be expected to be available in future defense budgets. Many new weapon systems cost more and do less than anticipated, and schedules are often delayed. Moreover, the need for some of these costly weapons, particularly since the collapse of the Soviet Union, is questionable.

Finally, DOD started the CIM initiative in 1989 with the expectation of saving billions of dollars by streamlining operations and implementing standard information systems supporting such important business areas as supply distribution, material management, personnel, finance, and transportation. However, 8 years after beginning CIM, and after spending a reported \$20 billion, DOD's savings goal has not been met because the Department has not yet implemented sound management practices. Not surprising, the results of DOD's major technology investments have been meager and some investments are likely to result in a negative return on investment.

The Department estimates that it will spend more than an additional \$11 billion on system modernization projects between now and the year 2000. As part of its Clinger-Cohen Act implementation efforts, the Department is establishing a framework to use its planning, programming, and budgeting system to better manage this investment. While this framework is a step in the right direction, these corrective actions are just the beginning.

Improving Internal Revenue Service Management and Operations

At the Internal Revenue Service (IRS) we have monitored four high-risk areas that affect IRS' ability to ensure that all revenues are collected and accounted for: financial management, accounts receivable, filing fraud, and tax systems modernization (TSM). In 1995, IRS reported collecting \$1.4 trillion from taxpayers, disbursing \$122 billion in tax refunds, and managing an estimated accounts receivable inventory of \$113 billion in delinquent taxes.

The reliability of IRS' financial information is critical to effectively manage the collection of revenue to fund the government's operations. However, our audits of IRS' financial statements have identified many significant weaknesses in accurately accounting for revenue and accounts receivable, as well as for funds provided to carry out IRS' operations. IRS has made progress in improving payroll processing and accounting for administrative operations and is working on solutions to revenue and accounts receivable accounting problems. However, much remains to be done, and effective management follow-through is essential to achieving fully the goals of the CFO Act.

In addition, IRS is hampered in efficiently and effectively managing its huge inventory of accounts receivable due to inadequate management information. The root cause here is IRS' antiquated information systems and outdated business processes, which handle over a billion tax returns and related documents annually. IRS has undertaken many initiatives to deal with its accounts receivable problems, including correcting errors in its tax receivable masterfile and attempting to speed up aspects of the collection process. Efforts such as these appear to have had some impact on collections and the tax debt inventory, but many of the efforts are long-term in nature and demonstrable results may not be available for several years.

Further, IRS' efforts to reduce filing fraud have resulted in some success, especially through more rigid screening in the electronic filing program, but this continues to be a high-risk area. IRS' goal is to increase electronic filings, which would strengthen its fraud detection capabilities. But to achieve its electronic filing goal, IRS must (1) identify those groups of taxpayers who offer the greatest opportunity for filing electronically and (2) develop strategies focused on eliminating or alleviating impediments that have inhibited those groups from participating in the program.

In attempting to overhaul its timeworn, paper-intensive approach to tax return processing, IRS has spent or obligated over \$3 billion on its TSM efforts. This program has encountered severe difficulties. Currently, funding for the initiative has been curtailed, and IRS and the Department of the Treasury are taking several steps to address modernization problems and implement our recommendations. However, much more progress is needed to fully resolve serious underlying management and technical weaknesses.

Controlling Fraud, Waste, and Abuse in Medicare Claims

Also, Medicare—the nation’s second largest social program—is inherently vulnerable to and a perpetually attractive target for exploitation. The Congress and the President have been seeking to introduce changes to Medicare to help control program costs, which were \$197 billion in fiscal year 1996. At the same time, they are concerned that the Medicare program loses significant amounts due to persistent fraudulent and wasteful claims and abusive billings. The Congress has passed the Health Insurance Portability and Accountability Act of 1996 to protect Medicare from exploitation by adding funding to bolster program safeguard efforts and making the penalties for Medicare fraud more severe. Effective implementation of this legislation and other agency actions is key to mitigating many of Medicare’s vulnerabilities to fraud and abuse.

Also, the Health Care Financing Administration (HCFA), which runs the Medicare program, has begun to acquire a new claims processing system, the Medicare Transaction System (MTS), to provide, among other things, better protection from fraud and abuse. In the past, we have reported on risks associated with this project, including HCFA’s plan to implement the system in a single stage rather than incrementally, difficulty in defining requirements, inadequate investment analysis, and significant schedule problems. HCFA has responded to these concerns by (1) changing its single-stage approach to one under which the system will be implemented incrementally and (2) working to resolve other reported problems.

Minimizing Loan Program Losses

Since our high-risk program began 7 years ago, we have called attention to difficulties major lending agencies—the Departments of Housing and Urban Development (HUD), Education, and Agriculture—have experienced in managing federal credit programs and the government’s resulting exposure to large losses. As of September 30, 1995, total federal credit assistance outstanding was reported to be over \$941 billion, consisting of (1) \$204 billion in loans receivables held by federal agencies, including \$160 billion in direct loans and \$44 billion in defaulted guaranteed loans that are now receivables of the federal government, and (2) \$737 billion in loans guaranteed by the federal government.

HUD is responsible for managing more than \$400 billion in insured loans; \$435 billion in outstanding securities; and, in fiscal year 1995, over \$31.8 billion in discretionary budget outlays. However, effectively carrying out these responsibilities is hampered by HUD’s weak internal controls, inadequate information and financial management systems, an ineffective organization structure, and an insufficient mix of staff with the proper

skills. These problems are not new—we reported them in 1995 and they were a major factor contributing to the incidents of fraud, waste, abuse, and mismanagement reported in the late 1980s.

HUD has undertaken some improvement efforts to correct these problems through such means as implementing a new management planning and control program. However, HUD's improvement efforts are far from fruition, and long-standing, fundamental problems remain. HUD's program will remain high risk until the agency completes more of its planned corrective actions and the administration and the Congress reach closure on a restructuring that (1) focuses HUD's mission and (2) consolidates, reengineers, and/or reduces HUD's programs. What is needed is for the administration and the Congress to agree on the future direction of federal housing and community development policy and put in place the organizational and program delivery structures that are best suited to carry out that policy.

Actions by the Department of Education, combined with legislative changes, have achieved some results in addressing many of the underlying problems with the student financial aid programs' structure and management. In fiscal year 1995, the federal government paid out over \$2.5 billion to make good its guarantee on defaulted student loans—an amount that represents an improvement over the last several years. The Department has taken many administrative actions to correct problems and improve program controls, but it must overcome management and oversight problems that have contributed to abuses by some participating schools.

Since our last high-risk report series in 1995, the Congress has enacted legislation—Title VI of the Federal Agriculture Improvement and Reform Act of 1996—to make fundamental changes in the farm loan programs' loan-making, loan-servicing, and property management policies. The Department of Agriculture is in the process of implementing the new legislative mandates and other administrative reforms to resolve farm loan program risks. The impact of these actions on the \$17 billion farm loan portfolio's financial condition will not be known for some time.

The Debt Collection Improvement Act of 1996 also was enacted to expand and strengthen agencies' debt collection practices and authorities. This important new legislation can provide a much needed new impetus to improve lending program performance, but it will take time to implement

the act. Additional agency attention to improve lending management and actions by the Congress are necessary as well.

Improving Management of Federal Contracts at Civilian Agencies

With government downsizing, civilian agencies will continue to rely heavily on contractors to operate programs. While this approach can help to achieve program goals with a reduced workforce, it can also result in increased vulnerability to risks, such as schedule slippages, cost growth, and contractor overpayments. Our high-risk program has followed efforts to resolve contract management weaknesses undertaken by several of the government's largest civilian contracting agencies—the Department of Energy (DOE), the National Aeronautics and Space Administration (NASA), and the Environmental Protection Agency (EPA) for the Superfund.

Most of DOE's \$17.5 billion in 1995 contract obligations was for its management and operating contracts. DOE has made headway in overcoming its history of weak contractor management through a major contract reform effort that has included developing an extensive array of policies and procedures. Although the Department recently adopted a policy favoring competition in the award of these contracts, in actual practice most contracts continue to be made noncompetitively.

NASA has made considerable progress in better managing and overseeing contracts, for which it spends about \$13 billion a year. The improvements have included establishing a process for collecting better information for managing contractor performance and placing greater emphasis on contract cost control and contractor performance. Our most recent work, however, identified additional problems in contract management and opportunities for improving procurement oversight.

For the past several years, EPA has focused attention on strengthening its management and oversight of Superfund contractors. Nonetheless, EPA remains vulnerable to contractor overpayments. At the same time, the magnitude of the nation's hazardous waste problem, estimated to cost hundreds of billions of dollars, calls for the efficient use of available funds to protect public health and the environment.

New High-Risk Areas Have Emerged

In addition to the 20 areas we previously designated high risk, we are adding 5 new ones. We are alerting the Congress to these new areas because they involve serious problems: fraud and abuse in benefit claims, widespread computer security weaknesses, inefficient Department of

Defense operation and support activities, the possibility of disastrous computer disruptions in service to the public, and the potential for a costly, unsatisfactory 2000 Decennial Census.

The first newly designated high-risk area involves overpayments in the Supplemental Security Income (SSI) program, which provided about \$22 billion in federal benefits to recipients between January 1, 1996, and October 31, 1996. One root cause of SSI overpayments, which have grown to over \$1 billion annually, is the difficulty the Social Security Administration has in corroborating financial eligibility information that program beneficiaries self report and that affects their benefit levels. Determining whether a claimant's impairment qualifies an individual for disability benefits can often be difficult as well, especially in cases involving applicants with mental impairments and other hard-to-diagnose conditions.

Second, information systems security weaknesses across government have now been designated high risk. These weaknesses pose high risk of unauthorized access and disclosure or malicious use of sensitive data. Many federal operations that rely on computer networks are attractive targets for individuals or organizations with malicious intention. Examples of such operations include law enforcement, import entry processing and various financial transactions. Most notably, DOD's systems may have experienced as many as 250,000 attacks from hackers during 1995 alone, with about 64 percent of them being successful and most going undetected. Since June 1993, we have issued over 30 reports describing serious information security weaknesses at major federal agencies. In September 1996, we reported that during the previous 2 years, serious information security control weaknesses had been reported for 10 of the 15 largest federal agencies. We have made dozens of recommendations to individual agencies and the Office of Management and Budget for improvement, and they have started acting on many of them.

Third, DOD's efforts to reduce its infrastructure will now be monitored as part of our high-risk efforts. Over the last 7 to 10 years, DOD has reduced operations and support costs, which will amount to about \$146 billion this year. However, billions of dollars are wasted annually on inefficient and unneeded DOD activities. DOD has, in recent years, undergone substantial downsizing in force structure. However, commensurate reductions in operations and support costs have not been achieved. Reducing the cost of excess infrastructure activities is critical to maintaining high levels of military capacities. Expenditures on wasteful or inefficient activities divert

limited defense funds from pressing defense needs, such as the modernization of weapon systems.

Fourth, we have designated another serious governmentwide computer information systems issue, the Year 2000 Problem, as a new high-risk area. This problem poses the high risk that computer systems throughout government will fail to run or malfunction because computer equipment and software were not designed to accommodate the change of date at the new millennium. For example, IRS' tax systems could be unable to process returns, which in turn could jeopardize the collection of revenue and the entire tax processing system. Federal systems used to track student education loans could produce erroneous information on their status, such as indicating that an unpaid loan has been satisfied. Or the Social Security Administration's disability insurance process could experience major disruptions because the interface with various state systems fails, thereby causing delays and interruptions in disability payments to citizens.

The fifth new high-risk area involves the need for agreement between the administration and the Congress on an approach that will both minimize the risk of an unsatisfactory 2000 Decennial Census and keep the cost of doing it within reasonable bounds. The longer the delay in securing agreement over design and funding, the more difficult it will be to execute an effective census, and the more likely it will be that the government will have spent billions of dollars and still have demonstrably inaccurate results. The country can ill afford an unsatisfactory census at the turn of the century, especially if it comes at a substantially higher cost than previous censuses. The census results are critical to apportioning seats in the House of Representatives; they are also used to allocate billions of dollars in federal funds for numerous programs and to guide the plans for decisions of government, business, education, and health institutions in the multibillion dollar investments they make.

Focusing Attention on High-Risk Areas

Shifting to the future, the government can gain major benefits by focusing on the resolution of high-risk problems and fully and effectively implementing the legislative foundation established for broader management reforms. As countless studies we have performed have long noted and our high-risk series of reports demonstrates, federal agencies often fail to appropriately manage their finances, identify clearly what they intend to accomplish, or do the job effectively with a minimum of waste. Left unresolved, persistent and long-standing high-risk areas will result in the government continuing to needlessly lose billions of dollars and

missing huge opportunities to achieve its objectives at less cost and with better service delivery.

Achieving Substantial Savings and Other Monetary Benefits

The 25 areas that are the focus of our high-risk program cover almost all of the government's annual \$1.4-trillion revenue collection efforts and hundreds of billions of dollars in annual federal expenditures. Consequently, further progress to fully and effectively implement actions to resolve high-risk problems can result in substantial savings, for example, by

- reducing Medicare losses due to fraudulent and abusive claims, which could be from \$6 billion to as much as \$20 billion based on 1996 outlays;
- decreasing SSI overpayments, which have grown to over \$1 billion a year;
- cutting back further on unneeded centrally managed defense inventories, which DOD succeeded in reducing by \$23 billion during the 6-year period from 1989 to 1995;
- implementing better practices for acquiring weapon systems and reducing defense infrastructure, which are two areas that each experience billions of dollars in unneeded costs annually; and
- adopting improved contract management practices, as NASA is doing with considerable progress. For instance, NASA lowered the value of contract changes for which prices had not yet been negotiated from \$6.6 billion in December 1991 to less than \$500 million in September 1996.

In addition, overcoming several high-risk problems has great potential for increased collections or other monetary gains to the government. For instance, these benefits are possible by

- further preventing or deterring tax filing fraud, which involved over 62,000 fraudulent returns with refunds of almost \$132 million in 1995;
- reducing the growing inventory of tax assessments, which was \$216 billion at the end of fiscal year 1996;
- ensuring that duties, taxes, and fees on importations are properly assessed and collected by the Customs Service and that refunds of such amounts are valid; and
- continuing to implement improved credit management practices. For example, the Department of Education has increased collections on defaulted loans from \$1 billion in fiscal year 1992 to \$2 billion in fiscal year 1995.

Making Better Investments to Reap Potential Benefits From Information Technology

Information technology is now integral to nearly every aspect of federal government operations and thus, is pivotal to the government's interaction with the public and critical to public health and safety issues. In the past 6 years, federal agencies have spent about \$145 billion on information systems. Yet, despite years of experience in developing and acquiring systems, agencies across government continue to have chronic problems harnessing the full potential of information technology to improve performance, cut costs, and/or enhance responsiveness to the public.

We have already discussed in this testimony the high risks associated with two multibillion dollar information systems modernizations—IRS' tax systems modernization and DOD's corporate information management initiative. In addition, the information systems modernization efforts of other agencies are at risk of being late, running over cost, and falling short of promised benefits. Our high-risk initiative includes two of these modernizations—those at the Federal Aviation Administration (FAA) and the National Weather Service (NWS).

FAA's \$34-billion air traffic control (ATC) modernization has historically experienced cost overruns, schedule delays, and performance shortfalls. While FAA has had success on a recent small, well defined effort to replace one aging system, the underlying causes of its past problems in modernizing larger, more complex ATC systems remain and must be addressed for the modernization to succeed. We recently identified and made recommendations to correct several of these root causes, including (1) strengthening project cost estimating and accounting practices and (2) defining and enforcing an ATC-wide system architecture, and we have work under way to identify other improvements that could help to resolve the modernization's long-standing problems.

The success of NWS' \$4.5 billion modernization effort hinges on how quickly the Service addresses problems with the existing system's operational effectiveness and efficient maintenance and on how well it develops and deploys the remaining system. NWS has acknowledged that a technical blueprint is needed and is currently developing one.

To improve situations such as these and stop bad information technology investments, we have worked closely with the Congress to fundamentally revamp and modernize federal information management practices. Our study of leading public and private sector organizations showed how they applied an integrated set of management practices to create the information technology infrastructure they needed to dramatically

improve their performance and achieve mission goals.¹ These practices provide federal agencies with essential lessons in how to overcome the root causes of their chronic information management problems.

The 104th Congress used these lessons to create the first significant reform in information technology management in over a decade: the 1995 Paperwork Reduction Act and the Clinger-Cohen Act of 1996. These laws require agencies to implement a framework of modern technology management—one that is based on practices followed by leading public and private sector organizations that have successfully used technology to dramatically improve performance and meet strategic goals.

These laws emphasize involving senior executives in information management decisions, establishing senior-level Chief Information Officers, tightening controls over technology spending, redesigning inefficient work processes, and using performance measures to assess technology's contribution to achieving mission results. These management practices provide a proven, practical means of addressing the federal government's information problems, maximizing benefits from technology spending, and controlling the risks of systems development efforts. The challenge now is for agencies to apply this framework to their own technology efforts, particularly those at high risk of failure.

Improving Performance and Providing Better Service

Traditionally, federal agencies have used either the amount of money directed toward their programs, the level of staff deployed, or even the number of tasks completed as some of the measures of their performance. But at a time when the value of many federal programs is undergoing intense public scrutiny, an agency that reports only these measures has not answered the defining question of whether these programs have produced real results.

For high-risk areas, measuring performance and focusing on results is key to pinpointing opportunities for improved performance and increased accountability. For instance, performance measures would be useful for

- guiding management of defense inventory levels to prevent the procurement of billions of dollars of centrally managed inventory items that may not be needed;

¹Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology—Learning from Leading Organizations (GAO/AIMD-94-115, May 1994).

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- reaching agreement with the Congress on and monitoring acceptable levels of errors in benefit programs, which may never be totally eliminated but can be much better controlled;
 - monitoring loan loss levels and delinquency rates for the government's direct loan and loan guarantee programs—multibillion dollar operations in which losses for a variety of programs involving farmers, students, and home buyers are expected but can be minimized with greater oversight; and
 - assessing the results of tax enforcement initiatives, delinquent tax collection activities, and filing fraud reduction efforts.

Yesterday, we testified before the Committee on using the Government Performance and Results Act of 1993 (GPRA) to assist congressional and executive branch decision-making. Under GPRA, every major federal agency must now ask itself basic questions about performance to be measured and how performance information can be used to make improvements.

GPRA requires agencies to set goals, measure performance, and report on their accomplishments. This will not be an easy transition, nor will it be quick. GPRA will be more difficult for some agencies to apply than for others. But GPRA has the potential for adding greatly to government performance—a particularly vital goal at a time when resources are limited and public demand is high. To help the Congress and federal managers put GPRA into effect, we have identified key steps that agencies need to take toward its implementation, along with a set of practices that can help make that implementation a success.²

Managing the Cost of Government Programs More Effectively

Reliable financial information is key to better managing government programs, providing accountability, and addressing high-risk problems. The government's financial systems are all too often unable to perform the most rudimentary bookkeeping for organizations, many of which are oftentimes much larger than many of the nation's largest private corporations. Federal financial management suffers from decades of neglect and failed attempts to improve financial management and modernize outdated financial systems. This situation is illustrated in a number of high-risk areas, including

- the weaknesses that permeate critical DOD financial management areas,

²Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

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- the substantial improvements that are needed in IRS' accounting and financial reporting,
 - the significant problems that continue to be identified during audits of the Customs Service's financial statements, and
 - the fundamental control weaknesses that resulted in the HUD Inspector General being unable to give an opinion on the Department's fiscal year 1995 financial statements.

As a result of situations such as these, financial information has not been reliable enough to use in federal decision-making or to provide the requisite public accountability. Good information on the full costs of federal operations is frequently absent or extremely difficult to reconstruct, and complete, useful financial reporting is not yet in place.

The landmark Chief Financial Officers (CFO) Act spelled out a long overdue and ambitious agenda to help resolve these types of financial management deficiencies. Important and steady progress is being made under the act to bring about sweeping reforms and rectify the devastating legacy from inattention to financial management. Moreover, the regular preparation of financial statements and independent audit opinions required by the 1990 act, as expanded by the Government Management Reform Act of 1994, are bringing greater clarity and understanding to the scope and depth of problems and needed solutions.

Under the expanded CFO Act, the 24 largest agencies are required to prepare and have audited financial statements for their entire operations, beginning with those for fiscal year 1996. Together, these agencies account for virtually the entire federal budget. Also, the 1994 expansion of the act requires the preparation and audit of consolidated governmentwide financial statements, beginning with those for fiscal year 1997.

Making CFO Act reforms a reality in the federal government remains a challenge and a great deal more perseverance will be required to sustain the current momentum and successfully overcome decades of serious neglect in fundamental financial management operations and reporting methods. But fully and effectively implementing the CFO Act is a very important effort because it is a key to achieving better accountability; implementing broader management reforms, such as GPRA; and providing the nation's leaders and the public with a wealth of relevant information on the government's true financial status.

We will continue to identify ways for agencies to more effectively manage and control high-risk areas and to make recommendations for improvements that can be implemented to overcome the root causes of these problems. Also, we have long supported annual congressional hearings that focus on agencies' accountability for correcting high-risk problems and implementing broad management reforms.

Mr. Chairman, this concludes my statement. I would be happy to now respond to any questions.

Areas Designated High Risk

**Providing for
Accountability and
Cost-Effective
Management of
Defense Programs**

Financial management
Contract management
Inventory management
Weapon systems acquisition
Defense infrastructure (added in 1997)

**Ensuring All
Revenues Are
Collected and
Accounted for**

IRS financial management
IRS receivables
Filing fraud
Tax Systems Modernization
Customs Service financial management
Asset forfeiture programs

**Obtaining an
Adequate Return on
Multibillion Dollar
Investments in
Information
Technology**

Tax Systems Modernization
Air traffic control modernization
Defense's Corporate Information Management initiative
National Weather Service modernization
Information security (added in 1997)
The Year 2000 Problem (added in 1997)

**Controlling Fraud,
Waste, and Abuse in
Benefit Programs**

Medicare
Supplemental Security Income (added in 1997)

**Minimizing Loan
Program Losses**

HUD
Farm loan programs
Student financial aid programs

**Improving
Management of
Federal Contracts at
Civilian Agencies**

Department of Energy
NASA
Superfund

Attachment I
Areas Designated High Risk

Also, planning for the 2000 Decennial Census was designated high risk in February 1997.

1997 High-Risk Series

[An Overview](#) (GAO/HR-97-1)

[Quick Reference Guide](#) (GAO/HR-97-2)

[Defense Financial Management](#) (GAO/HR-97-3)

[Defense Contract Management](#) (GAO/HR-97-4)

[Defense Inventory Management](#) (GAO/HR-97-5)

[Defense Weapon Systems Acquisition](#) (GAO/HR-97-6)

[Defense Infrastructure](#) (GAO/HR-97-7)

[IRS Management](#) (GAO/HR-97-8)

[Information Management and Technology](#) (GAO/HR-97-9)

[Medicare](#) (GAO/HR-97-10)

[Student Financial Aid](#) (GAO/HR-97-11)

[Department of Housing and Urban Development](#) (GAO/HR-97-12)

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Address Correction Requested
