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BUREAU OF THE CENSUS

Management Issues Require
Prompt Attention

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060161

Mr. Chairman, Mr. Petri, and Members of the Subcommittee:

We are pleased to be here today to discuss two key Census Bureau management issues of immediate concern to the Subcommittee. The first deals with the Bureau's recent efforts to recover unliquidated obligations (obligations incurred but not paid). The second relates to the Bureau's impending reorganization. Our statement is based on the preliminary results from our ongoing examination of management issues at the Bureau, which we initiated at your request.

As part of this work, we reviewed the Bureau's procedures and practices for obligating and recovering funds. Specifically, we examined all recovered unliquidated obligations of more than \$200,000 that the Bureau made from August 1993 through January 1994. We also reviewed all of the Bureau's unliquidated obligations of more than \$100,000 as of January 31, 1994. In addition, we reviewed the Bureau's plans for its reorganization and discussed its objectives with senior Bureau managers.

POOR FINANCIAL MANAGEMENT AND BUREAU OVERSIGHT
RESULTED IN BUILD UP OF UNLIQUIDATED OBLIGATIONS

In fiscal years 1993 and 1994, the Bureau was faced with a total of \$74 million in congressional budget reductions. To supplement its budget and maintain its operations without reducing personnel, the Bureau initiated a major effort to recover no-year funds that were no longer needed to pay unliquidated obligations. Recognizing the likelihood that the Bureau would be able to recover additional funds in fiscal year 1994, Congressional appropriators encouraged the Bureau's effort.¹ The Bureau was able to make up a sizable portion of the congressional budget reductions by recovering \$52 million from unliquidated obligations that had built up primarily as a result of

¹The report of the House Committee on Appropriations states, "The budget request for the Periodic Censuses and Programs account assumes recoveries of prior year obligations totaling \$4,000,000; that amount is also assumed in the Committee's recommendation. The Committee is aware that, based on a recent review by the Department of Commerce Inspector General, additional prior year recoveries of \$10,000,000 or more could be identified. Should those deobligations actually become available, the Committee would consider the redistribution of those amounts to items not fully funded in the accompanying bill, subject to the Committee's reprogramming procedures included under section 605 of the accompanying bill." H.R. Rep. No. 103-157. 103d Cong., 1st Sess. (1993). The report of the Senate Committee on Appropriations states, "The Committee encourages the Bureau of the Census to continue its aggressive efforts to identify prior-year funding that could be deobligated to meet other fiscal year 1994 requirements." S. Rep. No. 103-105. 103d Cong., 1st Sess. (1993).

deficiencies in financial management. The extent of unliquidated obligations, which the Bureau reported to be more than \$80 million at the beginning of fiscal year 1993, could indicate financial management problems. Over several years, these problems caused the Bureau's budget submissions to Congress and the Department of the Treasury to show a need for more appropriations than were actually required. Although the Bureau has initiated some corrective actions to prevent the continued pattern of building reserve funds of unliquidated obligations, it needs to do more to improve its overall financial management system. A failure to do so could diminish the Bureau's credibility with Congress.

Background on the Bureau's No-Year Funds and Financial Management Problems

Several of the Bureau's programs, such as the decennial census, require several years to complete. To pay for such programs, the Bureau receives appropriations for no-year funds, which are available for an indefinite period of time. In fiscal year 1994, the Bureau's budget was \$238 million--of which \$110 million were no-year funds.² If the Bureau does not need to spend all of its obligated no-year funds, the funds can be deobligated (recovered) and reobligated in current or subsequent fiscal years.

Recovering unliquidated obligations on a timely basis is required and should be a key function of the Bureau's management of no-year funds. According to federal internal control procedures, these unliquidated obligations should be recovered as soon as it is evident that the funds are no longer needed for the activity for which they were obligated.³ If the Bureau fails to periodically recover such unliquidated obligations, then it distorts its requests to Treasury for funds and inhibits its budget preparation.

The Bureau has a history of financial management problems. Before the 1980 Decennial Census, we reported that (1) the Bureau's budgets in some instances were based on inaccurate or inadequate data and (2) its accounting records did not accurately

²The Bureau's level of no-year funding increases significantly during the period it conducts decennial census activities. For example, in fiscal year 1990, the Bureau's no-year funding level was \$1.4 billion.

³Title 7 of GAO's Policies and Procedures Manual for Guidance of Federal Agencies (Washington, D.C.: May 1993).

reflect the planning costs for the Census.⁴ Our review of the Bureau's preparation for and the execution of the 1990 Decennial Census again revealed inadequacies in the Bureau's accounting system that made it difficult to determine the actual cost of decennial census activities. In 1992, we reported that such inadequacies could hamper the Bureau's planning for the 2000 Decennial Census.⁵

In 1987, the Inspector General of the Department of Commerce warned of weaknesses in the Bureau's accounting system, including insufficient review of the status of obligations.⁶ In 1990, the Inspector General again reported that the Bureau had not performed adequate verifications of the status of obligations.⁷ In that report, the Inspector General recommended that the Bureau periodically verify the status of obligations and recover those funds that were no longer needed to pay unliquidated obligations or were not supported by adequate documentation. In February 1994, the Inspector General issued another report that noted major deficiencies in the Bureau's internal controls that precluded the Bureau from producing financial reports that were auditable.⁸

The Bureau's Build Up of Unliquidated Obligations

In recent years, the Bureau has not followed federal internal control procedures requiring timely recoveries of funds. This has allowed the Bureau to build up a substantial reserve of funds from prior years' unliquidated obligations. When faced with \$74

⁴Bureau of the Census' Procedures for the 1980 Decennial Census (GAO/GGD-79-7, Nov. 9, 1978).

⁵Decennial Census: 1990 Results Show Need For Fundamental Reform (GAO/GGD-92-94, June 9, 1992).

⁶Census Accounting System Is Operating Satisfactorily But A Few Improvements Are Needed, Bureau of the Census, Report No. 4-012-7-010, U.S. Department of Commerce, Office of Inspector General (Washington, D.C.: Sept. 1987).

⁷Improvements Needed Over the Control and Verification of the Census Bureau's Unliquidated Obligations, EAD-0250-0-0009, U.S. Department of Commerce, Office of Inspector General, Office of Audits (Washington, D.C.: Sept. 1990).

⁸Report on the Financial Statements Preparation and Auditing Survey of the Bureau of the Census, FSD-5536-4-0001. U.S. Department of Commerce, Office of Inspector General, Office of Audits, Financial Statements Division (Washington, D.C.: Feb. 1994).

million in funding cuts in fiscal years 1993 and 1994, the Bureau was able to supplement its budget by recovering about \$52 million from this reserve of funds. Most of these funds were obligated for the 1990 Decennial Census and should have been recovered on a more timely basis. Figure 1 shows the relationship of the build up of unliquidated obligations to the 10-year decennial census cycle.

Figure 1: Unliquidated Obligations at Start of Fiscal Years

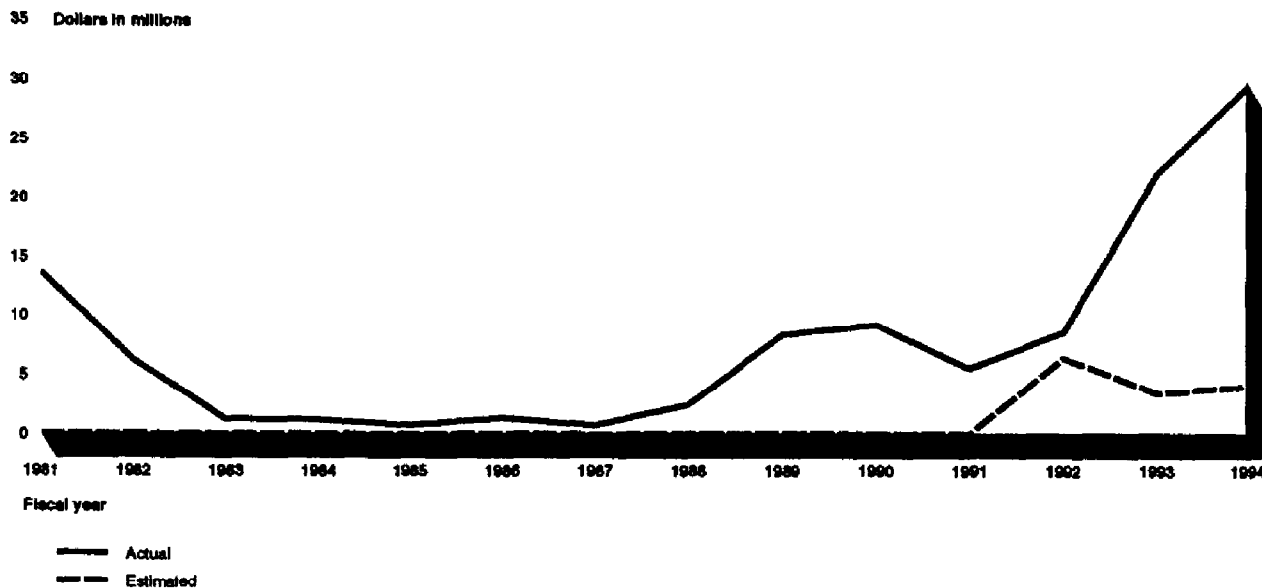


Note: We did not verify the accuracy of the Bureau's data on unliquidated obligations.

Source: Census Bureau.

Figure 2 shows how the pace at which the Bureau recovered unliquidated obligations after the 1990 Decennial Census lagged behind the pace at which it recovered unliquidated obligations after the 1980 Decennial Census.

Figure 2: Actual Versus Estimated Recovered Unliquidated Obligations



Note 1: Fiscal year 1994 reflects recovered unliquidated obligations through March 31, 1994.

Note 2: The Bureau did not estimate unliquidated obligations to be recovered in its budgets for fiscal years 1981 through 1991.

Note 3: We did not verify the accuracy of the Bureau's data on recovered unliquidated obligations.

Source: Census Bureau.

The Bureau allowed obligations for projects to remain unliquidated long after the projects were completed. The Bureau's handling of unliquidated obligations also exhibited other financial management deficiencies. For example, in fiscal year 1984, the Bureau began a contract for computer maintenance for which funds were obligated annually through fiscal year 1991 when total obligations amounted to \$33 million. The Bureau's Finance Division files indicated the last payment for this contract took place in December 1991. No unliquidated obligations were recovered until fiscal year 1993 when the Bureau recovered such obligations from eight different years (each one was for more than \$200,000) totaling \$2.7 million from obligations made as early as 1985.

In April 1988, the Bureau obligated \$1.15 million for dedicated computer time from a university to support the 1990 Decennial Census. The Bureau made only one payment of \$250,000 to the university in August 1988. The agreement for this computer time

was terminated in October 1988. However, the remaining \$900,000 was not recovered until December 1993.

From 1982 through 1990, the Bureau accumulated unliquidated obligations totaling between \$10 million and \$11 million for potential unemployment compensation claims, primarily from temporary decennial census workers. Because of incomplete and conflicting Bureau records, we were unable to determine the precise amount of unemployment compensation. In addition to the unliquidated obligations remaining from the 1980 Decennial Census, the Bureau obligated funds from 1986 through 1990 on the basis of estimates of projected unemployment compensation costs for the 1990 Decennial Census. The estimates were allocated to various divisions, projects, and years. When claims were received and paid, the Bureau was unable to match these claims to the allocations. The Bureau created new obligations that duplicated the existing ones. As a result, the Bureau did not liquidate any of the original unemployment compensation obligations until August and December 1993. We believe that unless these unemployment compensation accounting problems are corrected, the Bureau will again face major financial management problems in keeping track of obligations and payments for unemployment compensation in the 2000 Decennial Census.

In 1989, the Bureau obligated \$4.1 million to a vendor for eight printing projects as a result of significantly overestimated costs. For one of these printing projects, the Bureau estimated that an employment form would cost \$313,000 to print, but the final cost was only \$77,278. By 1990, the vendor had completed the printed materials for all eight projects the Bureau had requested at a cost of only \$300,000. Despite substantial differences between the estimated and actual costs, no adjustments were made to the original obligations,⁹ and the Bureau did not recover the \$3.8 million remaining from the original obligations until August 1993.

In our review of these and other recovered unliquidated obligations, we identified several financial management deficiencies at the Bureau that were allowed to happen by an overall lack of emphasis on financial management and control. These deficiencies included inadequate recordkeeping; lack of effective internal controls; lack of communication between the finance, budget, and program offices; and imprecise estimates of obligations compounded by a lack of adjusted obligation estimates when warranted.

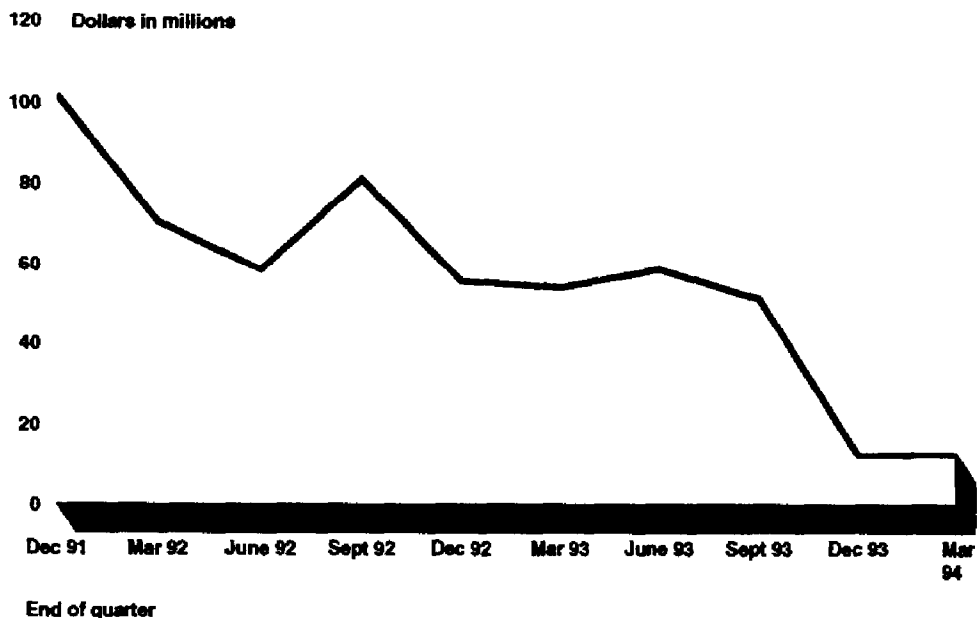
⁹As provided in Title 7 of GAO's Policies and Procedures Manual for Guidance of Federal Agencies, appropriate adjustments should be made to estimated obligations when the actual amount of the obligation becomes known.

The accumulation of unliquidated obligations caused the Bureau's budget documents to show a need for more appropriations than were actually required. For example, in its fiscal year 1993 submission, the Bureau estimated it would use \$3.4 million in recoveries to fund its programs but actually recovered \$22 million. In fiscal year 1994, the Bureau estimated it would recover \$4 million but as of March 31, 1994, had recovered about \$30 million. (See fig. 2.) Thus, congressional decisionmakers based decisions on incomplete information regarding the Bureau's actual budgetary position.

Fewer Recovered Unliquidated Obligations
Expected in Near Future

Our work indicates that in the next few fiscal years the Bureau will not have sufficient unliquidated obligations of the same magnitude to recover as many funds as it did in fiscal years 1993 and 1994. The reasons for this are clear. First, most of the \$52 million the Bureau recovered in those fiscal years were funds obligated for 1990 Decennial Census activities. Because the Bureau has already recovered large amounts of unliquidated obligations, fewer older unliquidated obligations remain unliquidated, as of March 31, 1994. (See fig. 3.)

Figure 3: Unliquidated Obligations at End of Quarters for Fiscal Years 1992 Through 1994



Note: We did not verify the accuracy of the Bureau's data on unliquidated obligations.

Source: Census Bureau.

Second, in fiscal year 1995, the Bureau's no-year funding level should be substantially lower than it was during the peak of the 1990 Decennial Census, and therefore the Bureau will be obligating fewer funds.

The Bureau nevertheless should continue making some recoveries in the next few fiscal years. In our review of current unliquidated obligations as of January 31, 1994, we found that some of them could be recovered. However, the amounts of these unliquidated obligations are relatively small compared to those that have already been recovered in 1993. In its fiscal year 1995 budget submission, the Bureau estimated that it will recover \$2.8 million. However, as the Bureau prepares for the 2000 Decennial Census, we anticipate its funding levels and the amount of obligations will increase dramatically to more than a billion dollars by 2000. If the Bureau's financial management problems are not solved by then, the increase in future funding could lead to another build up of unliquidated obligations that could be recovered.

Actions to Address Recovery Delays

The Department of Commerce and the Bureau have taken steps to address some of the problems that led to delays in recovering unliquidated obligations. For example, in January 1994, the Bureau initiated a system for periodically reviewing unliquidated obligations. To encourage recovering unliquidated obligations in a more timely manner, the Bureau also revised its longstanding policy of allowing program officials to allocate recovered funds that were no longer needed to pay unliquidated obligations. Now senior Bureau management decides how the recovered funds will be reallocated.

Proper management of obligations is also dependent on accounting systems that contain sufficient discipline, effective controls, and reliable information. However, the 1994 report of the Inspector General said that the Bureau's accounting systems had major deficiencies. Commerce is developing a new accounting system that Bureau officials hope will address its accounting deficiencies, but Commerce does not expect to begin implementing this system until 1997. In addition, the Bureau's impending reorganization emphasizes the importance of financial management.

BUREAU'S REORGANIZATION DESIGNED TO IMPROVE OPERATIONS

By the end of June 1994, the Bureau plans to change its organizational structure. The reorganization is designed to improve strategic planning and financial accounting and to prepare the Bureau for reengineering the way it does business. The reorganization has worthy objectives for improving the Bureau's operations.

The Bureau plans to better integrate its administrative and program areas by establishing two principal associate directors. One is to oversee administrative matters and serve as Chief Financial Officer. The other is to oversee all demographic and economic programs. Currently, the Bureau has seven associate directors who are to report directly to the Director. Under the reorganization, two of the current associate directors responsible for management functions, a Comptroller, and a new Associate Director for Planning and Organizational Development, are to report to the Principal Associate Director/Chief Financial Officer. Five of the current associate directors responsible for the Bureau's various programs are to report to the Principal Associate Director for Programs.

The Acting Director said that one of the key responsibilities of these principal associate directors will be to end the longstanding fragmentation of organizational units. Each of these units now operates independently of the others, which limits the sharing of information and expertise across

organizational lines. Therefore, one of the primary responsibilities of the principal associate directors should be to promote coordination and cooperation within and between their respective functional areas.

In view of the Bureau's history of financial problems, one of the most encouraging aspects of the reorganization is the increased emphasis it places on financial management. For example, in establishing the position of Chief Financial Officer, the reorganization elevates the level of responsibility for financial management. The reorganization also raises to a higher level in the Bureau the position of Comptroller, responsible for overseeing the Bureau's finance and budget activities. This position was created in March 1992 but has not been filled.¹⁰

Another important aspect of the reorganization is the creation of an Office of Planning and Organizational Development headed by an associate director. This will give the Bureau for the first time an office devoted specifically to strategic planning. This office will also be responsible for guiding the Bureau in its efforts to reengineer the way it does business. Creating this office is consistent with the administration's goals of moving federal agencies toward improved strategic planning and building a smaller, more efficient government to accommodate anticipated budgetary constraints.

However, the reorganization should not be viewed as a substitute for leadership and effective management. Improving the Bureau's operations will also require filling the positions created by the reorganization with skilled managers. To evaluate the Bureau's progress toward achieving the goals of the reorganization, Bureau managers and Congress will need outcome measures as specified in the Government Performance and Results Act of 1993.

The challenge of achieving the goals of the reorganization, including the improvement of financial management, is compounded by the continued lack of a nominated and confirmed Director of the Census Bureau. We also should note that the position of Commerce Under Secretary for Economic Affairs, to whom the Bureau Director reports, is not filled. Both of these positions have been unfilled for a year and a half. The fundamental changes contained in the reorganization as well as the reform of the decennial census require that the position of the Bureau Director be filled. Despite the efforts of the Acting Director, as long as the position of Bureau Director remains vacant, the Census Bureau will be without fully vested and authoritative top-level

¹⁰The position of Director for Budget and Finance Division was approved by the Department of Commerce on March 2, 1992, and was retitled Comptroller on December 23, 1992.

leadership. This problem is compounded by the vacancy in the Under Secretary's office.

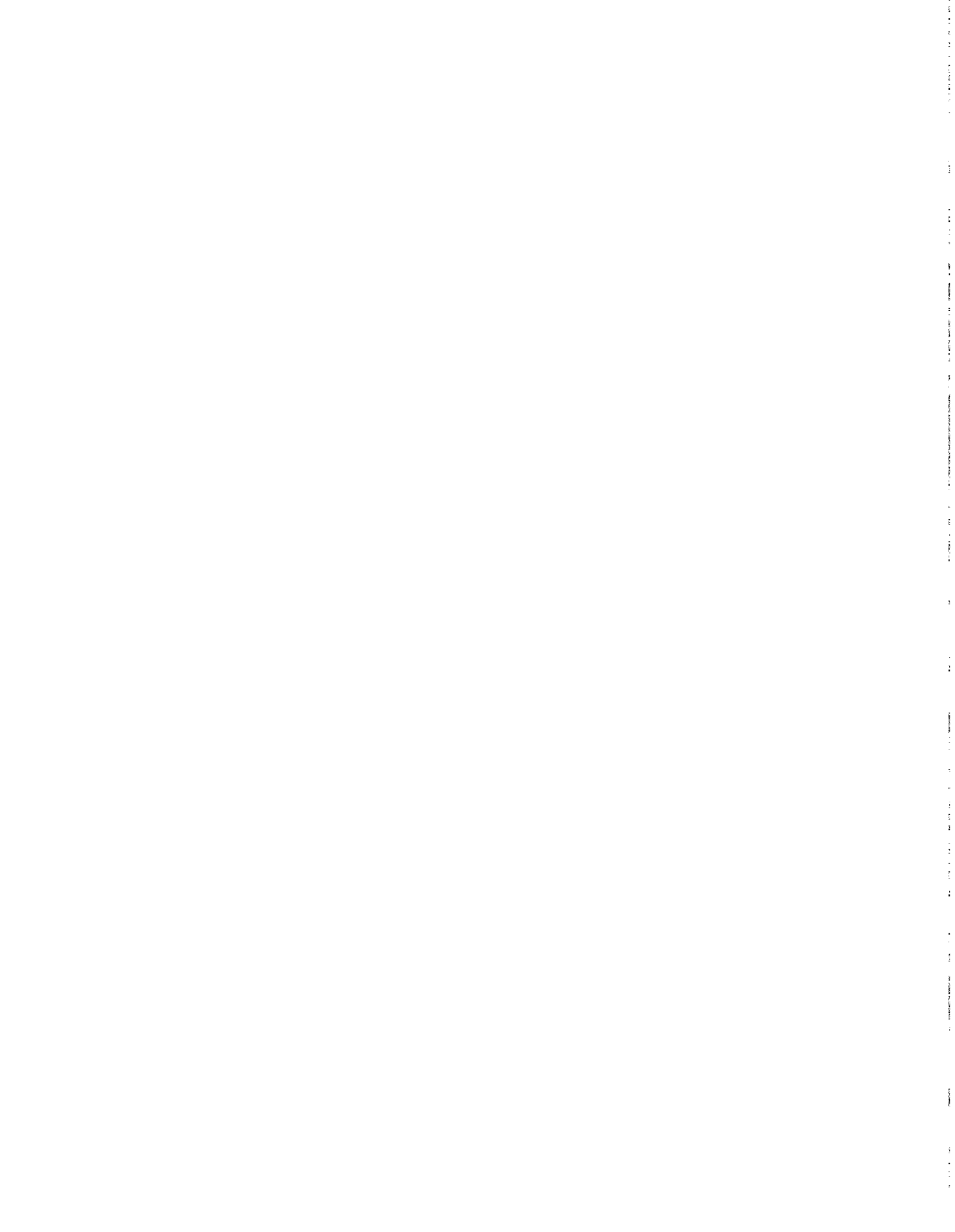
CONCLUSIONS

The importance of sound management at the Bureau cannot be overemphasized. The Bureau needs to address its financial management problems promptly. Sound financial management is essential to maintain the Bureau's credibility with Congress so that it can obtain the funds it needs to plan for the mammoth task of reforming and conducting the 2000 Decennial Census. The Bureau intends to address other management issues by its reorganization, but the success of the reorganization in achieving specific measurable results remains to be seen.

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This concludes our prepared statement, Mr. Chairman. My colleagues and I would be pleased to answer any questions.

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