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THIRD SEMINAR ON GOVERNMENT CONTROL

MAY 13-15, 1981

MEXICO CITY



Good morning/afternoon. I am delighted to again participate in a Mexican Seminar on Government Control. These annual seminars and the many other programs and projects underway to expand the scope of auditing in the Contaduria Mayor de Hacienda are certainly impressive. They also remind me of the path the United States General Accounting Office chartered in expanding the scope of auditing in our country.

In selecting a topic for this speech I thought it appropriate to spend some time discussing how GAO made the transition from financial auditing to program evaluation, and to provide some examples of work GAO currently does in areas which may particularly interest you. I will also discuss how GAO's audits and evaluations are used in our budget process.

The General Accounting Office is an independent agency within the legislative branch of the Government. It plays an important part in the helping the United States Congress oversee the way the executive branch fulfills its responsibilities provided under our Constitution.

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Our Office is described as being "independent" because of several contingencies written into the position of Comptroller General. Although appointed by the President after receiving nominations from both Houses of Congress, and confirmed by the Senate, the Comptroller General cannot be removed by the President. Removal can only be done by the Congress, and then only for cause or by impeachment. In its nearly 60 years of history, no Comptroller General has been removed nor have any efforts been made to do so. [While the Comptroller General reports to and is accountable to the Congress, there is wide discretion to audit and evaluate virtually all programs of the executive branch and, with certain limitations, the operations of the Congress and the judiciary.]

In establishing the position of Comptroller General in 1921, the Congress attempted to create the General Accounting Office as a nonpolitical and nonpartisan body. With the exception of the Deputy Comptroller General, who is appointed in a process similar to the Comptroller General's selection method, all other staff hold career public service appointments.

The Comptroller General has the longest term appointment in our Government (15 years), cannot be reappointed, and retires on full salary. These factors create a setting in which the Comptroller General has no motivation and, in the eyes of all concerned, would have no appearance or

motivation, to use the office in any manner which could be seen as "political." I emphasize this point because, except for illegal expenditures, the Comptroller General has virtually no powers to direct audited organizations to implement GAO's recommendations for improvement. GAO makes its findings available to the Congress and the public, but the Comptroller General's effectiveness rests heavily upon the Office's reputation for fairness and objectivity. This reputation is perhaps the greatest reason our audits are respected and have led to major changes in financial or program management and even overall program direction and changes in legislation.

Let me now turn to a description of how our Office has evolved from one with rather limited duties to one with broader responsibilities.

In 1921, the Budget and Accounting Act, which established the General Accounting Office, required GAO to

- investigate all matters relating to the receipt, disbursement, and application of public funds;
- propose legislative recommendations for greater economy and efficiency in public expenditures;
- prepare investigations and reports ordered by Congress;
- render advance decisions on the legality of proposed expenditures;
- settle and adjust all claims and demands by or against the Government; and

--prescribe accounting forms, systems, and procedures.

While aspects of these duties have been decentralized somewhat, we still essentially have these responsibilities. In the 1920s and 1930s, improving Government was very nearly synonymous with more effective financial control to assure that what was done was in exact accordance with the intent of the Congress. This meant detailed laws and checks on every financial transaction to ensure they coincided with every detail of the law. It meant too that similar situations and questions were handled in the same ways. This required a single central authority to interpret the laws and prescribe the rules. The process was standardized and centralized and GAO was the focal point of control over Government expenditures.

In 1945, legislation called the Government Control Corporation Act created a significant development in the Federal Government's financial management system. At that time, principally due to World War II, the number of corporations wholly owned or with mixed Federal Government ownership had grown to more than 100. The act required GAO to audit financial statements of all Government corporations. However--and this was a major change in how we conducted our examinations--instead of having the accounts and vouchers sent to the General Accounting Office building for central audit, the staff were sent to the locations at which the records

were kept for a complete "Balance Sheet" audit. And, instead of limiting their concern to a legalistic view of the vouchers and contracts, the staff began to report on needed management improvements and to examine how programs were implemented.

About the same time, another major change in GAO responsibilities was added by the Legislative Reorganization Act of 1946. This act which authorized the Comptroller General to analyze each agency's expenditures, and provide sufficient information to enable Congress to determine whether public funds had been economically and efficiently administered.

In 1950, [the Budget and Accounting Act] imposed sweeping changes. It [made Federal program administrators--and not some other party such as GAO--assume the responsibility for insuring that budget and accounting systems were adequate to control public monies.] No longer would the General Accounting Office be checking every voucher but was charged with prescribing the accounting principles and standards for the agencies systems. [GAO now prescribes these standards, works with the agencies as they design systems to meet them, approves the accounting systems, and monitors their use through periodic checks on each agency's internal control systems.]

The role of the General Accounting Office was changed because Congress believed even though funds might be spent legally, agencies in the executive branch were not

administering the public monies in the most efficient and economical manner. Thus, the General Accounting Office was now charged with this broader audit focus for virtually all Government activities--corporations as well as agencies.

As the type of audit pioneered at GAO by the Government corporation audits was extended to regular Government agencies, the terminology was modified. The idea of including efficiency and management concerns with traditional audit approaches led to the term "comprehensive auditing," although it by no means meant we audited the total operations of an agency. These audits were selective, but the expression comprehensive auditing indicated that the audit was not restricted to the review of financial transactions and would be done "on site." We thus began referring to our newer work as "management audits" or "economy/efficiency" audits. As you know, the term "operational audit" is also a familiar one for this type of work.

To undertake this new work we began recruiting and training accountants. Our earlier professional staff needs led to hiring mostly those with legal backgrounds.

Probably the most significant development in the nature and the thrust of GAO audits during my tenure was beginning audits of program results and performing program evaluations. This change was less that which accompanied GAO's

change from a voucher-checking organization to a professional audit agency. [This shift reflected changes in our total governmental environment as Government's functions broadened to such areas as funding mental health programs, our work began examining how well such programs were working.) In 1970 and 1974, Congress insured that the scope of our work would broaden when it passed legislation which thrust GAO quite firmly in the program evaluation arena.

The 1974 law states:

"The Comptroller General shall review and analyze the results of Government programs and activities carried on under existing law, *** when ordered by either House of Congress, or upon his own initiative, or when requested by any committee of the House of Representatives or the Senate, ***"

To meet the challenge of these latest responsibilities, GAO has recruited staff with backgrounds in other than accounting--statistics, economics, engineering, public administration, operations research, public health, computer technology and many other disciplines. In fact, about half of our 4,000 professional staff have backgrounds in fields other than accounting. Also, consultants and experts and other highly skilled specialists are employed as specific tasks and circumstances warrant.

As GAO's role has changed, so have the auditing responsibilities of executive departments and agencies. I mentioned that agencies are now responsible for their own

accounting systems, with some guidance and general oversight from GAO. Each executive agency also has an internal audit component which very directly oversees financial and management operations. Given the size of the U.S. Government, with its projected fiscal year 1982 budget of close to \$700 billion, it would not be feasible for GAO, or any central audit organization, to attempt to maintain control over all Government spending. We are most effective in establishing audit standards and guidelines and as overseer free to evaluate key programs and operations. To require GAO to audit all government operations would actually handicap the Office severely--there would be so much to do nothing would be done well. As it is now, GAO uses its strategic planning process to focus its work on those issues or programs which are the most critical or around those for which Congress needs immediate information and assessment. Congress can also ask GAO to undertake a specific audit or evaluation; these requests comprise almost 40 percent of GAO's work.

The decentralized audit organization within the United States means GAO probably does not deal with all the areas some other national audit offices address. For example, we do very few financial audits--only a few Government corporations each year and some of the financial operations of the Congress. We do not audit the books of each Congressman or Committee nor those of every executive agency.

The same goes for money which the U.S. Government provides to State and local governments, generally granted for a specified purpose. Usually State and local government recipients of Federal

funds must present certified financial statements and other audit results to the executive agencies which provided the funds, and these agencies oversee the use of funds and program operations through their own offices. GAO may evaluate these programs, but not as a matter of course--only selectively. I might add that the State and local governments follow GAO-established audit standards in assessing their federally funded programs. When GAO does audit these activities, its staff coordinates its work with other Federal agencies and these State and local audit groups. All of us work through an organization known as the Intergovernmental Audit Forum to avoid duplicating work as much as possible.

Given the U.S. decentralized audit organization, certain areas which are probably of great interest to you are areas in which GAO does little work. This is true in the public works area, in which one of the national government's most predominant roles is that of environmental monitor. Therefore, our audits tend to involve only certain aspects of projects, namely quality control procedures, management of the funding process, or adherence to environmental standards. [In terms of public construction projects, much of our work here is the result of direct requests from committees or Members of Congress, and often these requests deal with measuring the costs and benefits of particular projects. Generally, the Congress compares GAO's cost/benefit analysis with the analysis of the group building the project. I'd like to spend some time illustrating what is involved when GAO does such a cost/benefit study, and this leads me to a discussion of the sewer overflow and flooding problems of the metropolitan Chicago, Illinois, area.

The Metropolitan Sanitary District of Greater Chicago oversees the Chicago Tunnel and Reservoir Project which, if completed, will result in 131 miles of tunnels built 200 to 300 feet underground with three open-pit reservoirs. Often referred to as the "Deep Tunnel," the concept behind it is to "bottle a rainstorm" by capturing all the rainwater and holding it in the tunnels until it can be treated. After treatment it will be relatively clean, thus eliminating pollution problems. The complex system is also supposed to dramatically reduce flooding.

This project is a good illustration of the problems of modern living. Its goals are admirable--who can oppose eliminating pollution and flooding? Yet, we must ask, "Are the benefits to be achieved worth the cost of achieving them?" Senator Charles Percy, of the State of Illinois, thought this question should be reviewed more thoroughly than it had been and asked GAO to undertake such a study. He was increasingly concerned with the cost of the project and wondered whether there were lower cost alternatives to the massive tunnel project. The report prepared at Senator Percy's request was actually GAO's second on the project. The first, issued in 1978, centered on construction delays, escalating costs, and the serious funding uncertainties which made it appear doubtful that full results of the tunnel project would be achieved. The study was done at GAO's own initiative as

one of several major civil procurement projects selected for review of cost and performance.

As we began the second review in 1979, 37 percent of the contracts for the first phase had been awarded. This phase called for constructing 110 miles of tunnel to store 2 billion gallons of water after rainstorms, and was to cost \$2 billion. Phase II was being studied by our Army's Corps of Engineers. It was to result in 22 miles of additional tunnel and three open-pit reservoirs designed to hold 42 billion gallons of water, and was to cost \$900 million. Total cost estimates were thus almost \$3 billion.

GAO planned a two-segment study of the project. First, we would review the validity of its goals, find out exactly where flooding was occurring in the Chicago metropolitan area and what damage it was causing, assess major environmental and other concerns expressed about the project, and evaluate lower cost alternatives. Secondly, GAO was to assess the significance of sewer overflow problems nationwide and conduct a worldwide search for other solutions. Obviously this was a formidable task. The resulting report comprised seven volumes.

Existing data (even that compiled by the Army's Corps of Engineers) was not sufficient to determine where flooding occurred, the amount of damage it caused, and what alternatives existed for containing it. Through methodically questioning citizens, researching private studies, poring over Government data from many sources, and

visiting flood control projects in other areas, GAO staff were able to address these issues.

Perhaps the biggest difference between our review and earlier assessments of the project was GAO's inclusion of all costs which needed to be incurred before the tunnel project could achieve its results. GAO's position was that if benefits were to be attributed to the project, all costs pertaining to the benefits had to be determined. For the project to achieve its results, many other things had to be done which the Metropolitan Sanitary District did not consider in its \$3 billion estimate. In considering these factors, GAO estimated the cost at \$11 billion. Obviously this is quite a difference, so I would like to take a minute to tell you some of the other items GAO staff included.

Given that the way the completed project was to meet its objectives was to hold water until the treatment plants could treat it, GAO believed the cost of adding onto or building treatment plants to handle the water should be included. The more water treated, the more sludge produced. (Sludge is the byproduct of treated water.) Thus, the sludge-handling capability in the area would have to be increased. This process would mean more water would pour into the Chicago River, and since that is a navigable stream, certain sections would have to be dredged and enlarged. Also, since it is not a fast-flowing stream, simply treating the water would not be

enough to meet the State of Illinois' water quality standards--it would need to be aerated by huge fans designed to stir up the water and create more oxygen. Finally, flooding in many parts of the Chicago area is caused by inadequate sewers within individual communities, a problem the tunnel project would not address. Thus, the project could not achieve its objectives without numerous other projects being completed, and costs of these (plus an inflation factor) added another \$8 billion to the initial \$3 billion estimate. You can see that our staff, with some aid from consultants, had to acquire considerable technical knowledge.

In addition to the other costs GAO believed should be included in the estimate, our report showed there was serious doubt that the completed project would fulfill its goals. The United States Environmental Protection Agency and the State of Illinois disagreed as to whether Phase I of the project would meet Illinois waterway standards. The Environmental Protection Agency said it would, with treatment plant expansion and aeration of the river. It saw no value to the additional tunnel and open pit reservoir work, which was Phase II of the project. Taking exception to the environmental agency's opinion of Phase II, the State of Illinois said that Phase I would provide a good basis but that Phase II tunnels and reservoirs would also have to be built if State standards were to be met. GAO could not determine who was correct, but we did strongly

recommend that the Environmental Protection Agency, which was to fund 75 percent of the project suspend funding until Phase I was reassessed.

Finally, whether the project was completed or not, many of the local communities needed to upgrade their sewer systems, but they were generally unable to locate funding for this from Federal or State agencies. GAO identified a number of less expensive measures that communities or individual homeowners could take to alleviate flooding.

I intended for this example to give you an idea of how thoroughly GAO tries to approach a cost/benefit analysis of a major public works project. We do not do too much of this type of work, and even when doing it [we would rarely look at the quality of the construction itself.] Quality control factors are, however, built into the contracting process by those who issue the contracts. For example, the Army's Corps of Engineers thoroughly inspects the projects for which it contracts or builds itself. That is not to say they do so perfectly, so one of the things GAO does is review the Corps' procedures.

Sometimes the cost/benefit studies we do are undertaken early in the planning process. [One area in which we do considerable work has to do with the need for, or appropriate size of, public medical facilities.] As you probably know, most U.S. health care is privately pro-

vided, but the Federal Government does have hospitals for veterans, for those who live on Indian reservations, and for active-duty military personnel.

One of our reports addressed the proposed construction of a new naval hospital in San Diego, California. The Navy planned to construct a hospital with a capacity of about 900 acute care beds. GAO's analysis which, among other things, considered the availability of other Federal health care facilities in the area, showed that the planned hospital exceeded expected needs. We recommended that the Department of Defense implement a different planning methodology for determining naval hospital care needs. The Department adopted our recommendations and requested funding for a new San Diego hospital containing only 560 acute care beds--a 38-percent reduction from that originally proposed.

I highlighted these areas because I believe them to be of special interest to you. I would like to reiterate that most of our work involves measuring the efficiency of a program's operations or the extent to which program objectives have been achieved. For example, in June 1980, GAO issued a report on the Department of Agriculture's Child Care Food Program. It noted that the \$250 million program was serving more meals to children than it did at lower levels of funding, but that Federal and State program management was not adequate. GAO made a number of recommendations and pointed out that improved program management would lead

to not only more nutritious meals for the children but also less chance of fraud and waste of program funds. Agriculture Department officials recognized the accuracy of the report and began implementing our recommendations, of which they were verbally informed, even before the formal report was issued.

Our program effectiveness audits do not have to deal with an individual program or activity; they can also assess a policy or process, many of which pertain to more than one Government agency. One recent review examined the use of management consultants throughout the Government and found that their services sometimes duplicate one another or are obtained without adequate competitive bidding. GAO staff found it was not always possible to identify consultant expenditures in an agency's budget and recommended that the Office of Management and Budget, which is in the Executive Office of the President, address these issues.

This brings me to a brief discussion of GAO's role in the Federal budget process. Budget estimates and justifications are prepared by the executive departments and agencies and sent to the Office of Management and Budget which analyzes these figures on behalf of the President. In weighing the various priorities, the formal budget request the President submits to Congress may contain requests for funding that are quite different from the agencies' estimates.

The congressional process has been a more formal one since enactment of the 1974 Budget and Impoundment Control Act--the same law I quoted earlier which expanded GAO's responsibilities for program results audits. The Congressional Budget Office, one of the other congressional support agencies, plays the key role in helping the House and Senate Budget Committees (and others Congressional committees or members) assess the assumptions on which the Executive budget is based and generally review economic and fiscal policy. GAO's role fits best into the work of the appropriations committees, which recommend levels of spending for specific programs. These committees hold hearings at which agency officials must justify budget requests. [Although the appropriations committees are generally aware of GAO's work on an agency's programs, and committee members are also given a list of GAO recommendations which an agency has not implemented. Often the agency is asked to explain why actions have not been taken.]

GAO's role in the budget process is not only the formal one I've just described, but is also a constant factor in the budget-related decisions made by the Congress and the executive branch. In fact, President Reagan had a member of his transition staff read every GAO report issued to ensure that the incoming

administration was fully aware of ways to reduce Government spending. I think this tells quite a bit about how much GAO reports are used in Government.

I could go on for some time about audit efforts, in the United States, but I would like to focus for a moment on the international audit arena. As some of you may remember, my address last year to this distinguished seminar dealt with the need to mount a coordinated effort to enhance the professional development of auditors in developing countries. I stressed the need for government commitment, the importance of regional efforts, the role of donor nations and international organizations, and the merits of intraregional cooperation. Much has happened in this arena since we last met.

The INTOSAI Congress in Nairobi offered a good opportunity to share information and experiences, as I am sure will the upcoming UN/INTOSAI Interregional Seminar scheduled for early Fall. I have also been told that the VI CLADEFS scheduled for Guatemala, also this Fall, will discuss the formation of an inter-American organization to promote better auditing.

As many of you know, the UN Division for Technical Cooperation and Development sponsored a "Workshop on Public Accounting and Auditing" in early March. Austria, Canada, India, the Philippines, Togo, the United States,

Venezuela, and Yugoslavia were represented by members of their supreme audit institutions, while other countries sent staff from finance ministries. This kind of dialogue is helpful and is a good first step toward improving the work of our profession. Workshop participants agreed that auditor training would be most effective if held either in individual countries or at regional seminars, but that disseminating information and training in those conducting training programs would best be done at the international organization.

I believe it is crucial that we devise a way to bring together the many techniques and advancements we are all developing. I believe that the body of knowledge exists to enable our staffs to become familiar with the methods for more modern auditing approaches, but the information is not reaching the appropriate audience that is, those in greatest need. INTOSAI and its regional groups do much with their limited resources to accomplish this, but the need is far greater than present structures can meet. Whether the answer is a separate international center, a stronger INTOSAI role, or something else, I do not know, and I hesitate to advocate a specific course.

For my part, I will continue to make my voice heard on the importance of improving audit capabilities, particularly in developing countries, and I will

encourage my successor to do the same. Again, I thank you for your kind invitation to participate in this Seminar. Although I am now retired, my interest is as keen as ever, and I look forward to interacting with all of you in the future.