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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548



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STATEMENT OF

ELMER B. STAATS, COMPTROLLER GENERAL

UNITED STATES GENERAL ACCOUNTING OFFICE

BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

CONCERNING [ACTIONS OF FEDERAL AGENCIES TO  
RESOLVE AUDITORS' FINDINGS]

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Mr. Chairman and Members of the Committee:

We are pleased to be with you today to discuss the results of our Government-wide review of the Executive agencies' actions to resolve audit findings. With me are Mr. Donald L. Scantlebury and Mr. Ronald C. Oleyar, both from the Financial and General Management Studies Division of GAO.

My testimony will summarize the major issues addressed in a report which we issued on October 25, 1978. The report discusses the responsibility of Federal managers to take prompt and appropriate action on auditors' findings. Our review disclosed a total of \$4.3 billion of unresolved audit findings in

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34 Federal departments and agencies. The agencies are listed with related information in Appendices I and II of this testimony.

Our in depth review was limited to six major agencies:

- 1-6--Department of Commerce 74
- Defense Contract Audit Agency (DCAA) 473
- Environmental Protection Agency (EPA) 24
- Department of Health, Education and Welfare (HEW) 22
- Department of Housing and Urban Development (HUD) 23
- Department of Labor. 9

We examined 228 audit reports and determined what corrective actions were taken by agency administrators and contracting officers of the 6 agencies. The examination showed that (1) resolution drags out for years, averaging about 1 1/2 years and in some cases taking as long as 5 years; and (2) agency officials often resolved findings in the grantees' or contractors' favor, paying claims or allowing them to keep 62 percent of the amounts auditors reported as questionable. They often did so without adequate explanation, even though the auditors' findings appeared to be valid.

Further indications of a need to strengthen audit resolution were demonstrated in our recent review of audit follow-up activities at the National Science Foundation. In our report, which was issued on October 3, 1978, we noted that

the Foundation lacked a formal system for followup on audit reports and its informal system was ineffective.

RESULTS OF OUR  
GOVERNMENT-WIDE REVIEW

As you know, Mr. Chairman, the Government relies on audit as the basic tool for preventing unauthorized expenditures and seeing that the intent of Congress is carried out. Accordingly, the Congress and agencies have continually provided for audits of grantees' and contractors' records as the primary mechanism to keep funds from being spent for unauthorized purposes. Auditors also direct their attention to identifying policy and procedural changes that can produce sizable savings.

To insure that audits are effective, the General Accounting Office and the Office of Management and Budget policies spell out requirements for managers to take prompt action to decide what should be done and to complete corrective measures as necessary on auditors' findings.

We found that the lack of a good system for resolving auditors' findings could be costing the Government hundreds of millions annually--most of which grantees and contractors are keeping although they are not entitled to these funds under applicable laws or regulations. Also, sizable savings in operating costs are sometimes foregone by failure to act promptly on findings involving internal agency operations.

GAO estimates that about 80 percent of the \$4.3 billion in unresolved audit findings represents questionable payments to contractors and grantees. We recognize that some of this amount will be decided in the contractors' or grantees' favor and therefore will not be recovered. However, we believe a substantial amount of it would be recovered. The remaining 20 percent involves potential savings in operating costs.

It should be noted that this does not represent all the unresolved audit findings. Many agencies do not keep complete records for identifying them.

As indicated, Mr. Chairman, substantial amounts of money are lost because the Government is not properly resolving audit findings and, in some cases, does not resolve them at all. Where grants and contracts are concerned, the effect is two-fold. First, where delays occur, the Federal Government is denied the use of the funds for long periods. This can increase interest costs since, if the Treasury had the funds sooner it could use them to meet Governmental needs instead of borrowing. Second, when the Federal Government does not make proper recoveries, it loses funds, which under the law, belong to the Federal Government. What happens in such cases is that the grantee or contractor gets money he is not entitled to and gets favored treatment over all others who comply with applicable laws and regulations. Such actions also are often contrary

to the will of the Congress in that the Congress has set the terms in the law by which grantees or contractors become entitled to the money. If they do not meet these terms, they have no legal right to keep it.

At this time, Mr. Chairman, I would like to discuss several reasons why the present system for resolving audit findings is not effective. Under this system, the officer who has the final word on the settlement of audit findings is usually an administrator of the program or operation that was audited. It is these officials who often have failed to act promptly on audit findings and in many cases have not recovered the funds returnable to the Government. Our inquiry into their reasons for failing to followup on these audit findings indicated that:

- administrators often are busy with other duties and resolving findings has low priority;
- administrators reject audit findings and recommendations without suitable justification and do not always seek needed legal or other expert advice;
- agency efforts to recover funds and realize savings are not aggressive;
- agency systems for tracking and resolving audit findings are deficient; and
- deficiencies in auditors' work sometimes makes prompt and effective action difficult.

## LOW PRIORITY

We believe that agency administrators find the task of resolving audit findings onerous and therefore of low priority. For example, for 5 years, administrators in the Department of Labor simply did not take the necessary time to collect about \$3 million overpaid to a contractor.

Recovery will be difficult because the agency no longer does business with the contractor.

## INADEQUATE JUSTIFICATION AND LEGAL ADVICE

Although sometimes inconsistent with their main duties, agency administrators have the final word on settlement of auditors' findings. Some agencies permit their administrators to exercise wide latitude in forgiving grantees and contractors for questionable expenditures. Agency administrators often decide not to pursue significant dollar recoveries from grantees and contractors without adequate explanation or proper legal advice. For example, administrators at HEW did not recover \$4.4 million from a grantee for medical services which auditors determined should have been paid partially by private insurance companies. Without seeking legal advice, administrators cited potential legal problems as the reason for not collecting the funds.

We would like to point out, Mr. Chairman, that although the Federal administrators are empowered to make final decisions on amounts to be recovered from grantees and

contractors, there are limitations on their authority. Such decisions must be based on Federal laws, regulations, and the terms of grants and contracts. In this regard, a recent Comptroller General decision ((B-163922), February 19, 1978)) discusses an agency's responsibility for collecting improper expenditures which auditors questioned. It states that an agency (without explicit statutory authority to do so) cannot waive recovery from a grantee for expending Federal grant funds in violation of the law or supporting regulations, no matter how well intentioned the grantee may have been when incurring such costs. This decision holds regardless of the recipient's good faith or the Government's bad advice.

COLLECTIONS NOT  
AGGRESSIVELY SOUGHT

Agency administrators often do not aggressively seek collection of amounts auditors have identified as repayable to the Government. Also, many agencies have not established accounting and collection control over amounts to be recovered from auditors' findings. For example, HEW administrators had allowed the statute of limitation to expire before attempting to collect \$1.5 million that auditors recommended a grantee return to the agency. An agency official said there was not attempt because the administrators were uncertain about the right to recover the funds. In this regard, they were waiting for similar cases in appeal to be settled.

For the same reason, administrators did not seek collection of another \$121,000.

#### SYSTEMS ARE DEFICIENT

Few agencies have adequate systems for tracking and resolving audit findings. Contrary to Office of Management and Budget policy, many agencies have not established time frames for responding to audit recommendations and lack adequate reporting systems to inform agency management of actions taken on audit reports. Also, their systems do not track resolution to final settlement. When questionable expenditures are involved, Mr. Chairman, we mean that tracking does not continue until the funds are recovered, the debt forgiven or the finding determined to be in error. For example, because of an inadequate system for resolving audits of subgrantees, some 10 months later agency managers at the Department of Labor had not decided on the merits of a grantee's decision to allow a subgrantee to claim \$4.6 million despite evidence the subgrantee may have violated Federal regulations. The subgrantee was also a member of the grantee's audit review committee which decided to allow the costs.

#### CONCLUSION

Mr. Chairman, it is apparent that the current system of letting the administrators of programs have the last word in resolving audit findings has not proven effective. We



believe the Office of Management and Budget should expand its policies to provide for a significant procedural change which would remove final responsibility for deciding on findings from the hands of the administrators.

We believe such a change, as discussed in our recommendations, would also encourage auditors to improve their performance and provide managers with more prompt and complete reports.

#### RECOMMENDATIONS

Mr. Chairman, our recommendations are addressed to each of the agencies having audit staffs and to the Office of Management and Budget. Specifically, we recommend that the following system for resolving audit findings be established:

1. Agency auditors be required to keep accurate records of all findings until a final disposition has been made--where recovery of funds is involved, this means until the funds are recovered, the debt forgiven, or the finding determined to be in error.
2. Program administrators be given 6 months to reach decisions on what amount, if any, is due from grantees or contractors as the result of audit findings. Written decisions signed by the program administrator be required to justify not seeking collection of any

amounts shown to be due by the auditors' report. Such decisions should also be reviewed for legality and endorsed by the legal official who performs the review.

3. An official, independent of the program administrator and the auditor, be given responsibility for deciding whether to make recoveries on findings not decided on within the 6-month time frame specified above. Any decisions not to recover should be justified by the official and reviewed for legality as previously mentioned. This official, who should be at a high level in the organization, could also handle resolution of audit findings not involving grantees or contractors that are not resolved within a 6-month period.
4. Such officials should be required to issue quarterly reports to the agency head on the status of all findings which they are responsible for resolving, including the age and amounts of unresolved findings and results of findings they closed during the period.
5. To insure aggressive recovery efforts, accounting and collection controls should be established for any amounts due the Government as a result of audit findings.

6. If the agency decides against collection for any reason, then it should still take action to resolve the underlying causes which resulted in the debt. These can include providing technical assistance to help grantees improve operation of the program or changing ambiguous or conflicting regulations which impede accomplishing program objectives.

We also recommend that the Director, Office of Management and Budget, make appropriate changes to its management circulars to establish the requirements we have recommended.

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Mr. Chairman, this concludes my prepared statement. My colleagues and I will be pleased to respond to any questions you or other members of the Subcommittee may have.

**MAGNITUDE OF OUTSTANDING AUDIT FINDINGS**  
**AMONG 34 FEDERAL DEPARTMENTS AND AGENCIES**  
**AS OF MARCH 31, 1977\***

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Department of Health, Education and Welfare (note b)	2,030	\$ 193,384,000
Department of Labor (note b)	2,028	165,405,000
Environmental Protection Agency (note b)	457	43,061,000
Department of Housing and Urban Development (note b)	2,680 (note f)	200,189,000
Department of Commerce (note b)	585	23,722,000
Defense Contract Audit Agency (note e)	3,354	1,525,335,000
Department of Interior	133	11,351,000
Department of Agriculture (note b)	736	103,445,000
Civil Service Commission (note b)	92	19,224,000
National Science Foundation	47	4,268,000
Action	115	1,125,000
Central Intelligence Agency	133	279,000

\*Although the amounts are primarily as of March 31, 1977, some agency totals may be as of other dates in fiscal year 1977. Also, we did not verify the accuracy of the above figures, which were compiled primarily by the individual agencies.

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Defense Audit Service Deputy Assistant Secretary of Defense (note a)	none	\$ none
Department of the Air Force (notes b and d)	85	26,405,000
Department of the Army (note b)	19	none
Department of the Navy (note b)	none	none
Defense Logistics Agency (note b)	37	none
National Aeronautics and Space Administration (note b)	2	Not known
Small Business Administration	10	none
Department of Justice Federal Bureau of Investigation (note a)	Not known	Not known
Law Enforcement Assistance Administration	340	25,169,000
Internal Audit Staff	9	none
Federal Communications Commission	5	1,000
Federal Deposit Insurance Corporation	47	none
General Services Administration	298	78,456,000

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Department of Transportation		\$ none
Office of Audits	317	Not known
Federal Aviation Administration (note a)	Not known	53,938,000
Federal Highway Administration	80	25,693,000
Urban Mass Transportation Agency	121	
Department of the Treasury	487	49,971,000
Community Services Administration	617	30,292,000
Department of Energy		1,762,000,000
Federal Energy Administration	1,172	
Energy Research and Development Administration (notes b and c)	58	1,890,000
Nuclear Regulatory Commission	1	none
Veterans Administration	50	362,000
Department of State		181,000
Foreign Service	16	none
Foreign Assistance	9	Not known
Agency for International Development	107	
U.S. Information Agency (note b)	16	none
Federal Home Loan Bank Board (note a)	2	none

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Government of District of Columbia (note b)	none	\$ none
Smithsonian Institution	10	none
<b>Totals</b>	<u>16,305</u>	<u>\$4,344,146,000</u>

a/Agency does not track outstanding audit reports. This table includes four such agencies.

b/Agency excludes certain audit reports from its tracking system, such as reports issued by public accountants or State, local, and other Federal agencies. This table includes 15 such agencies.

c/The Energy Research and Development Administration did not provide statistics on an agencywide basis because it does not have a centralized tracking system. Statistics include only 1 of 10 field offices.

d/Department of Air Force statistics include headquarters tracked audit reports plus 3 of 87 Air Force installations. Audit reports issued at Air Force installations are normally tracked only at the installation level.

e/DCAA does contract audits for all defense and some civil agencies. DCAA statistics are overstated, therefore, to the extent some civil agencies are tracking DCAA reports on their contracts. DCAA's tracking system partially compensates for the lack of any tracking of external audits by the defense agencies.

f/Number of audit findings rather than number of audit reports

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**HOW FEDERAL DEPARTMENTS AND AGENCIES  
ARE NOT COMPLYING WITH OMB AUDIT RESOLUTION POLICY**

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<u>Department or Agency</u>	<u>No or incomplete records of actions taken</u>				<u>Periodic reports</u>			
	<u>No policies for acting on audit recommendations</u>	<u>Agency's own audit reports not tracked</u>	<u>Reports by other audit organizations not tracked</u>	<u>Evidence of prematurely closing of audit reports before corrective action is completed</u>	<u>No timeframes Responding to finding</u>	<u>Acting on finding</u>	<u>Not sent to agency management</u>	<u>Do not show status of corrective actions</u>
Department of Health, Education and Welfare			X	X		X		X
Department of Labor		X	X	X		X		X
Environmental Protection Agency		X	X	X		X	X	
Department of Housing and Urban Development			X	X				X
Department of Commerce			X	X	X	X		X
Department of Interior				X		X		
Department of Agriculture			X	X			X	
Civil Service Commission			X		X	X		X
National Science Foundation	X				X	X	X	
Action								X
Central Intelligence Agency				Insufficient data to conclude				
Defense Audit Service Deputy Assistant Secretary of Defense		X		X				X



Department or agency	No policies for acting on audit recommendations	No or incomplete records of actions taken				No timeframes		Periodic reports	
		Agency's own audit reports not tracked	Reports by other audit organizations not tracked	Evidence of prematurely closing of audit reports before corrective action is completed	Responding to finding	Acting on finding	Not sent to agency management	Do not show status of corrective actions	
Department of the Air Force		X	X	X	X	X		X	
Department of the Army		X	X	X				X	
Department of the Navy			X	X				X	
Defense Logistics Agency			X					X	
Defense Contract Audit Agency				X					
National Aeronautics and Space Administration			X	X			X	X	
Small Business Administration				X			X		
Department of Justice Federal Bureau of Investigation		X	X	X			X	X	X
Law Enforcement Assistance Administration		X						X	
Internal Audit staff		X	X	X			X	X	X
Federal Communications Commission						X	X	X	

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Department or agency	No policies for acting on audit recommendations	Agency's own audit reports not tracked	Reports by other audit organizations not tracked	Evidence of prematurely closing of audit reports before corrective action is completed	No timeframes			Periodic reports	
					Responding to finding	Acting on finding	Not sent to agency management	Do not show status of corrective actions	
Federal Deposit Insurance Corporation	X				X	X			X
General Services Administration					X	X			
Department of Transportation		X		X	X	X	X	X	X
Office of Audits								X	
Federal Aviation Administration		X		X				X	
Federal Highway Administration					X	X		X	
Urban Mass Transportation Agency						X			X
Department of Treasury				Insufficient data to conclude					
Community Services Administration				X					X
Department of Energy			X	X	X	X		X	
Federal Energy Administration				X		X		X	
Energy Research and Development Administration			X		X	X		X	

<u>Department or agency</u>	No policies for acting on audit recommendations	<u>No or incomplete records of actions taken</u>					<u>Periodic reports</u>	
		Agency's own audit reports not tracked	Reports by other audit organizations not tracked	Evidence of prematurely closing of audit reports before corrective action is completed	<u>No timeframes</u> Responding to finding	Acting on finding	Not sent to agency management	Do not show status of corrective actions
Nuclear Regulatory Commission				X	X	X		X
Veterans Administration	X							X
Department of State						X	X	X
Foreign Service						X	X	X
Foreign Assistance Agency for International Development							X	X
U.S. Information Agency			X					X
Federal Home Loan Bank Board	X	X			X	X	X	
Government of District of Columbia			X	X			X	
Smithsonian Institution								

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Note: This schedule is based on information supplied by the Federal departments and agencies. Detail review probably would reveal additional deficiencies not identified in this appendix.

NOTICE OF HEARING

COMMITTEE : Subcommittee on Legislation and National Security  
House Committee on Government Operations

SUBJECT : Audit resolution in Government

DATE : Wednesday, March 21, 1979

TIME : 9:30 a.m.

ROOM : 2154 - Rayburn House Office Building

Membership : Rep. Jack Brooks (D-Texas), Chairman

Majority : Representatives Fuqua (Fla.), Moorhead (Pa.),  
Fascell (Fla.), StGermain (R.I.), Levitas (Ga.)

Minority : Representatives Horton (N.Y.), Erlenborn (Ill.)  
and Stangeland (Minn.)


Principal staff : Richard Barnes, Professional Staff Member

GAO witness : Elmer B. Staats, Comptroller General

Accompanied by : Donald Scantlebury, Director, Financial and General  
Management Studies Division  
Ronald Oleyar, Team Leader, FGMSD  
M. Thomas Hagenstad, Legislative Adviser, Office of  
Congressional Relations

Car will leave G. Street, 1st basement, at 9:15 a.m.

A PHOTOGRAPHER WILL BE PRESENT.

  
M. Thomas Hagenstad  
Legislative Adviser