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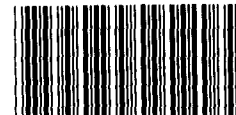
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GOVERNMENT
MANAGEMENT



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Status of Progress in
Correcting Selected
High-Risk Areas

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss 7 areas included within GAO's high-risk program and several crosscutting issues that affect these and other problem areas throughout the government.

Specifically, I will focus on program weaknesses, agency corrective actions, and recommendations for future actions by the Congress, the administration, and agency officials in areas involving the Pension Benefit Guaranty Corporation, the Internal Revenue Service, Medicare, the Customs Service, Asset Forfeiture, the Resolution Trust Corporation, and Superfund. Many of the problems in these areas exist because of deficiencies in financial, information systems, and general management practices. Further, these problems are common not only to the 7 areas, but represent pervasive problems throughout the government.

The 7 are among the 17 high-risk areas that we have identified as particularly vulnerable to fraud, waste, abuse, and mismanagement. Over the 3 years since we began the high-risk program, we have conducted over 300 assignments in the 17 areas and issued about 450 reports and testimonies discussing our findings, conclusions, and recommendations for resolving the problems identified. Last month, we issued a high-risk series of reports that summarizes the results of our work in the 17 areas and a transition series that discusses major policy, management, and program issues facing the Congress and the administration.

As the Comptroller General stated in testimony on GAO's high-risk and transition series reports, the state of management in the federal government is not good. Too many principles, structures, and processes that may have worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world.

Time and again over the past decade, our management reviews and audits in federal agencies have shown that the processes and systems fundamental to well-run organizations are often not present. Most agencies have developed neither a strategic vision for the future nor good systems to collect and use financial and program information to gauge operational success and accountability. Many agencies do not have people with the skills needed to accomplish their missions.

By addressing these deficiencies as part of its oversight activities, this Subcommittee can play a significant role in reducing problems across the government. The Congress, the administration, and agency officials need to focus attention on these problems and respond quickly to them to reduce losses due to fraud, waste, abuse, and mismanagement and to improve the effectiveness of federal programs.

SUMMARY FINDINGS IN SELECTED HIGH-RISK AREAS

The following sections briefly describe problems in the 7 high-risk areas, agency efforts to correct them, and future actions needed.

Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation's (PBGC) principal financial problem is a large and growing deficit caused by the terminations of large underfunded plans when the plans' sponsors go bankrupt. At the end of fiscal year 1991, PBGC's deficit--which had been accumulating since PBGC's inception in 1974--stood at an estimated \$2.3 billion. Under PBGC's most pessimistic projection, the figure could reach \$17.9 billion by 2001, if all current large underfunded plans with financially troubled sponsors (\$13 billion in underfunding) should terminate.

Two features in the design of the pension insurance program have made it hard for PBGC to control the risks it faces due to underfunded pension plans. First, the Employee Retirement Income Security Act's (ERISA) minimum funding standards do not ensure that pension plan sponsors' contributions will provide sufficient assets to cover all the promised benefits if the plans terminate. Second, the premiums that PBGC charges pension plans do not fully cover the risks that PBGC assumes. Premiums are only partially risk-related, allowing sponsoring companies and participants to engage in risky behavior with the knowledge that, if the plans terminate before benefits are fully funded, the responsibility for paying guaranteed benefits will fall to PBGC.

In addition to these two program design problems, PBGC has experienced weaknesses in its internal controls and financial systems--for example, the lack of a reliable method for estimating PBGC's liability for future benefits. PBGC also has serious problems with its premium reporting and collection system. Further, its efforts to identify and collect delinquent premiums, underpaid premiums, and related interest and penalties have been inadequate.

Another problem lies in the difficulties that the Internal Revenue Service (IRS) and Department of Labor have had in establishing effective ERISA oversight and enforcement strategies. The two agencies have limited resources relative to their responsibilities. At IRS, for example, about 1,000 revenue agents are responsible for ensuring the compliance of nearly 1 million pension plans. Both IRS and Labor have taken steps to improve their oversight and enforcement programs, but weaknesses remain. Moreover, inadequate Labor and PBGC oversight of pension plans' selections of insurance annuity providers is a factor that could result in the Congress expanding PBGC guarantees to cover insurance company annuities. This move could further weaken PBGC's financial condition.

We have long supported legislative action to strengthen the funding standards for defined benefit pension plans. Reducing underfunding would limit PBGC's future exposure and target the greatest threat facing the insurance program. We have also suggested that the Congress reexamine the program's premium structure, which could be made to better reflect the risks faced by the program. In particular, the premiums paid by underfunded pension plans should be more in keeping with the risks they pose to PBGC.

In addition, we have emphasized the need for PBGC to focus more attention on its management policies and systems and for IRS and Labor to improve their oversight and enforcement programs. While all three bodies have taken steps in these areas, we have made a number of recommendations that have not been fully addressed. These would correct system and control weaknesses in PBGC's liability estimation and premium and accounting operations and enhance ERISA oversight and enforcement efforts.

Internal Revenue Service

The Internal Revenue Service is responsible both for routine tax collection and for pursuing delinquent payments. Although IRS routinely collects about a trillion dollars each year, its efforts to collect delinquent taxes have been inefficient and unbalanced. As a result, billions of dollars in taxes remain uncollected, representing a serious loss of revenue for the government.

Several problems have interfered with IRS's ability to collect unpaid taxes. IRS's records are inaccurate and insufficient; its collection process is lengthy, antiquated, rigid, and inefficient; it has had difficulty balancing collection efforts with the need to protect the taxpayer; its decentralized structure tends to blur lines of responsibility and accountability; and it does not have enough information to allocate staff effectively.

While IRS has begun to develop some much needed information on the accounts receivable inventory, taken a step toward establishing a unified collection strategy by appointing an accounts receivable executive officer, and included collection goals in its strategic planning process, many areas have yet to be addressed. These include gathering more and better data and removing organizational impediments to collections. Further, the Congress could revisit the issue of the appropriate balance between the need to protect taxpayers and the need to collect delinquent tax debts.

Medicare

In recent years, the Medicare program has lost billions of dollars to waste, fraud, and abuse. In 1991, the program enrolled about 35 million beneficiaries, processed about 600 million claims, and paid physicians and other providers over \$110 billion in medical

benefits--about 15 percent of all the money spent on health care in the United States.

The Health Care Financing Administration (HCFA), which administers the Medicare program, relies on numerous contractors to process claims and to protect program funds through review activities called payment "safeguards." However, HCFA's inability to properly manage contractors' safeguard activities and too little money earmarked for these activities have left Medicare dollars exposed to loss and waste. For example, we found that

- contractors paid an estimated \$2 billion in claims that should have been paid by other health insurers and
- hospitals owed Medicare over \$170 million in overpayments, but contractors had done little to recover the money. Moreover, HCFA was unaware of contractor inaction because it had no systems to monitor this information.

Medicare is also vulnerable to exploitation for other reasons. These include (1) payment policies that permit excessive reimbursement rates for certain services, such as high-tech and laboratory services, and (2) loose controls over who can bill Medicare, making the pursuit of fraudulent providers difficult.

HCFA needs to exercise stronger leadership in managing the Medicare program. It needs to improve oversight of contractors' activities aimed at reducing waste, fraud, and abuse. It also needs to reduce excessive payments and to tighten controls over who is allowed to bill the Medicare program. Finally, the Congress should modify budget procedures--that is, allow increased safeguard funding without having to cut spending elsewhere--to allow adequate and stable Medicare contractor funding for safeguard activities.

The threat of medical insurance fraud is endemic not just to Medicare but also to the entire health care system. We have asked the Congress to consider establishing a national health insurance fraud commission--composed of public and private insurers, among others--that would develop recommendations for combating health care fraud and abuse.

Customs Service

Customs cannot ensure that it is meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods. Customs did not detect about 84 percent of the estimated trade law violations in imported cargo during fiscal year 1991. Moreover, it has experienced declines in the percentage of estimated cargo violations detected since calendar year 1988.

Furthermore, Customs' financial management system has a range of weaknesses, including the absence of reliable information on

operating costs and the status of accounts receivable, a lack of data integrity in the general ledger, contract payments made without proof of delivery or acceptance of goods and services, and weaknesses in its internal controls over the payment of overtime to Customs inspectors.

Customs lacks an effective strategic management process that is capable of guiding its operations and establishing accountability for performance. Its current 5-year plan does not set forth a clear objective for its trade enforcement activities, prioritize its numerous objectives, or adequately articulate a means of fully automating customs transaction processing. Further, Customs is experiencing related weaknesses in information management, financial management, human resource management, performance measurement, and organizational structure. Left uncorrected, these weaknesses could hinder Customs' capacity to meet the challenges of the world's changing trade environment.

Over the past several years, Customs has achieved some successes. The trade community, for example, has agreed that the Automated Commercial System, the core information system for customs transaction processing, has been effective in meeting its needs. Furthermore, Customs has been able to achieve broad agreement among the diverse interests within the trade community in support of legislation to enable Customs to proceed toward full automation of the customs transaction process.

As Customs pursues its plans to fully automate customs transaction processing, it must be sure to develop the management processes needed to meet its trade enforcement responsibilities. To its credit, Customs is actively addressing the management problems we and others have identified. It has initiated a program of financial reforms and established task forces to address needed improvements in its trade enforcement efforts, strategic management processes, and information and human resources management.

The success of these efforts will be influenced by how well Customs (1) develops and gains acceptance for a comprehensive trade enforcement strategy, (2) corrects its long-standing financial management problems, and (3) receives the support and oversight it needs from the Congress and the Office of Management and Budget to help it focus on key strategic and organizational issues and achieve fundamental management improvements.

Asset Forfeiture

The Department of Justice, the Customs Service, and the Congress have taken actions to eliminate several major asset forfeiture problems. The Congress established asset forfeiture funds at both agencies, into which proceeds from seizure activities are deposited and are used to finance program expenses. Further, Justice and Customs have established policies to minimize delays in depositing

seized cash and have established systems for overseeing seized cash operations. Finally, other agencies have made considerable progress in establishing systems to produce the reliable seized and forfeited property inventory data needed to make informed management decisions.

Now that major operational problems relating to the management and disposition of seized and forfeited assets have been identified and corrective actions have been initiated, sustained oversight is needed to see these problems through to resolution. In addition, the incoming Attorney General and the Secretary of the Treasury should continue to pursue a recent initiative involving consolidation. In 1991, we reported that the two agencies could reduce their program administration costs by about 11 percent annually by consolidating the management and disposition of their noncash seized property inventories. The recommended consolidation has not yet taken place, but the two agencies have agreed to a pilot program.

Interest in the asset forfeiture programs is now broadening to include the question of whether the agencies are applying the asset forfeiture laws appropriately and effectively. Adequate safeguards are needed to ensure that federal agencies do not become overzealous in their use of the asset forfeiture laws or too dependent on the funds derived from seizures. The system must include appropriate checks and balances; otherwise, asset forfeiture programs run the risk of being seriously curtailed.

Resolution Trust Corporation

In August 1989, Congress established the Resolution Trust Corporation (RTC) to resolve hundreds of failed savings and loan institutions and dispose of their assets. RTC has discharged some of its resolution and asset sales responsibilities fairly well. But poor planning and execution of real estate disposition strategies, problems with the contracting system, and inadequate information systems have hampered its overall performance. Deficiencies in these areas reduce the amount of money RTC recovers through asset disposition and increase the likelihood that taxpayers will need to cover additional costs.

Of the several factors contributing to the risks at RTC, two are outside of its control. The first is the sheer amount of taxpayer funds involved in the program due to the inherent losses associated with failed thrifts. Estimates of the eventual cost to taxpayers of the savings and loan cleanup exceed \$300 billion. The second is the difficult economic environment that has existed over the past 3 years. The demand for whole thrifts has been limited, real estate markets have declined, the availability of credit to finance asset purchases has been uncertain, and the economy as a whole has been in a recession. Further, RTC's asset inventory for both financial and real estate assets is becoming increasingly concentrated in

hard-to-sell categories. As a result, the final cost of the cleanup will depend not just on how well thrift regulators and RTC discharge their responsibilities, but also on the state of the economy in general.

Other factors such as disposition approaches, the contracting system, and asset information systems are within RTC's control. RTC's contracting system--the means through which RTC pursues its mission--is troubled by poor planning and oversight. RTC does not adequately define what services are needed, the scope of work, and the types of contracts that would best accomplish these ends. Moreover, it has difficulty overseeing the tens of thousands of contractors who manage and dispose of billions of dollars in assets on its behalf.

RTC's asset information systems are inadequate. In March 1992, we reported that RTC had not adequately defined its business strategies for managing and selling assets; matched information needs with these strategies; or developed systems to provide the timely, accurate, and complete information needed to manage and evaluate disposition programs and oversee contractors. Since then, RTC has taken steps to correct these problems, but much work remains.

In addition to these concerns, RTC's efforts have been hampered by repeated funding disruptions. It has run out of funds and has had to stop resolving thrifts three times since it was established. Certain of its operations have not been funded since April 1, 1992. As a result, thrifts under RTC's control have continued to post losses that will contribute to the overall cleanup costs.

Finally, although RTC has made progress in improving its operations and cleaning up the problems it inherited, many problems are likely to remain after 1996, when RTC is scheduled to close. Thus, the total cost of the cleanup also depends on the effectiveness of structures established to deal with thrift losses occurring after RTC relinquishes its resolution responsibilities in 1993 and all of its other responsibilities in 1996. In large part, the condition of RTC's accounting and management information systems at the time of turnover will determine how effectively the Federal Savings and Loan Insurance Corporation Resolutions Fund will manage the remaining responsibilities.

We have made recommendations to RTC for improving its asset disposition and contracting activities and its information systems. RTC is implementing many of these recommendations, but additional actions are needed.

We continue to believe that RTC should be given the additional funds needed to pursue its resolution activities. Any further delay merely increases the eventual cost of the savings and loan cleanup.

Superfund

Disposal of hazardous waste at thousands of sites across the country has contaminated these sites and endangered nearby communities. The Superfund program was created in 1980 to clean up the most dangerous of these sites. Originally given \$1.6 billion and 5 years to complete the job, the program has twice been reauthorized and is now expected to run indefinitely.

The estimated costs of cleaning up Superfund sites have also grown rapidly over the past 12 years. One estimate puts these costs at \$300 billion, in 1990 dollars, over the next 30 years. Hundreds of billions more will also be incurred for cleaning up the federal government's hazardous waste legacy. Preliminary estimates for the Department of Defense and the Department of Energy, alone, total close to \$200 billion.

An effort this costly should be justified on evidence that expenditures will result in commensurate benefits to human health and the environment. But the federal government lacks an adequate system for assessing the risks posed by Superfund sites relative to other environmental problems or even to compare one site with another. For instance, although funds allocated to federal agency cleanups have increased greatly during the past 5 years, the government does not have an effective way to measure the relative risk of these sites across agency lines or to assign priorities to these cleanups.

Two program management problems are also putting Superfund resources at risk. First, although the Superfund law obligates parties who contaminated Superfund sites to reimburse the Environmental Protection Agency (EPA) for its cleanup costs, EPA has recovered only a small fraction of these costs. As of September 30, 1992, it had collected just 10 percent of the \$5.7 billion that it had classified as recoverable from responsible parties. Because EPA has not properly tracked its recovery efforts, it cannot explain this low rate of repayment. We have reported that EPA's failure to control collection efforts or seek full recovery of its costs have limited collections. For example, it has excluded from recovery efforts over \$1 billion of indirect costs. In addition, the Superfund law's restrictions on charging interest have reduced potential recoveries.

Second, although it relies heavily on contractors to perform much of its cleanup work, EPA until last year ignored long-standing deficiencies in the management of its contracts. For example, although EPA relies heavily on cost reimbursable contracts to operate Superfund, it did not have a good system for judging the reasonableness or propriety of contractor charges. Moreover, by too liberally indemnifying contractors against claims for negligent damages, EPA had exposed Superfund to potentially serious losses.

EPA has taken positive steps to address some of these problems. For example, it has begun to develop a risk-based planning approach that would give priority to problems posing the greatest danger. It has also recently proposed new regulations for recovering more of its costs from responsible parties, placed new emphasis on monitoring contract costs and published a new contractor indemnification rule that will greatly reduce its vulnerability to damage claims from contractor negligence.

These actions alone, however, are unlikely to solve Superfund's problems. We have recommended additional steps, among them that EPA work with the Congress to reorder its budget priorities to reflect the relative risks of environmental problems. Also, EPA should place more emphasis on recovering program costs--for instance, by working to recover more of its costs and by keeping better records of negotiations--and the Congress should permit EPA to charge greater interest on its costs. Correcting long-standing contract management problems will take sustained management attention for a period of years.

SOME PROBLEMS PERVADE FEDERAL AGENCIES

Despite the wide differences in the types of programs within this Subcommittee's jurisdiction, and all federal programs for that matter, these programs share several common problems. Foremost among these are deficiencies in financial management, information management, and general management systems and activities.

Financial Management

The federal government manages hundreds of programs, many of them individually larger than our nation's biggest publicly owned corporations, without adequate knowledge of their financial condition and results achieved. Widespread financial management weaknesses cripple our leaders' efforts to effectively manage and oversee federal programs.

The government can no longer afford to operate this way. It must address three major areas of weakness: inadequate or erroneous financial data, unreliable financial systems and controls, and the general lack of results-oriented reports on financial condition and operating performance.

Our financial audits of the larger federal agencies regularly identify tens of billions of dollars in accounting errors as well as serious gaps in information. These problems undermine the government's ability to effectively perform basic financial management functions, make informed decisions, and conduct adequate oversight of taxpayer funds. Further, breakdowns in financial systems and controls not only waste billions of dollars, they also reinforce the deeply rooted public perception that the government cannot effectively manage the taxpayers' money. Finally, while the

government has a flood of cash-based information, it has collected little data to monitor the cost of programs and to measure their performance. This makes it extremely difficult to manage effectively, determine results achieved with public funds, and establish reasonable spending priorities.

To address the historic lack of priority given to financial management, the Chief Financial Officers (CFO) Act established a much needed leadership structure consisting of a new Deputy Director for Management and a Controller in the Office of Management and Budget and professionally qualified CFOs in all major departments. These CFOs are to report directly to agency heads and are to be given broad authority for financial management.

Without concerted action to implement the CFO Act--including attention by the Congress and the administration--and strong support by agency program managers, the government will remain devoid of accountability, hampered in its ability to make informed decisions, and embarrassingly unable to explain the results achieved by the use of trillions of dollars collected from the nation's citizens. The Congress made its expectations clear when it enacted the CFO legislation, and its continued support and additional oversight and actions by the administration are critical.

We believe that the Congress should

- amend the CFO Act to require audited financial statements on an annual basis for all major agencies and the government overall,
- focus closely on CFO appointments to ensure the qualifications of these individuals,
- conduct annual oversight hearings using the CFOs' annual reports and audited financial statements, and
- provide necessary funding support for financial reform efforts through investments in modern systems, personnel development, expanded financial reporting and auditing, and a strengthened Office of Federal Financial Management.

Information Systems Management

The federal government spends over \$20 billion annually on new technology and tens of billions more in running current systems. Despite the magnitude of this investment, agency after agency still lacks the critical information needed to analyze programmatic issues, manage agency resources, control expenditures, and demonstrate measurable results.

Sound information systems management is essential for realizing productivity and effectiveness gains achievable through today's technology. However, top federal executives continue to overlook the strategic role of information technology in reengineering business practices. Moreover, information resource managers typically lack the authority and resources needed to help their agencies modernize and simplify work practices, define information needs, and ensure the most effective use of information resources.

Federal acquisition management and budget processes aggravate this situation. The demand for certainty in the systems development process leads project managers to downplay risks and problems--resulting in missed benefits and misspent money. Solving these problems will depend heavily on the ability of top executives to both develop a strategic framework for change and effectively marshal their agencies' information resources talent.

In the information systems area, the Congress should, among other things,

- ensure that OMB has appropriate leadership, staff resources, and funding to strengthen its information technology management function;
- focus closely on the confirmation of the Director of the Office of Information and Regulatory Affairs to ensure the qualifications of this individual;
- hold agency heads accountable for developing and following a strategic framework for reengineering business processes that involves the information systems function in decision-making; and
- support and monitor agency experiments in using innovative methods for budgeting and managing large-scale information technology acquisitions.

General Management

Over the years, our work has identified management problems across the spectrum of federal activities: important program objectives are not being met, funds are wasted, major projects are over budget and behind schedule, and moneys due are not collected. These problems have existed for many years and efforts to correct them have resulted in incremental improvements to the overall system of management, such as better cash and debt management. In too many cases, management problems persist long after they have been brought to light and long after agencies have agreed to correct them. This occurs because the piecemeal actions taken have not effectively addressed the root causes of these problems.

Three fundamental conditions individually and collectively present formidable obstacles to good management:

- diffused accountability for program results,
- a short-term mentality which deters good management, and
- government machinery which inhibits results-oriented action.

It is time to address these problems, and both the Congress and the administration have a role. For example, the Congress should

- promptly consider legislation to require agencies to articulate their goals and missions, develop implementation plans and measures tied to their missions, and report annually on program results;
- ensure that OMB has the appropriate resources to ensure effective leadership in the management arena;
- continue support for the effective implementation of the CFO Act and the Pay Reform Act; and
- support agency innovation through the use of pilots and grants of flexibility in selected policy areas.

CONCLUSIONS

The Department of Housing and Urban Development scandal of the 1980s is an example of what can go wrong when management disregards its responsibilities and other oversight mechanisms do not work as expected. History shows that pervasive problems that cost the taxpayer billions of dollars exist across the spectrum of federal activities and that federal efforts to eliminate these problems, including legislative mandates, have generally fallen short of their expectations.

Over the past 3 years, initiatives by the Congress, the administration, and federal agency officials suggest a renewed interest in and willingness to face up to widespread and costly problems in federal programs. However, it is too early to evaluate the impact of these actions on the condition of these programs-- their ability to reduce program vulnerabilities to fraud, waste, abuse, and mismanagement; and their ability to reduce or eliminate losses and make the programs more efficient and effective.

Clearly, the government cannot afford to falter in its efforts to bring these initiatives to completion and to build upon its successes while learning from its mistakes. It must develop new and innovative ways to strengthen federal programs and rekindle the American taxpayer's faith in its ability to manage programs.

The Congress must provide the necessary focus on and attention to problems by conducting annual oversight hearings. Among other things, this oversight process should focus on the reports and audited financial statements required by the Chief Financial Officers Act, agency management's progress in correcting material weaknesses in program internal control and accounting systems, and federal agencies' efforts to develop and implement performance standards against which their efficiency and effectiveness can be measured. Mr. Chairman, hearings such as this one today are critical to ensuring that the problems the government faces are corrected in a timely and effective manner.

In addition to the Congress, the administration--the President and OMB--must be a force in ensuring real progress. If the administration will do its part and intensify efforts to deal with the specific high-risk areas we and OMB have targeted and adopt the overall recommendations we have made in the high-risk and transition series reports we issued last month, we should see a rapid reduction in both the number and severity of high-risk problems and in the incidence of fraud, waste, abuse, and mismanagement.

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Mr. Chairman, this concludes my prepared statement. At this time, my colleagues and I will be glad to respond to any questions you or other Subcommittee members may have.

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