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Testimony

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MAJOR ISSUES FACING A NEW  
CONGRESS AND A NEW  
ADMINISTRATION

Statement of Charles A. Bowsher  
Comptroller General of the United States



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Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today to discuss our recently released series of reports concerning major issues facing a new Congress and a new President.

These reports were prepared at the request of the Speaker of the House of Representatives and the Majority Leader of the Senate. A complete list of the reports is attached to this statement.

We issued a similar set of reports in 1988. We believed then--and we continue to believe--that the breadth of GAO's oversight responsibilities and the large body of work that we have performed over the years gives us a special perspective on the problems facing our government. We have a responsibility to share that perspective with those in Congress and the executive branch who are in a position to deal with the issues we have identified. Thus we are pleased to share the results of our work with you today.

In each year but one since we issued the 1988 transition reports, this committee has held a broad-ranging oversight hearing where we have summarized the work that GAO has done on the problems that we highlighted in 1988 and on new ones that have emerged. This has helped us bring together the results of our work. We believe that it has been useful for the Congress, as well, and we would be pleased to continue this pattern in future years.

Turning to the picture portrayed in this year's transition reports, I wish that I could report to you that the problems we saw facing the government and the nation in 1988 were resolved in the ensuing four years. Clearly, there have been important favorable developments during this period.

- There has been a fundamental change in the world with the collapse of Soviet hegemony in eastern Europe, the fragmentation of the former Soviet Union and the consequent disappearance of the Warsaw Pact as a military threat to Western Europe and the United States.
- In concert with our allies, the United States successfully defended what it judged to be its vital national interests against aggression from an expansionist Iraqi dictatorship.
- At home, there has been a growing recognition that our future well-being and place in the world is now dependent as much or more on the strength and competitiveness of our economy as on our dominant military power.
- In government, there has been a growing understanding that our ability to deliver services efficiently and effectively through a complex intergovernmental system requires investment in the machinery of government. In concrete terms this

is typified by the enactment of the Chief Financial Officers Act. But I think there is now an acceptance of the need to re-think the management of governmental institutions in an even broader way.

It is important to acknowledge favorable developments, but it is even more important to recognize the lack of progress in many areas and the fact that some of the problems we highlighted in 1988 have become more severe. This is a pattern that appears throughout this year's series of transition reports. In some cases, progress has been made and some of that progress is remarkable. In other cases, however, the problems have continued to fester and grow worse. In still other cases, new problems have emerged or old problems have taken on a new dimension, even more serious than the ones we highlighted in 1988.

The structure of this year's transition series, as in 1988, involves three levels of analysis and discussion. One level deals with broad policy issues affecting government as a whole and its relationship to the economy. In this category are the reports on the budget deficit and investment. A second level deals with issues affecting individual departments, agencies and major program areas, such as defense, energy, and the Internal Revenue Service. The third level of analysis draws from our observations about specific agencies to identify cross-cutting management issues, including financial management, information management, program evaluation and the public service, that affect many departments and agencies.

In total, this year's transition series includes 28 reports, 2 more than in 1988. This statement can do no more than summarize the most significant points raised in those reports. Accordingly, we urge the Committee and other interested parties to review the reports themselves (and the more detailed work to which the reports refer) in areas in which there is particular interest.

I would also point out that there is another series of 17 reports, covering what we have identified as being areas subject to high risk of fraud, waste, abuse, and mismanagement. This Committee has actively supported our "high risk" program and those reports will be discussed later in this hearing.

#### The Budget Deficit, Investment, and Long Term Economic Growth

In 1988, we said that the budget deficit was among the most urgent issues. Despite serious efforts to confront that problem, the deficit set a new record of \$290 billion in 1992, higher than we thought likely four years earlier. But even this understates the magnitude of the problem. As can be seen in Table 1, there is a much larger, and growing structural deficit, \$386 billion in 1992, in the federal funds part of the budget that is partially masked by growing surpluses in Social Security and other trust funds, surpluses that will begin evaporating when the Baby Boom generation starts retiring in another twenty years or so.

Table 1: Deficits  
Dollars in billions

	<u>1981</u> <u>Actual</u>	<u>1992</u> <u>Actual</u>	<u>1993</u> <u>Estimate</u>	<u>1997</u> <u>Estimate</u>
Unified deficit	\$79	\$290	\$331	\$290
Trust fund surpluses	<u>7</u>	<u>96</u>	<u>108</u>	<u>140</u>
Federal funds deficit	\$86	\$386	\$439	\$430

Estimates by Congressional Budget Office, August 1992.

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The damage to the economy resulting from the huge budget deficits of the last decade is often described as a "long-term" problem, with the implication that action to resolve the problem can be postponed for a while, perhaps a long while, without great risk. Unfortunately, the long-term is now here. In a recent report, for example, the Committee for Economic Development, an independent business and education group, estimated that low national savings and investment, driven in significant part by persistent budget deficits, are already costing the United States about \$300 billion per year in lost potential output.<sup>1</sup>

In the absence of firm action to confront the problem of the deficit and resolve it, the outlook is for more of the same, and worse. The resulting drain on the nation's diminished supply of savings is a major threat to future economic growth and to the prospects for a higher standard of living for the next generation. Moreover, the combination of a stagnant domestic economy and a growing volume of foreign debt threatens our ability to influence world events and to act independently, when necessary, to protect our vital interests.

In addition, budget deficits have been coupled with a diminished pace of government investment in productive infrastructure, research and development, and human capital. As can be seen in Table 2, budget pressures to finance rapidly growing health care and other programs financing current consumption, along with escalating interest costs, have severely constrained the resources available to promote future economic growth through well-designed programs in these areas.

In our view, it is essential that Congress and the President develop and implement--as a matter of the highest priority--a two-pronged economic growth strategy with the following elements:

1. An assured, phased reduction in the deficit, leading to budgetary balance around the end of the decade and a small

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<sup>1</sup> Restoring Prosperity: Budget Choices for Economic Growth, Committee for Economic Development, Washington, 1992.

Table 2: Outlays for Fiscal Years 1981, 1986, and 1991  
Dollars in billions

	1981 <u>Actual</u>	1986 <u>Actual</u>	1991 <u>Actual</u>	Percent Change <u>1981-1991</u>
Defense	\$158	\$273	\$273	74
Net Interest	69	136	195	183
Health:				
Medicare	39	70	104	167
Medicaid	17	25	53	212
Subtotal, Medicare and Medicaid	56	95	157	180
Deposit Insurance	-1	1	66	
All other	<u>397</u>	<u>485</u>	<u>632</u>	<u>59</u>
Total	\$678	\$990	\$1,323	95

surplus in the early years of the Twenty-First Century. If fiscal stimulus is necessary to accelerate recovery from the recession, it should be limited in time and coupled with appropriate long term measures to reduce the deficit.

2. A shift in budgetary priorities to reduce spending on programs financing consumption, especially in the health care area, and increase the emphasis on well-designed programs to foster long term economic growth.

The experience of the 1980s demonstrates that such a strategy entails some very difficult choices. However, the President-elect's statements, both during the campaign and in the recent Economic Conference, suggest that he shares a similar view of the importance of a growth-oriented economic strategy embodying these elements.

#### National Security and International Relations Policies for a Changing World

In 1988, we noted that DOD's defense spending plan contained programs which would cost about \$200 billion more than DOD could expect to receive. Since then, the "top line" defense budget has been reduced but we still face the difficult task of redefining the post-Cold War role of our military forces and restructuring those forces to carry out that role within the limits of an affordable defense budget. There is still a potential \$150 billion gap between the cost of planned defense projects and programs and the projected availability of budgetary resources.

With the end of the Cold War, the time has come for the most fundamental and far-ranging reexamination of the nation's defense policy and structure in 40 years. Instead of a global threat from the Soviet Union, the United States and the other industrialized democracies now face an unpredictable variety of regional threats

to their interests--such as the Iraqi invasion of Kuwait--and a potentially large number of situations--such as those in Somalia and Bosnia--in which military intervention is urged on humanitarian or other grounds. In these circumstances, unlike the situation when a unified NATO command faced the Warsaw Pact, the extent of multinational involvement is uncertain.

In this new environment, and particularly in the context of severe constraints on resources because of the necessity to reduce the budget deficit, it is essential that we undertake a careful reassessment of U.S. commitments around the world, of the strategies driven by these commitments, and of the military roles and missions that are appropriate to them. Congress recognized the need for such a reassessment in the National Defense Authorization Act for 1993 by requiring a report by the Joint Chiefs of Staff on future military missions and roles.

Reducing defense spending will be complicated by a number of financial issues that are currently not fully recognized in DOD's spending plans. There is a significant mismatch between the \$1.4 trillion 1993-97 plan and budget realities. The plan does not recognize

- over \$35 billion in potential weapons cost growth,
- about \$12 billion in congressional actions delaying some proposed program terminations,
- an estimated \$5.4 billion in funding for defense conversion to commercial activities, and
- \$60 billion in additional cuts proposed by the President-elect.

In addition, the spending plan assumes \$53 billion in management savings, the majority of which may not be achieved, and \$5 billion in base closure savings that will not be realized during the period. As a result, DOD may be faced with additional program reductions of over \$150 billion.

Other items will add pressure for more defense spending in the longer term. For example, cleaning up hazardous waste on defense property is now estimated to cost \$24.5 billion, and disposing of chemical weapons will cost at least \$8 billion; both estimates are expected to grow.

An important element in addressing management challenges facing DOD will be improving financial management practices. We recently reported that the Army and Air Force were unable to produce financial statements and that their financial reporting required adjustments of more than \$200 billion. Without accurate financial information it will be difficult for DOD managers to control costs.

It is also imperative that DOD get better control of its inventories. We cannot afford to add even more to the huge amounts of excess inventories--\$40 billion at last count--that have accumulated.

An additional matter of concern centers on the need to control the spread of weapons of mass destruction, an issue that is made more urgent by the political fragmentation of the former Soviet Union. The United States has already pledged to buy 500 tons of highly enriched uranium from Russia to prevent its sale to other countries. The specter of a nuclear black market, together with the need to repair or replace potentially unsafe Soviet nuclear power plants--at a cost of up to \$50 billion--demand attention to international nuclear proliferation and safety issues.

The military challenges are clearly different in the post-Cold war era but the challenges of managing our defense establishment may be greater than ever. But the task of adjusting to the post-Cold War era is not limited to the Defense Department; adjustments are also required in other departments and agencies of government.

- With input from other agencies and the Congress, the Department of Energy must determine what the nation's future capability should be for nuclear weapons production, and develop appropriate plans for modernizing facilities located in 18 states. In addition, the agency must continue the mammoth task of cleaning up serious environmental contamination throughout the complex now estimated to cost \$160 billion over a number of years.
- The objectives and mechanisms of the foreign economic and military assistance programs, costing about \$14 billion annually, have long been viewed as part of the strategy for containing Soviet expansionism. These programs must be re-examined. The challenge will be to determine U.S. security and economic priorities and the corresponding size and shape of a foreign assistance program.
- A reorientation of economic assistance programs to meet new challenges must be coupled with a major effort to overcome the serious management weaknesses in AID that have contributed directly to a loss of accountability, financial control, and effectiveness.
- Congress and the administration need to consider how the State Department and other foreign affairs agencies such as the U.S. Information Agency will be able to operate efficiently and effectively with declining resources in the post-Cold War environment. In particular, the State Department needs the support of Congress and the administration for a continued commitment to addressing its management problems. It may also be time for a fundamental reevaluation of the missions and objectives of U.S. international



broadcasting activities, such as the Voice of America and Radio Free Europe.

### Crisis in the Health Care System

In 1988, we pointed to the rapid growth of health care costs and the need for effective cost-containment strategies. Costs have continued to escalate. It is now evident that traditional approaches to cost control are inadequate and that major reforms are required. As we noted in 1990, failure to control overall health care costs will stymie efforts to control outlays for Medicare and Medicaid--the fastest growing major programs in the federal budget--and will make it more difficult, if not impossible, to bring the budget into balance.

A key challenge facing the new Congress and administration is finding a better way to manage and finance the U.S. health care system while preserving the high-quality, innovative medical care the United States has achieved. U.S. spending on health care is projected to reach 18 percent of GDP by the year 2000--far more than any other industrialized country. These growing costs are shared by individuals and the business community as well as by federal and state governments.

Despite having a health care system with the highest costs in the industrialized world, however, large portions of our population are not served very well. Nearly 34 million Americans are uninsured and millions more are either underinsured or at risk of losing coverage if they develop a serious medical condition, lose their job, or change employers.

At the request of Congress, we have examined the experiences of other countries, as well as U.S. federal programs and state and community initiatives as part of a search for possible solutions for the root causes of our health care system. To broaden access while containing spending, we need to consider features common to successful systems abroad and at home. But a reformed system must also build on the strengths of the current system, including a strong research establishment, continuing development of technology and the capacity for evolution in service delivery mechanisms.

We believe there are several central issues that must be addressed in the development of better ways of managing and financing health care in the United States.

-- Universal access to health insurance is achievable, but the costs are considerable, in the range of \$12 to \$27 billion annually. It would also entail major changes in the role of government, the structure of health finance system, and the financial responsibilities of individuals and employers. But universal coverage can contribute to both short and long term strategies for cost containment, as well as meeting the needs of the 34 million who are presently uninsured.

- Reforms in the private health insurance market are needed to improve availability and affordability.
- Cost control is imperative. Unchecked increases in costs will make insurance unaffordable for more and more people, as well as aggravating the budgetary squeeze on federal and state governments. But cost control entails some mechanism for disciplining the decisions of consumers and providers. Two basic strategies are currently being debated, managed competition and direct controls. Whichever approach is chosen, including a possible hybrid, if it is effective it will mean that some segments of society receive less. Providers will have lower revenues; consumers may face more limited choices; and the rate of improvement in medical technology may slow.
- Administrative simplification can contribute significantly to containing spending. Nearly 6 percent of U.S. health care expenditures in 1989 were accounted for by the administrative costs of government health programs and private insurers. Canada, by contrast, spends about one-fifth as much proportionately on these insurance overhead functions. Health care providers also face high administrative costs that are directly attributable to the way we finance health care.
- More effective measures are needed to detect and prevent fraud and abuse by health care providers, now commonly estimated to cost about \$80 billion annually, or 10 percent of total health care spending. This issue is discussed more fully in our "high risk" report on Medicare claims.
- Ways need to be found to encourage continued development of new medical technologies while also insuring their efficient use. The unrestrained spread and use of such technologies in recent years is one of the driving factors in the upward momentum of health care spending.
- Reform of the medical malpractice system is needed to relieve doctors from both the financial and emotional burdens of malpractice, to reduce the costs of malpractice insurance and related defensive medicine, and to provide better access to compensation for those who are injured.

Reform of the U.S. approach to financing health insurance and paying providers is a daunting task, entailing many difficult choices. Among both providers and consumers of health care services, reform will generate losers as well as winners. But there are even greater risks if reform is not undertaken. Costs will continue to rise, driving more and more Americans into the ranks of the uninsured and putting increasingly intolerable burdens on federal and state governments.

## Educating and Training a Competitive Workforce

In the discussion of budget policy earlier in this statement, I stressed the importance of the government's role in investing for future economic growth. Central to this is investment in human capital, the knowledge and skills that individual workers bring to the production of goods and services in a modern, internationally-competitive economy. The education and training services that yield this growth in human capital are highly fragmented among state and local governments, thousands of school districts, colleges, and universities, and numerous private and not-for-profit training programs.

The American workplace is changing in response to international competition. Economic change, coupled with the adoption of new technologies and the restructuring of work is resulting in worker dislocation and shifts in the skill demands for new workers. Increasingly, companies are looking for workers with greater technical skills and those who are versatile and able to adapt to changing conditions--by learning new skills, changing their roles in the workplace, working in teams, sharing management responsibilities, and solving problems.

Our education and training systems are not keeping pace; many of our youth are leaving school poorly prepared for the new work world. We estimate that about one in three youth aged 16 to 24 will not have the skills needed to meet employer requirements for entry level, semi-skilled, high wage occupations. In addition, we already have a large group of the economically disadvantaged who lack necessary skills. And 900,000 or more workers annually are at least temporarily dislocated and often need retraining or help in finding a new job.

The federal programs that seek to prepare young people for adult responsibilities, especially the world of work, are located in the Departments of Labor and Education. Both have roles to play in adapting the nation's decentralized education and training systems to more effectively promote the development of a skilled workforce. However, the nation's efforts are hampered by the lack of integrated, coherent strategies for dealing with these complex problems.

The federal government contributes only about 6 percent of the \$221 billion spent on public elementary and secondary education. Even so, the Department of Education has a strong leadership role to fill in working with states and localities to improve the nation's education system as a whole and in ensuring that all children will benefit from the improvements.

One critical issue is the need to maximize the Department's resources to promote widespread school reform efforts among states and localities. Other issues include helping schools adjust to a higher proportion of poor, minority, and immigrant children; continuing to support the development of high national standards for all children; and moving thoughtfully in backing the development of new forms of student assessment. The Department will also need

to consider how to use existing programs in the context of broad reform and how the services provided by its programs complement those of other agencies. For example, to help assure that young children are ready for and succeed in school, the Department should continue efforts to link its programs with others, such as HHS's Head Start program.

There are long standing managerial problems in the Department, however, that may impede its strong leadership role in educational reform. In our 1988 transition report, we noted many such deficiencies, particularly in student assistance programs. Guaranteed Student Loan defaults cost the government \$3.6 billion in 1991. These programs remain on our list of high risk programs and are the subject of a separate report. The Congress has enacted changes that could significantly improve the operation of these programs but serious problems remain in overall departmental management, financial and management information systems, and human resources management. These problems, if not addressed, could undermine not only student loan reforms but also the Department's role in reforming the nation's educational system.

In general, the Department of Education's responsibilities relate to the person while in school. For the person who has left school, the relevant federal training programs are primarily those administered by the Department of Labor. One of Labor's most important missions is to improve the skills of American workers, with particular attention to--

- Helping students make the transition from school to work;
- Providing employment and training assistance to economically disadvantaged workers; and
- Assisting dislocated workers.

The effectiveness of our investments in human capital in these areas is compromised by an uncoordinated system of 125 employment training programs spread across 14 departments and agencies with over \$16 billion in annual funding. Many of these programs tend to suffer from inadequate federal and state oversight, inefficient service to those in need, improper program expenditures and, in some cases, questionable effectiveness. Congress and the new administration need to focus on creating a more coherent, effective, and accountable employment training system.

In addition, Labor needs to ensure that workers have access to unemployment insurance benefits when they need them, and the pensions due them when they retire. The ability of the Unemployment Insurance system to provide income assistance to the unemployed and to help stabilize the economy during recessions has eroded; and there are serious concerns about the financial soundness of the Pension Benefit Guarantee Corporation. The aggregate liability in the 85,000 plans PBGC insures is over \$900 billion. Collectively, these plans have over \$1.3 trillion in assets.

However, about \$40 billion<sup>2</sup> of the liabilities do not have matching assets and about \$13 billion of this amount is in plans of financially troubled companies. As of September 30, 1991, PBGC had a current deficit of \$2.3 billion. Its most pessimistic projection is that the deficit could reach \$17.9 billion by the year 2001, a matter that is examined in detail in a separate report in our high risk series.

Worker health and safety is another important issue. Annually, about 1.7 million workers are disabled by on-the-job injuries, and about 110,000 die from work-related causes. A total of 2,000 inspectors safeguard 88 million workers in the nation's 6 million worksites. The Occupational Safety and Health Administration, together with its state counterparts, must find innovative solutions to ensure safe and healthful workplaces.

### Infrastructure for a Growing Economy

Just as a growing economy requires human capital in the form of a skilled workforce, it also requires investment in the infrastructure needed to facilitate expanding commerce in goods and services. Over the years the federal government, in cooperation with state and local governments, has played a major role in building that infrastructure, especially with regard to the nation's transportation system. In this area, Congress and the administration face two critical rebuilding issues.

- Maintaining, renewing, and enhancing the surface transportation infrastructure will require on the order of half a trillion dollars as we approach the next century. The Department of Transportation estimates that about \$280 billion would be needed just to maintain the nation's roads and bridges at 1989 conditions. While Congress enacted landmark legislation to help pay for and guide this work, a major challenge will be to invest wisely because the needs far outweigh the resources. Other challenges include developing an organizational structure within DOT that facilitates investment trade-offs among aviation, mass transit, highways, and rail, and capitalizing on new technologies, such as high-speed rail and intelligent vehicle/highway systems.
- The air traffic control system must be upgraded to accommodate the growth in air travel. FAA estimates that it will spend \$32 billion through the year 2000--up \$7 billion from the estimate four years ago. In addition to cost overruns, the modernization program has been fraught with schedule delays. The program's centerpiece, the Advanced Automation System, has experienced serious difficulties and, after 10 years in development, the contractor recently announced another 1-year delay. For the program to succeed, FAA must reform its acquisition process, make long-overdue decisions

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<sup>2</sup> On December 15, 1992, PBGC reported that this amount had increased to \$51 billion.

on the number of facilities it will need, expeditiously apply emerging technologies, and establish a continuity of leadership.

The issue of competition and financial condition of firms in the airline industry is of great significance because of that industry's importance in our economy. Recent bankruptcies and mergers in combination with long standing barriers to entering the industry have reduced competition and led to a decline in the number of major U.S. airlines. Moreover, tomorrow's industry will be dominated by airlines whose routes span the globe; international markets now offer U.S. airlines the greatest potential for growth. Congress and DOT need to solve the underlying problems threatening domestic competition and facilitate U.S. competitiveness in international markets. The issues center on determining the extent to which foreign interests should be allowed to invest in U.S. airlines, improving U.S. access to foreign markets, and removing domestic barriers to entry.

The nation's energy system is another vital element of the infrastructure supporting a growing economy and one in which there has been longstanding public sector involvement through financial support and regulation. The United States currently relies on fossil fuels--coal, natural gas and petroleum--for about 85 percent of its energy supply. This reliance, which has evolved in response to market forces, entails economic, national security and environmental costs that are not fully captured in the market prices of various forms of energy. Our massive military response to Middle East aggression that threatened the world's access to oil reveals one aspect of those costs. Vulnerability to oil cost changes reveals another. U.S. consumers spent \$21 billion more for crude oil and petroleum products from August 1 to December 1, 1990, than would have been spent absent the Middle East crisis.

Infrastructure requirements for the nation's nuclear power plants and other nuclear facilities include a system for safely disposing of used fuel and other radioactive waste products. A decade has passed since Congress authorized a program for disposing of nuclear waste, and \$3 billion of an estimated \$30 billion total cost has been spent, but siting a repository seems as distant as it did 10 years ago.

#### Federal Investment in Research and Development

Both here and abroad, there is a long history of government support for research and development intended to increase the productivity and competitiveness of the private sector. A prominent U.S. example is the support given to agricultural research and to the rapid diffusion of the results of that research. This has been an important reason for the extraordinary productivity of the American farmer.

In recent decades, federally supported research has emphasized defense and space. However, such research may also benefit the

broader economy by spinning off ideas, products, and techniques. One important performer of mission related research is the Energy Department's national laboratories, which are funded at over \$7 billion and employ over 50,000 scientific and other personnel. The laboratories, whose mission was previously dominated by nuclear weapons research, now must adjust to the realities of the post-Cold War era and are under increasing pressure to reorient their work towards more immediate national needs.

Another major center of federal research is the National Aeronautics and Space Administration, which also faces major challenges in the years ahead.

- NASA's strategic and program plans call for future budgets that are well above likely funding levels. Unless this multi-billion dollar gap is closed, programs will be subject to an annual cycle of funding reductions, restructurings, and schedule delays. NASA management is working to reshape its plans to fit a more constrained future funding level, but the success of that effort remains to be seen.
- With little or no budget growth in the foreseeable future, NASA needs to improve the management of its research and development efforts by establishing realistic cost, schedule, and performance goals and then identifying and mitigating problems that would disrupt achievement of these goals. This is especially true for major programs such as the Space Station and the Advanced Solid Rocket Motor.
- NASA also can save money by improving its operational efficiency and effectiveness. Efforts are underway in an attempt to reduce the cost of the space shuttle program and to improve contract management. NASA spends almost 90 percent of its funds on contract and poor oversight of contractors has contributed to cost increases, schedule delays, and performance problems on some projects.
- Over the past two decades, NASA has placed primary emphasis on the space program and has spent relatively little on its aeronautics program, one of its charter missions. In addition, its aeronautics research has not focused primarily on the technology validation efforts needed to minimize industry's risks in applying new technology. In view of the gains that have been made in recent years by foreign firms at the expense of U.S. manufacturers, NASA may need to do more technology validation work.

#### Sound Financial Institutions and Effective Trade Policies for a Growing Economy in an Interdependent World

A safe and sound financial system and mutually beneficial international trade and financial relationships are also essential for a productive and stable American economy.

When we issued our 1988 transition reports, the financial services industry was experiencing its most turbulent and troubled period since the Great Depression. A great deal has been done since that time to address the weaknesses and vulnerabilities that were then evident. Despite this notable progress, the job is not yet done.

- The reforms that have been enacted, especially those in the FDIC Improvement Act of 1991, must be properly implemented. We need to guard against attempts to undo such reforms.
- The regulatory structure needs to deal with the realities of today's intertwined and highly competitive financial markets.
- To ensure that our markets and institutions continue to function safely, soundly, and smoothly, regulators need to take special steps to stay abreast of the dizzying pace of change in the industry, such as the development of derivative financial instruments.
- Accounting reforms are needed for the banking, thrift, and insurance industries to ensure that regulators, shareholders, and other interested parties receive reliable reports on financial condition. Reviews of failed institutions too often reveal badly overvalued assets, reserves, and capital.
- Concern has been expressed about the regulatory burden on the banking industry. This issue should be considered and reviewed carefully, in an assessment that considers both the costs of regulation and the benefits to the industry, consumers, and the taxpayer.
- Regulation of the insurance industry warrants scrutiny in light of the increasing number and size of companies that fail, the effects of those failures on policyholders and the serious weaknesses that have been exposed in the state system of solvency regulation.

We are also entering a period in which our international economic relationships will be a subject of heightened concern. International trade has become an increasingly critical part of the U.S. economy, with the share of national income generated by exports having more than doubled over the past 30 years; we cannot ignore that sector of the economy. This is evident from the attention that has been given to the progress of integration within the European Community, to the problems in our trading relationships with Japan, to the difficulties encountered in the current round of GATT negotiations, and to the potential implications of the North American Free Trade Agreement.

In our 1988 transition reports we highlighted the need for the United States to address the federal budget deficit in recognition of the constraints imposed by the realities of the interdependent



global economy. Unfortunately, that problem has only gotten worse. In other areas, some progress can be reported, but much remains to be done.

- While the Department of Commerce has made real progress on the organizational and management problems in its export promotion programs that we noted four years ago, it is now apparent to us that we need to develop and implement a comprehensive national strategy for the export assistance programs, which are spread among a number of agencies. In agriculture, for example, the United States continues to subsidize the export of bulk grains, while losing both market share and the opportunity to be competitive in other agricultural products.
- The prospects for multilateral trade negotiations remain uncertain despite recent progress. Effective enforcement remains a key to making such agreements work.
- New bilateral trade agreements offer the promise of expanded trade but knotty issues still need to be addressed.
- As foreign firms show increasing interest in acquiring U.S. high technology and other national-security-related firms, continued attention needs to be paid to the potential impact on our competitive position and defense capabilities.
- If it is determined that the Department of Commerce, which has been described as a loose collection of more than a hundred programs, should concentrate on a primary mission of improving and promoting U.S. industrial competitiveness, the Department will need to better focus its mission on that objective and build its capacity to play an effective role.
- There is growing concern about the quality of the nation's economic statistics. Some are the responsibility of Commerce while others are produced by numerous other departments and agencies. Attention is needed to overcoming deficiencies in the key statistical series and to better coordinating the government statistical programs.
- The accuracy of the 1990 decennial census fell below that of 1980, even as costs escalated. Prompt attention is needed by the Census Bureau if more effective approaches are to be adopted for the next census.

#### Effectively Using and Protecting Our Natural Resource Endowment

The nation's rich endowment of natural resources has played a key role in the economic development of the country. It is essential that we protect and manage effectively for the benefit of future generations the vast resources that exist on and under the federal lands. This responsibility, as well as that for managing the huge infrastructure of facilities on federal lands, valued at about

\$200 billion, is divided among the Department of the Interior, the Forest Service and the Army Corps of Engineers. In 1988, we drew attention to a number of problems in this area. Progress in the past four years has been modest, at best.

- In 1988, we urged Interior to better balance competing demands on the resources under its protection. We have seen some improvement, but budgetary constraints will slow the pace of change and will require difficult choices.
- We pointed out that billions of dollars would be needed to stop the continued deterioration of, and to prevent possibly irreversible damage to, the nation's natural and cultural resources. The existing infrastructure and lands are now in such a state of disrepair that existing maintenance and reconstruction standards are being compromised and the agencies are cutting back in the services they provide.
- Interior had not always fulfilled its fiduciary duties to collect revenues due the government, nor had it taken advantage of opportunities to increase those revenues. Various legislative proposals have been offered to ensure a better return to the taxpayer for the sale or use of federally-owned resources. These could generate an additional \$4.5 billion in revenues and savings in 1993 to 1997, but few of the reforms have been enacted.
- Thorny legislative issues face the 103rd Congress, including the Endangered Species Act, the Clean Water Act and proposals to designate additional areas as wilderness. How these issues are resolved will go a long way to defining our natural resource policies in the 1990s.

Rich topsoil and a generally hospitable climate have also been a vital element of our natural resource endowment. Combined with a highly capitalized agricultural industry and a substantial public investment over time in agricultural research, it has yielded an efficient and productive agricultural sector that has been the envy of the rest of the world. But policies and institutions that may once have been appropriate may no longer serve us well. The Department of Agriculture faces new challenges as it adjusts to the new realities.

- The Department's cumbersome organizational structure reflects an agglomeration of programs and structures that have remained largely unaltered since the 1930s, despite changing circumstances and advances in technology. The organization must be streamlined to keep up with the times. We believe this will require a substantial reorganization coupled with a major investment in financial and information management systems. The new administration should continue the efforts underway to restructure the Department's organization and management and work with the Congress to simplify programs.

- Recent legislation in 1985 and 1990 moved U.S. agriculture towards a greater market orientation, to make our farm commodities more competitive in world markets while maintaining farm income. Budget constraints and increased global competition create pressure to move faster, but conservation and environmental considerations complicate the situation.
- Current farm credit and risk protection programs expose the federal government to high risks of large financial losses. The farm loan programs of the Farmers Home Administration are the subject of a separate "high risk" report because of the high loss rates of its \$16 billion loan portfolio.
- The Department is responsible for leadership in coordinating rural development policies and programs but the relative decline of rural populations, coupled with relatively lower incomes and higher unemployment rates among those who remain are a measure of the limited success of such programs. The time has come to reexamine of our rural development policies and programs in a search for more effective ways of using scarce budget resources to achieve rural revitalization.
- A fragmented food safety system, with responsibility divided between the Department and the Food and Drug Administration, has led to inconsistent oversight and inefficient use of resources. It is time to review the structure of the laws and agency responsibilities and the priorities for regulating various parts of the food system.

Another aspect of our resource endowment is the environment in which we live, work, and play. Only since the onset of the Industrial Revolution has it become apparent that human behavior can have a profound effect on the quality of the air we breathe and the water we drink, and only in the past two decades or so has that issue become a central policy concern.

Currently, the United States--including both government and industry--spends about \$115 billion per year to meet environmental goals, an amount expected to grow to \$160 billion annually by the end of the decade. However, budget constraints at the federal, state and local levels of government create increasingly severe constraints on government's ability to meet public expectations with regard to mitigating environmental pollution.

Resource limitations have particularly strained the Environmental Protection Agency. Its responsibilities have increased in the past decade with respect to hazardous waste, drinking water and water and air pollution while the agency's budget has remained roughly the same in constant dollars. EPA needs to reexamine its approach to achieve the greatest reductions in risks to human health and the environment from its limited resources. EPA should--

- Establish priorities based on relative risks to public health and the environment and make greater efforts to educate the public about those risks.
- Make greater use of market-based incentives--taxes on pollution, trading in emission rights and public disclosure of polluters' emissions--in lieu of more costly regulatory approaches.
- Explore more innovative approaches to financing the state and local costs of pollution mitigation projects, which those levels of government face increasing difficulty in financing through their budgets. For example, over \$80 billion in improved wastewater treatment facilities, alone, is needed to protect the quality of our surface waters.
- Make a greater investment in gathering scientific data on the health and environmental effects of chemicals and pollutants and on the effectiveness of current abatement efforts.
- Give greater emphasis to ensuring accountability for correcting program weaknesses. Despite recent progress, it is not yet clear that there is a firm commitment to long-term follow-through on corrective actions.
- To improve the implementation of global environmental protection efforts, the U.S. government should support efforts to improve the quality of information available on the extent to which parties to international environmental agreements are living up to their commitments.

#### Strengthening other Social Program Areas

Two agencies with important responsibilities for financing or delivering income and services are the Departments of Health and Human Services and of Veterans Affairs.

With respect to HHS, I have already spoken of the challenge of dealing with the crisis in the way we finance health care services. But the Department faces other serious problems, as well.

- Public confidence in our social security programs must be restored. The trust fund financing of benefits must be assured and services for eligible beneficiaries need to be delivered more efficiently and effectively.
- The major welfare reform effort of the late 1980s, designed to help dependent families achieve self-sufficiency through work, may fail unless closer attention is paid to state implementation efforts.
- Child welfare programs, designed for a different era, are inadequate for the present situation. More children live in

poverty than ever before, reports of child abuse and neglect are at record levels, and the foster care program struggles to accommodate increasing caseloads.

The Department of Veterans Affairs, responsible for delivering a wide array of services to the nation's 27 million veterans at a cost of \$34 billion, faces a different set of challenges.

- With increasingly constrained resources, VA must operate more efficiently while preserving or enhancing the quality of services it provides to veterans.
- VA and the Congress face fundamental policy decisions about the structure of veterans benefits including, for example, the role of its \$15 billion health care system in a reformed national health system.

Meeting these challenges will require VA to complete the development of the strategic management process that is now underway.

Another important set of social programs relates to the homes in which people live, and the network of relationships that create "communities." The primary responsibility for dealing with the problems of our communities rests with the states, cities, and counties. The ability of these governments to cope has been strained in recent years as their budgetary condition has deteriorated. Past surpluses have declined sharply--disappearing in many cases--and borrowings have increased. Unfortunately, the end is not in sight. The costs of health care and other social service programs continue to rise faster than the revenue base in many hard-pressed jurisdictions.

Federal assistance for these jurisdictions comes from a variety of agencies, of which HHS and the Department of Education are among the most important. In the area of "bricks and mortar," the primary responsibility lies with the Department of Housing and Urban Development, which has had a rather checkered history since its creation in the 1960s. Today, HUD faces continuing huge challenges in carrying out its mission, particularly in the face of severe constraints on budget resources.

- Despite investing tens of billions of dollars, there is a growing gap between the supply of decent, affordable housing for low-income families, and the need for it. If this gap is to be contained, more effective ways must be found to preserve private low-income housing, maintain and modernize the existing stock of public housing, stimulate investment, and contain the growing cost of rent subsidies. Such initiatives, however, could add billions to the already substantial investment made to house low-income families.
- Despite efforts to address the management and program design problems that gave rise to the HUD scandal of the 1980s, the

underlying causes of HUD's longstanding management deficiencies remain largely unresolved: inadequate information and financial management systems, weak controls, an ill-designed organizational structure, insufficient staff resources, and inadequate emphasis on program monitoring and enforcement. In fact, a recent report by the HUD Inspector General cautioned that unless HUD acquires sufficient resources, another scandal is a distinct possibility.

- HUD is exposed to billions of dollars in potential cost increases with respect to its mortgage insurance programs. And the estimated cost of abating lead-based paint in public housing units ranges from \$6 to \$16 billion.

Other agencies' community development programs face similar problems.

- The Small Business Administration's impact on stimulating small business development is unclear despite billions of dollars in federally guaranteed loans. In addition, our work has shown that SBA's loss rate is greater than that of private lenders and oversight of these lenders has been inadequate. Finally, SBA's minority business development program has largely failed in its mission, despite efforts to make it more effective.
- Dissatisfaction with the response to Hurricane Andrew, following on the heels of Hurricane Hugo and the Loma Prieta earthquake, raises basic questions about the government's organizational approach to responding to such disasters.

The condition of our communities is a matter of growing concern to most Americans. Despite decades of attention and billions of dollars spent by all levels of government through programs reflecting many different approaches and philosophies, the problems remain and grow. The time has come for us to search for new ways of coping with the multitude of social ills that lie at the heart of these problems. This is a matter to which GAO will devote considerable attention in the years ahead.

#### Strengthening the Core Functions of Government

Modern governments could not exist without the ability to raise revenue through a national tax system. The primary responsibility for administering the federal tax laws is vested in the Internal Revenue Service.

IRS has made substantial progress in addressing the problems discussed in our 1988 transition report but major challenges lie ahead, none more important than modernizing the outdated and inefficient tax processing system. Central to this task is the \$23 billion computer modernization program and the development of a new business strategy that must be the foundation for that program.

IRS faces other challenges, some flowing from the modernization effort.

- With modernization, the agency will be transformed, so that it depends less on manual labor and more on technology-based skills. IRS needs to find ways of bridging the gap between the skills and abilities of the existing workforce and those needed in the future.
- If the new business strategy that is part of the modernization effort is to be effective, IRS must develop appropriate performance measures that will permit it to assess progress in achieving its business goals.
- IRS estimates that less than \$30 billion of its reported \$111 billion inventory of delinquent tax debts is collectible. IRS needs to establish the true amount of its accounts receivables and the amount that is collectible, and collect that amount. This is the subject of another of our "high risk" reports.
- The tax gap--an estimate of the taxes that should have been paid on legal income but were not--stands at \$114 billion for 1992. The time is right for IRS to rethink its approach to enforcement of the tax laws, as well as its approach to helping taxpayers comply with these laws.
- IRS needs a strong financial management system. Weaknesses in the existing system contribute to IRS' problems in managing its accounts receivable, properly identifying Social Security and other trust fund tax collections, and providing usable information on program costs.
- IRS also faces difficult tensions created by competing priorities for the use of its criminal investigation resources. Other agencies seek the expertise of the IRS staff to investigate sophisticated financial transactions, leaving IRS with fewer resources to investigate criminal violations of the tax laws.

As the ability to collect revenue is essential if there is to be a government, the enforcement of just laws is a central reason for having a government in the first place. In the United States, the Department of Justice is responsible for investigating and prosecuting crimes and administering court-imposed penalties. The Department faces a number of challenges in meeting its responsibilities, some of which were highlighted in our 1988 transition reports.

- As we noted four years ago, successful accomplishment of the Department's mission is complicated by its highly decentralized operations and the independence afforded its agencies and offices. Strengthened central management systems would

permit the Attorney General to establish, communicate, coordinate, and oversee national goals and priorities.

- Despite increased resources for investigating white collar crime, the effectiveness of this effort is not yet adequate, in part because of the decentralized Department and diffusion of responsibility, authority and resources between Justice and other agencies.
- Persistent management problems in the Immigration and Naturalization Service compound the difficulty of dealing with complex and sensitive issues related to enforcement of the immigration laws.
- The growing prison population requires the federal corrections system to find less costly ways of ensuring deterrence and public safety, while providing humane care together with services that will equip inmates to be law-abiding citizens upon release.
- The nation's drug problem persists despite the creation of a drug "czar" and the billions of dollars spent in the drug war, primarily to suppress the supply of illegal drugs. At present, there is little basis for judging the efficiency and effectiveness of various strategies.

#### Changing the Way the Government Manages

The state of management in the federal government is not good. It is hindered by a too rigid adherence to principles, structures, and processes that may have worked well in the past but do not currently allow the government to respond quickly and effectively to a rapidly changing world.

Incremental improvements have occurred, but time and again over the past decade our management reviews of large agencies and departments have shown that the processes and systems essential for a well-run organization are not present. Agencies have not created a strategic vision of their futures, most lack good systems to collect and use financial and program information to gauge operational success and maintain accountability, and many do not have the right people with the necessary skills to accomplish their missions.

Over the past decade, many private sector organizations recognized that they would have to change their cultures and processes to survive in a rapidly changing world. The trends are toward decentralized authority, flatter organizational structures, increased employee involvement and control over their workplaces, and a greater focus on the needs of the customer. These changes have yielded better quality and quicker response to customer needs.

The U.S. government is not alone in facing major management problems. Countries such as Australia, the United Kingdom, Canada,



New Zealand, and Sweden began trying to create a more results-oriented public sector management environment in the mid-1980s. Some state governments--such as Florida, Minnesota, Oregon, and Texas--have recently begun to do the same. While these efforts may not all have succeeded, they offer valuable lessons to us.

Each of these governments sought to change the incentives for individual managers and the organizational culture across the entire public service. The common emphasis was a focus on results, created by introducing quasi-market mechanisms and incentives similar to those in the private sector.

In the federal government, many policymakers and managers have been working hard to improve the basic systems necessary to overcome federal agency management problems. But we have not made enough progress in changing the culture and incentives to create a results-oriented environment. Doing this will not be easy or quick, but progress can be made in a three-part framework of clarifying accountability, emphasizing a long term focus, and realigning the machinery of government.

#### Clarifying Accountability and Managing for Results

Agencies must begin to develop long-term strategies with clear measures of intended results. To do so, they must develop reliable financial and program information and build the capacity to evaluate program outcomes. These changes will create the foundation for a results-oriented environment.

#### Creating a Results-Oriented Environment

This Committee has established a leadership role in the Congress in creating such an environment by its recommendation of legislation<sup>3</sup> that would require all agencies to develop strategic plans, set agreed-upon goals and objectives, and measure their progress toward those goals. The legislation also would allow pilot agencies to test whether increased managerial flexibilities--such as exemption from certain OMB circular requirements--are appropriate incentives for encouraging managers to focus on programmatic results. Action on this type of legislation should be high on the agenda of the 103rd Congress.

There have been several pilot programs in various federal agencies to create a more results-oriented environment. For example, OMB and the Railroad Retirement Board agreed on a prototype of a performance agreement with specific measures of results as a tool for increasing the Board's accountability. And the Defense Business Operations Fund is attempting to reorient DOD's delivery of support services toward a greater focus on customers and plans to allocate funds based on performance.

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<sup>3</sup> S.20, "Government Performance and Results Act of 1992," 102nd Congress, cosponsored by Senators William V. Roth, John Glenn, and William S. Cohen.

Other small scale initiatives are underway to reduce controls in areas such as human resource management, procurement, and budget to create a results-oriented environment in several agencies. The proposed legislation would foster a series of pilot programs in which agencies would be granted waivers from central management agency regulations but not from statutory provisions. If successful after three years, agencies would be allowed permanent waivers. We believe there is merit in such a flexible, incremental approach.

Managers must be given the incentives and tools to create a results-oriented environment. Lacking them, managers focus on complying with the accountability controls, not on achieving their agency's overall mission. These controls extend to how they hire, promote, and reward; a rule-intensive procurement and contracting maze; and rigid fund controls. Like the financial and information technology areas, creating a consensus for change will be important. There are no easy answers. It will be important for all parties to have the willingness and flexibility to experiment with different approaches.

#### Financial and Program Information

Reliable financial and program data are a prerequisite for a results-oriented environment. A central first step is effective implementation of the CFO Act. This provides a blueprint for improving financial accountability for results by requiring the development of needed systems, hiring of qualified staff, and linking of accounting and budgeting information.

Concerted action is required by both the executive and legislative branches to ensure that good financial management becomes a reality. This will entail

- strong leadership and commitment to financial management within the agencies and OMB, backed by a mandate from the President;
- improving the accuracy of data and the soundness of internal controls in agencies;
- expanding financial auditing in agencies;
- strengthening the qualifications of financial management personnel;
- re-engineering the government's financial management processes to integrate accounting, budgeting, and program activities and information; and
- developing useful and relevant financial reports that emphasize accountability and operating performance.

Likewise, a commitment by both the executive and legislative branches to improving the management of information technology is crucial. Agencies need to adopt a management philosophy that emphasizes the continuous stream of business processes, which should precede the development and acquisition of automated systems. This implies the appointment of top-level executives who are familiar with the uses of information technology in simplifying business practices and who can devote full attention to this issue.

Even though agency budgets are tight, the information management function must be supported with adequate staff resources and modernized employment policies. The potential long-term payoffs for an agency make this a key area for added investments. In addition, given the existing constraints in the budget and acquisition processes, experimentation may be appropriate to develop a broad-based agreement on new management models needed to build an effective information technology infrastructure in the agencies.

#### Program Evaluation

The consequences of the continuing decline in the capacity for effective program evaluation in the executive branch are great. Agencies lack information on the effectiveness of their programs, lack data on the targeting and outreach of their programs, and need to improve their capacity to make sound decisions on the use of data for policy-making.

Some promising initiatives do exist. For example, OPM and the Merit Systems Protection Board have instituted potentially useful evaluation programs for measuring the quality of people recruited and retained in a number of key government occupations. Unless there is a greater commitment to the conduct of rigorous program evaluations, it will be difficult for political leaders and agency managers to understand the results of policy initiatives, an essential component in a results-oriented environment.

#### Emphasize a Long-Term Focus

A fundamental cause of inaction in addressing long-term management problems is the short-term attitudes created by the process by which we choose key leaders, the budget process, and underinvestment in the public service.

#### Choosing Leaders

Leadership issues need to move to the forefront, and continuity is important. The right environment can be created by

- ensuring that people with the appropriate skills and experience are selected for top management positions. This includes the deputy director for management and the controller in OMB, the deputy secretaries responsible for overall management of cabinet departments, and the chief

financial officers and senior information management officials in government agencies. The Senate, through its confirmation process, has a vital role to play in ensuring the qualifications of people for such positions.

- ensuring that these people will make a sustained commitment to addressing long-term management problems in addition to focusing on policy issues. This includes encouraging them to stay in office for longer periods and providing for good succession planning, when needed.
- continuing improvements already underway, such as support for staffing OMB's management function, effectively implementing the CFO Act in the agencies, and continuing the development of strategic plans in departments and agencies. Congress plays a critical role in these efforts through its oversight activities and by ensuring that funds are available to carry them out.

As a general matter, accountability of top political appointees has been a concern. In other countries, there are fewer political appointees in the upper levels of government and these governments have begun to use individual and organizational performance agreements to clarify accountability and responsibility. While this approach may not be directly transferable to the United States, the President and the director of OMB should consider using the concept of written organizational performance agreements between department and agency heads to better define and clarify missions and intended results, and the ways in which improvement will be measured.

#### Budget Process

The way the government manages relates to the way it budgets. Thus the effort to create a longer term management focus should include a reassessment of the budget process, including the following:

- Make increased use of accrual concepts, where appropriate, to heighten the recognition of short term actions that entail long-term costs. The current, predominantly cash-based budget fosters a short-term attitude. But change is possible, if it is carefully thought through. For example, the Federal Credit Reform Act of 1990 altered the budget treatment of direct and guaranteed loan programs to recognize long-term subsidy costs.
- Highlight the differences between spending that contributes to long-term economic growth and spending for current consumption. Decisionmakers need to focus on these differences when making budget choices, but that information is not emphasized in the present budget process. In addition, more reliable information on rates of return is needed as a basis for choosing among alternative types of investment programs.

- Emphasize the likely results of choices that are made among competing objectives. Considerable performance information is provided in agency budget justifications, but stronger links are needed between the reported performance, agency missions, and proposed spending levels. Pilot projects, such as those that would have been authorized by S.20, could be helpful in developing those links.

### The Public Service

Human resource issues need to be dealt with seriously if the public service is to provide the leadership necessary to address the government's management problems. These would include both financial investments, such as greater attention to the training needs of employees, as well as other employee-related issues such as

- restoring a positive public image for the public service to rebuild the public's confidence in government and to make the public service an attractive career choice;
- modernizing the government's employment policies to recognize and accommodate the dramatic demographic changes-- especially the growth in the number of women employees--that have occurred in the workforce;
- enhancing the government's ability to effectively manage the workforce by giving agencies more flexibility in managing employee performance; and
- ensuring full implementation of the Pay Reform Act of 1990 to help make the government a more attractive employer and to enhance agencies' abilities to recruit and retain high quality employees.

### Realign the Machinery of Government

The appropriate roles of the central management agencies should be reassessed and the organization structures of individual agencies should be reevaluated.

### Central Management Agencies

In recent years, the central management agencies--OMB, GSA, and OPM--have begun a gradual shift from being control-oriented to helping agencies take the lead in a series of areas. This trend should be encouraged and accelerated.

Decreasing central management controls and giving line managers the authority to act within an overall framework of results-oriented objectives has been a trend in private corporations, states, and other countries over the past decade. Some have consciously set out to devolve certain functions traditionally held by central agencies to line agency management. For example, they

have broadened the authority of agencies to classify positions, recruit staff, acquire office space, and determine the rate at which appropriations will be drawn down. In the other governments we studied, this seemed to provide managers the incentive to focus on results, rather than on compliance with regulatory constraints.

In the last decade, the federal government's central management agencies have begun to serve a support role and to delegate more authority. Credit for this is partly attributable to creation of the OMB deputy director for management. The OMB management staff has increased its emphasis on assisting agencies, rather than instructing them on how to resolve their problems.

The increased willingness to delegate authority is partly attributable also to OMB's support of the Total Quality Management movement and to its related efforts to promote the development and use of performance measures. These are creating an environment in which central management agencies can focus more on results and less on controlling the use of resource inputs. Thus it is important that the momentum behind TQM and performance measurement not be lost as new leaders take over these agencies in early 1993.

Similarly, the Pay Reform Act of 1990 gave agencies a wider range of tools to pay and reward staff, and GSA has delegated limited authority to agencies to manage their properties. GSA and OPM should be encouraged to continue these efforts to broaden agencies' authority to act and to identify opportunities to expand these efforts. Our transition report on General Services Issues emphasizes the directions GSA might take to become more of a policy agency and less of a direct service provider.

### Agency Structures

Organizational structure creates the environment in which agency managers must operate. These structures should be reexamined to see if they impede a results orientation. We have traced major management problems in some agencies, such as the Customs Service and the departments of Agriculture and Veterans Affairs, to obsolete structures. For example, the client base and responsibilities of Agriculture have changed radically over the past 60 years, but its field structure has not. As a result, there are numerous underused field offices that could be consolidated with annual savings exceeding \$100 million.

But the need to address organizational issues does not lie solely in the agencies. For example, the jurisdictions of some congressional committees overlap and impose conflicting priorities within agencies. A recently created joint congressional study committee has been chartered to examine, among other things, the scope of committee jurisdictions. Likewise, in the executive branch, there are organizational structure issues related to duplication of effort in areas such as competitiveness, the drug war, and law enforcement. Several reorganization bills or study commissions were proposed in the 102nd Congress, but no action was taken.

Restructuring efforts need to be rejuvenated to better align government resources to the accomplishment of specific missions.

### Conclusion

Mr. Chairman, as the length of this statement attests, we face an awesome number and variety of challenges in the years ahead. It would be naive to think that these problems and issues--some of which have been decades in the making--could be dealt with overnight. If the problems were easy, they would have been solved before now; if the issues were simple, there would be no controversy about how to resolve them. Dealing with these challenges will take all the best efforts of everyone, from line managers to political officials, to the President, to legislators on both sides of the aisle in both houses of the Congress.

Despite the magnitude of the task, I am optimistic about the prospects for progress. Some wise person has said that a problem is only an opportunity in disguise. And the federal government has plenty of people with the talent and desire to seek out and take advantage of those opportunities. Let me cite one example that is close to my heart, Total Quality Management. When we first introduced the idea of TQM in GAO, it was greeted with a substantial degree of skepticism. Today, however, it is rapidly becoming a central factor in the way we manage the agency. As it becomes even more deeply imbedded in the way we think about our jobs, I am confident that it will help us build an even better organization--more efficient and more effective--to serve the needs of Congress and the American people in the future.

The attitudes of dedication to the public service and commitment to the public good that will allow us to succeed with TQM in GAO can be found throughout government. It is this which makes me confident that, in the final analysis, no problem is too big to be overcome.

That completes my prepared statement. My colleagues and I would be pleased to respond to questions.

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