

**GAO**

**Testimony**

Before the Subcommittee on Insular and International Affairs,  
House Committee on Interior and Insular Affairs, House of  
Representatives

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For Release  
on Delivery  
Expected at  
10:00 a.m. EDT  
Tuesday  
May 19, 1992

**AMERICAN SAMOA**

**Financial Management  
Practices**

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Division



054456 / 146725

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss our recent report on problems with American Samoa's financial management practices and the Department of the Interior's oversight of the financial assistance provided to the territory.<sup>1</sup>

Interior's stated goal for more than four decades has been to encourage the economic self-sufficiency of the territory. The department and the American Samoa government have made progress toward this goal, but many challenges remain. One problem is that the Department of the Interior and the American Samoa government have not taken adequate actions to correct various financial management problems. I should emphasize that these problems are not new; they have been identified before, and in some cases they have been reported several times.

With that brief introduction let me discuss (1) the financial conditions during the last decade that led to American Samoa's current General Fund deficit, (2) issues affecting the amount and collections of local revenues, (3) the government's financial management practices for selected high-cost areas and (4) the adequacy of Interior's oversight.

#### GENERAL DEFICITS

The government of American Samoa has operated with a deficit in its General Fund for 10 of the past 12 fiscal years. However, the reasons for the deficit have changed. During the early 1980s, revenues exceeded expenditures in the General Fund; but, subject to executive and legislative decisions and budget act provisions, money was transferred out of the General Fund to other government-operating funds thus creating a General Fund deficit. This practice continued until 1985 when \$13.5 million was transferred to other government funds. By the end of that fiscal year the deficit was about \$3.1 million. In fiscal year 1986, General Fund expenditures exceeded revenues for the first time since 1980. This trend continued and accelerated throughout the remainder of the decade. To help offset these shortages, the American Samoa government began to transfer money to the General Fund from other government funds.

The Samoan government developed financial recovery plans in fiscal years 1988 and 1990 to address its financial problems. However, key elements of the plans--such as reducing the number of government jobs--were not implemented and consequently the General Fund deficit was not adequately addressed.

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<sup>1</sup>American Samoa: Inadequate Management and Oversight Contribute to Financial Problems, (GAO/NSIAD-92-64, Apr. 7, 1992).

By the end of fiscal year 1990, the cumulative deficit had grown to about \$17.6 million. As the situation grew worse, in June 1991 the American Samoa government borrowed \$5 million from its Employees Retirement Fund to ease its immediate cash flow problem.

### REVENUE COLLECTION EFFORTS

Although American Samoa's revenue from local sources grew about 17 percent between fiscal years 1980 and 1990, predicting the amount of revenue that will be collected in any given year, and then actually collecting the revenues, have been continuing problems. Corporate income tax has generally been American Samoa's largest single revenue source. However, these revenues have fluctuated greatly from year to year, and the government has been unable to accurately predict such revenues. For example, fiscal year 1988 corporate tax revenues were underestimated by over \$9.6 million, but in fiscal year 1990, revenues were overestimated by \$6.9 million. The primary reason that the government cannot predict corporate tax revenues is because the tax liabilities of the two major corporations, both canneries, are often determined by subsequent audits performed by both the Internal Revenue Service and American Samoa. These audits determine corporate profits applicable to American Samoa, and thus the relative amounts of taxes owed to the American Samoa government and the federal government. The problem of predicting corporate tax revenues is one that the American Samoa government probably cannot control.

However, factors that the government can control have also adversely affected revenue collection from both businesses and individuals. For example, the American Samoa government could increase tax revenues by collecting all taxes due on miscellaneous income. Interior's Inspector General estimated that in fiscal year 1989, American Samoa lost nearly \$2 million in potential tax revenue because its Tax Office did not match statements for miscellaneous income with available returns. We found that this was still a serious problem. The American Samoa government also needs to ensure that tax statements contain proper tax identification or social security numbers.

We found that there was a serious backlog of unassigned tax collection cases. As of June 1991, there were about 700 open collection cases for which no money had been collected within the previous 5 months, and over 200 cases 60 or more days old had not been assigned to revenue collection officers. Audits of tax returns were also a problem. According to the Chief of Audit, the audit branch had a backlog of about 2,500 returns that had been selected for audit but had not been assigned because of staff shortages.

To address these revenue collection problems, we have recommended that (1) collection of delinquent taxes be vigorously pursued, (2)

consideration be given to withholding tax on miscellaneous income at the source, and (3) that tax identification numbers be used on all tax statements. Since accurately forecasting tax revenues from the canneries will likely continue to be a problem, we have suggested that over the longer term American Samoa needs to build a reserve that could accommodate shortfalls when revenues fail to meet predictions.

### CONTROL OF EXPENDITURES

While revenue collection was a problem, we found that an even more serious financial management problem was that the government had not effectively controlled expenditures. The government generally has adequate regulations and written procedures for managing program expenditures, but the regulations and procedures were frequently ignored, particularly in areas that consume a large proportion of the budget, such as off-island medical referrals, procurement, and payroll expenditures.

In fiscal year 1990, government departments and programs overran their appropriations by \$4.5 million, or about 21 percent. American Samoa's Department of Health, for example, overran its fiscal year 1990 budget by about 64 percent, primarily because it did not control expenditures or follow its own rules for off-island medical referrals. We found that American Samoa's policy on off-island medical care was not uniformly applied.

Frequently, instead of sending patients to the Tripler Army Medical Center in Hawaii, which under American Samoa policy is the primary off-island care provider, patients were sent to more costly private clinics. A patient has the right to choose a private clinic, but the American Samoa code requires that the patient pay the difference between actual treatment costs and the costs at Tripler when the procedure or treatment could have been performed at Tripler. The Department of Health was absorbing these cost differences rather than collecting them from patients.

We also found potential for abuse in several other areas of the off-island referral program because of weak internal controls. Procedures and policies for authorizing off-island referrals were not uniformly followed, and patient files did not always document that the treatment was actually received or that the billings were proper.

We made a number of recommendations to help improve this situation, most having to do with adhering to existing procedures for (1) authorizing off-island medical referrals, (2) documenting patient files showing that procedures had been followed and the rationale for sending patients to facilities other than Tripler, and (3) when appropriate, collecting the cost differential from patients receiving care at facilities other than Tripler.

As I mentioned, procurement and contracting has been a problem, and is a major cost area susceptible to waste and abuse. We found that American Samoan laws, policies, and rules for exercising management control were routinely ignored, circumvented, or overridden. For example, competitive bidding requirements were routinely disregarded, departments obtained approval for procurement transactions after-the-fact, and oversight of large procurements was inadequate. These are problems that have received considerable attention over the years by Interior's Inspector General, but the Inspector General's recommendations have been largely ignored. In fact, responsible officials were only vaguely aware of some Inspector General reports, and said that they had not read them.

To improve the situation with regard to procurement and contracting, we basically recommended that the American Samoan government begin following its own procurement regulations and implementing the Inspector General's recommendations. The primary issue here is simply holding people accountable.

Personnel costs represent more than two thirds of American Samoa's budget. As part of his fiscal year 1990 cost containment measures, the Governor issued an executive order aimed at eliminating 400 government positions through normal attrition (retirements and terminations). However, by the end of fiscal year 1990, American Samoa had a net increase in the number of employees rather than a reduction. This increase came about because the government filled vacancies, added unbudgeted positions, and hired individuals on an emergency or temporary basis. Government departments exceeded personnel ceilings, and instead of reducing personnel costs, these costs increased from \$54.7 million in fiscal year 1989 to \$59.7 million in fiscal year 1990.

As I previously indicated, American Samoa government departments and programs regularly overspent their budgets. Obligating or spending funds in excess of appropriations is a violation of Samoan law enacted in 1977 at congressional insistence to stop these practices. In 1989, Interior's Inspector General reported a "widespread lack of adherence" to the law's requirements. We found that spending continued to exceed amounts appropriated, but we found no evidence that anyone had been held accountable. To correct this situation, we recommended that the American Samoan government enforce the section of its code which prohibits creating obligations and making expenditures that exceed appropriations.

## INTERIORS' OVERSIGHT

Now let me turn to Interior's oversight of American Samoan financial management issues. Since 1983, as a means of encouraging increased self-sufficiency, Interior's policy has been not to seek an increase in operating assistance for American Samoa. As a consequence, U.S. assistance decreased in constant dollars from 50 percent of General Fund expenditures in fiscal year 1984 to about 35 percent in fiscal year 1990. Interior has improved its oversight of capital improvement and technical assistance grants and has emphasized technical assistance projects in an effort to improve efficiency and accountability within the American Samoa government. However, Interior's efforts to improve the financial management practices of American Samoa have been largely ineffective.

Congressional committees and Interior have attached conditions to the operating assistance grant that were aimed at compelling the territory to improve its financial management practices. However, Interior has not strictly enforced these conditions. For example, Interior required American Samoa to implement a plan to control fiscal year 1988 expenditures before \$5.4 million in assistance would be released. But, Interior released the funds despite the fact that American Samoa did not implement elements of the plan and reported almost \$3 million in budget overruns for the year. Also, since fiscal year 1990, Interior has required American Samoa to submit revenue and expenditure reports that provide information on "the sources and uses of funds to support government operations and an analysis of important trends and exceptions." The reports submitted by the government generally do not fulfill these requirements.

We believe that steps Interior has taken to improve its oversight can help American Samoa improve its financial management. Recently, Interior's field representative in American Samoa was given well defined responsibilities and guidelines for monitoring and overseeing grant assistance to American Samoa. This should help to improve a much needed and vital communications link between the territory and Washington. Also, at the time we were completing our work, Interior was in the process of negotiating a cooperative agreement with the Army Corp of Engineer's Honolulu office to assist in monitoring American Samoan management of construction projects funded by Interior grants. We were told last week that an agreement was signed this month. This should also help.

In conclusion, let me say that we have not recommended broad sweeping changes in the way the American Samoa government operates. Instead, as I indicated earlier, most of the problems and solutions had been previously identified and are quite well known. What

needs to happen now is that both the American Samoa government and Interior get serious about fixing the problems.

This concludes my prepared remarks. We would be pleased to respond to any questions you and the other Members of the Subcommittee may have.

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