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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ADDRESS BY
HENRY ESCHWEGE, DIRECTOR
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION



TO THE

PUBLIC WORKS POLICY SYMPOSIUM
AMERICAN PUBLIC WORKS ASSOCIATION
CHICAGO, ILLINOIS

MARCH 2, 1981

ANALYSIS AND EVALUATION OF PUBLIC POLICIES

I WELCOME THE OPPORTUNITY TO ADDRESS THIS SYMPOSIUM ON THE ANALYSIS AND EVALUATION OF PUBLIC WORKS POLICIES-- A MOST TIMELY TOPIC. THE TREMENDOUS SIZE OF THE INVESTMENT IN THE NATION'S PUBLIC WORKS PROGRAMS JUSTIFIES A CRITICAL EVALUATION OF WHERE THE PROGRAMS HAVE BEEN, WHERE THEY ARE NOW, WHERE THEY ARE HEADED, WHAT THE ACCOMPLISHMENTS AND SHORTCOMINGS HAVE BEEN, AND WHETHER OBJECTIVES SHOULD BE REDIRECTED OR GROWTH ALTERED. SUCH AN EVALUATION TAKES ON EVEN MORE IMPORTANCE IN VIEW OF THE RECENT CHANGE IN ADMINISTRATIONS, THE SIGNIFICANT SHIFT OF POWER IN THE CONGRESS, AND INCREASING CONCERN WITH INFLATION AND EXISTING BUDGET CONSTRAINTS AT ALL LEVELS OF GOVERNMENT.

MORE THAN EVER, PUBLIC WORKS PROGRAMS WILL FACE TOUGH COMPETITION FROM OTHER FEDERAL PROGRAMS FOR LIMITED FUNDS. IT IS IMPERATIVE, THEREFORE, THAT FUNDING REQUESTS MAKE THE MOST CONVINCING CASE THAT PLANNED PROJECTS ARE CLEARLY NEEDED AND COST BENEFICIAL. IT IS IN THESE AREAS--INSURING THAT

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PUBLIC WORKS PROGRAMS EFFECTIVELY COMPETE FOR SCARCE RESOURCES AND THAT THE RESOURCES PROVIDED ARE SPENT WISELY--THAT STATE AND LOCAL PUBLIC WORKS ADMINISTRATORS CAN AND SHOULD HAVE A LEADING ROLE.

BEFORE WE EXAMINE SOME OF THE MAJOR PUBLIC POLICY ISSUES IN DETAIL, LET ME BRIEFLY DISCUSS THE ROLE OF THE GENERAL ACCOUNTING OFFICE IN EVALUATING PUBLIC WORKS PROGRAMS.

THE ROLE OF THE
GENERAL ACCOUNTING OFFICE

GAO, UNDER THE LEADERSHIP OF THE COMPTROLLER GENERAL, IS AN ARM OF THE CONGRESS WHICH REVIEWS THE PROGRAMS AND POLICIES OF THE FEDERAL GOVERNMENT AND MAKES RECOMMENDATIONS FOR IMPROVEMENTS. ALTHOUGH WE DO NOT HAVE THE AUTHORITY TO FORCE IMPLEMENTATION OF OUR RECOMMENDATIONS, WE BELIEVE THAT CONSTRUCTIVE OVERSIGHT AND PROGRAM EVALUATION BY THE CONGRESS AND ITS SUPPORT AGENCIES CAN HELP INSURE THAT THE FEDERAL GOVERNMENT BETTER SERVES THE AMERICAN PEOPLE.

TO CARRY OUT ITS LEGISLATIVE AND OVERSIGHT RESPONSIBILITIES, THE CONGRESS REQUIRES RELIABLE DATA WHICH OUR OFFICE STRIVES TO PROVIDE. MUCH INFORMATION IS MADE AVAILABLE TO THE CONGRESS THROUGH HEARINGS AND REPORTS, PARTICULARLY FROM EXECUTIVE BRANCH AGENCIES. HOWEVER, MANY QUESTIONS ALWAYS REMAIN. GAO ATTEMPTS TO PROVIDE THE CONGRESS WITH ANSWERS TO QUESTIONS SUCH AS:

--IS IT POSSIBLE TO ELIMINATE WASTE AND THE
INEFFICIENT USE OF PUBLIC MONEY?

- ARE FEDERAL PROGRAMS ACHIEVING THEIR OBJECTIVES, WHETHER ADMINISTERED DIRECTLY BY THE FEDERAL GOVERNMENT OR THROUGH OTHER ORGANIZATIONS SUCH AS STATE AND LOCAL GOVERNMENTS?
- ARE THERE OTHER WAYS OF ACCOMPLISHING THE OBJECTIVES OF THESE PROGRAMS AT LOWER COSTS?
- ARE FUNDS BEING SPENT LEGALLY? IS THE ACCOUNTING SYSTEM FOR THEM ADEQUATE?

AUDITS OF PUBLIC WORKS PROGRAMS

CURRENTLY, ABOUT ONE-THIRD OF OUR WORK IS IN RESPONSE TO SPECIFIC REQUESTS FOR ASSISTANCE FROM THE CONGRESS. CONGRESSIONAL COMMITTEES AND INDIVIDUAL MEMBERS REQUEST US TO LOOK INTO A GREAT VARIETY OF FEDERAL OPERATIONS OF PARTICULAR CONCERN TO THEM.

THE MAJORITY OF OUR WORK, HOWEVER, IS PERFORMED THROUGH THE APPLICATION OF OUR DISCRETIONARY RESOURCES. WE HAVE WIDE DISCRETION AS TO THE KINDS AND MIX OF AUDITS AND EVALUATIONS WE UNDERTAKE. IN DECIDING WHAT AUDIT WORK TO PERFORM, WE EMPHASIZE FEDERAL PROGRAMS AND AGENCY OPERATIONS IN WHICH STRONG PRESENT OR POTENTIAL CONGRESSIONAL INTEREST EXISTS, PROGRAMS OR ISSUES OF GREAT NATIONAL INTEREST, AND PROGRAMS WHERE THERE ARE MAJOR OPPORTUNITIES FOR IMPROVEMENT AND DOLLAR SAVINGS. PUBLIC WORKS PROGRAMS IS AN AREA WHICH MERITS OUR CONTINUED ATTENTION.

OVER THE YEARS GAO HAS BEEN HEAVILY INVOLVED IN REVIEWING PUBLIC WORKS PROGRAMS AND ACTIVITIES AND WE HAVE ISSUED MANY

REPORTS TO THE CONGRESS AND FEDERAL AGENCIES ON PROGRAM IMPLEMENTATION, POLICIES, PROCEDURES, AND PROBLEMS. AS A RESULT OF OUR WORK WE ARE VERY MUCH AWARE OF THE PROBLEMS AND CONTROVERSIES ASSOCIATED WITH PUBLIC WORKS POLICY.

AT THE OUTSET I WANT TO POINT OUT THAT POLICIES ARE MADE AT VARIOUS LEVELS. AT THE HIGHEST LEVEL IS THE CONGRESS, FOLLOWED BY THE EXECUTIVE BRANCH, DOWN TO THE STATE AND LOCAL GOVERNMENTS. YOU COULD ARGUE THAT THE COURTS HAVE ALSO HAD A HAND IN DECIDING OR REDIRECTING POLICIES. LET US CONCENTRATE PRIMARILY ON CONGRESSIONAL AND FEDERAL AGENCIES' POLICIES AND EXAMINE SOME OF THE CRITICAL ISSUES AND CHALLENGES IN THE ENVIRONMENTAL PROTECTION, TRANSPORTATION AND WATER RESOURCES AREAS WHICH ARE FACING PUBLIC WORKS ADMINISTRATORS TODAY.

ENVIRONMENTAL PROTECTION

WHILE THERE IS NO QUESTION THAT THE NATION'S EFFORTS IN THE ENVIRONMENTAL PROTECTION AREA ARE PRODUCING SUCCESSES, CONCERNS ABOUT INFLATION AND BUDGET CONSTRAINTS HAVE RAISED QUESTIONS AS TO WHETHER MORE FLEXIBLE POLICIES COULD REDUCE COSTS AND STILL DO THE JOB.

THE WASTEWATER TREATMENT CONSTRUCTION GRANTS PROGRAM-- A MAJOR ELEMENT IN THE WATER POLLUTION CONTROL EFFORT--HAS GROWN TO BE ONE OF THE LARGEST PUBLIC WORKS PROGRAMS IN THE HISTORY OF THIS NATION. TO DATE OVER \$25 BILLION IN FEDERAL FUNDS AND SEVERAL BILLION MORE IN STATE AND LOCAL MONIES HAVE BEEN SPENT TO CONSTRUCT NEW WASTEWATER TREATMENT FACILITIES OR TO SIGNIFICANTLY MODIFY EXISTING PLANTS. THE ENVIRONMENTAL

PROTECTION AGENCY (EPA) ESTIMATES THAT THROUGH THE YEAR 2000, ANOTHER \$35.6 BILLION IN FEDERAL FUNDS WILL BE NEEDED TO CONSTRUCT ADDITIONAL TREATMENT PLANTS.

SECONDARY TREATMENT IS NOT ALWAYS NEEDED

THE FEDERAL WATER POLLUTION CONTROL ACT REQUIRES MUNICIPAL WASTEWATER TREATMENT FACILITIES TO PROVIDE AT LEAST SECONDARY TREATMENT TO ANY DISCHARGES MADE TO FRESH WATER REGARDLESS OF THE EFFECT SUCH TREATMENT WILL HAVE ON WATER QUALITY. THERE ARE SOME LOCATIONS, HOWEVER, WHERE SECONDARY TREATMENT MAY NOT BE NEEDED BECAUSE THE TREATMENT WILL ONLY MARGINALLY IMPROVE THE QUALITY OF THE RECEIVING WATER. SOME RIVERS, HOWEVER, HAVE THE CAPACITY TO ABSORB WASTEWATER DISCHARGES FROM A LOWER LEVEL OF TREATMENT. GREATER FLEXIBILITY IN THE LAW IS NEEDED TO ALLOW LESS COSTLY ALTERNATIVES AS LONG AS THE WATER QUALITY IS NOT MATERIALLY AFFECTED.

FOR EXAMPLE, TWO MUNICIPAL WASTE TREATMENT FACILITIES IN THE ST. LOUIS, MISSOURI AREA WERE PLANNED TO BE UPGRADED FROM PRIMARY TO SECONDARY TREATMENT AT AN EXPECTED FEDERAL COST OF \$163 MILLION. WE FOUND THAT SUCH TREATMENT WOULD HAVE LITTLE EFFECT ON IMPROVING THE WATER QUALITY AND, ESPECIALLY, THE USES OF THE RECEIVING WATER--THE MISSISSIPPI RIVER. TWO PRIMARY PURPOSES OF SECONDARY TREATMENT ARE TO ENHANCE OXYGEN LEVELS OF RECEIVING WATERS AND REDUCE SUSPENDED SOLIDS. IN THIS CASE, THERE WAS NO OXYGEN PROBLEM AND SECONDARY TREATMENT WOULD HAVE NO SIGNIFICANT IMPACT ON SUSPENDED SOLID CONCENTRATIONS.

THIS AND OTHER SITUATIONS SUGGEST THAT THE LAW MUST BE MORE FLEXIBLE SO THAT EACH PROPOSED SECONDARY TREATMENT FACILITY CAN BE EVALUATED ON ITS OWN MERITS. WE RECOMMENDED THAT THE CONGRESS AMEND THE LAW TO REMOVE THE MANDATORY REQUIREMENT FOR SECONDARY TREATMENT OF DISCHARGES TO FRESH WATER AND TO PERMIT THE EPA ADMINISTRATOR TO GRANT WAIVERS, DEFERRALS, OR MODIFICATIONS ON A CASE-BY-CASE BASIS WHEN DISCHARGERS CAN DEMONSTRATE THAT THE ENVIRONMENTAL IMPACT OF SECONDARY TREATMENT WILL BE MINIMAL OR INSIGNIFICANT.

I SHOULD NOTE THAT THE CLEAN WATER ACT OF 1977 ALLOWED PUBLICLY OWNED TREATMENT FACILITIES TO RECEIVE WAIVERS FOR MARINE DISCHARGES WHERE IT COULD BE SHOWN THAT COSTLY SECONDARY TREATMENT WAS NOT NECESSARY TO PROTECT THE ENVIRONMENT.

ADVANCED WASTE TREATMENT FACILITIES--

ARE THEY WORTH THE COST?

WE ARE PARTICULARLY CONCERNED WITH A TREND TOWARDS CONSTRUCTING VERY EXPENSIVE ADVANCED WASTE TREATMENT FACILITIES TO PREVENT VIOLATIONS OF WATER QUALITY STANDARDS. MANY COMMUNITIES ARE BEING REQUIRED TO PROVIDE SUCH TREATMENT EVEN THOUGH ANTICIPATED VIOLATIONS MAY BE NEITHER SIGNIFICANT OR CERTAIN AND WITHOUT REASONABLE ASSURANCES THAT THE TREATMENT WILL SIGNIFICANTLY IMPROVE WATER QUALITY. WE QUESTION WHETHER ADVANCED WASTE TREATMENT FACILITIES WHICH PROVIDE ONLY MARGINAL WATER QUALITY AND PUBLIC HEALTH IMPROVEMENTS SHOULD CONTINUE TO BE FUNDED.

SECONDARY TREATMENT PLANTS ARE GENERALLY DESIGNED TO REMOVE 85 PERCENT OF THE POLLUTANTS. REMOVAL OF THE LAST 15 PERCENT THROUGH ADVANCED WASTE TREATMENT COULD COST AT LEAST 5 TIMES AS MUCH AS THE FIRST 85 PERCENT.

OUR ANALYSIS HAS SHOWN THAT EPA WAS FINANCING SOME ADVANCED WASTE TREATMENT FACILITIES WITHOUT SUFFICIENT WATER QUALITY DATA AND WITHOUT ADEQUATELY CONSIDERING THE HIGH COSTS INVOLVED. EPA AND THE STATES NEED TO OBTAIN BETTER WATER QUALITY INFORMATION AND CONSIDER ALL WATER POLLUTION CONTROL ALTERNATIVES SO THAT TREATMENT METHODS SELECTED WOULD IMPROVE WATER QUALITY AND RESULT IN MORE EFFICIENT USE OF FEDERAL FUNDS.

EPA OFFICIALS HAVE AGREED WITH OUR POSITION ON ADVANCED WASTE TREATMENT AND STATED THAT EPA AND THE STATES HAD GIVEN INSUFFICIENT ATTENTION TO JUSTIFYING THESE FACILITIES. THE AGENCY IS NOW COMMITTED TO A MORE RIGOROUS ANALYSIS AT THE PLANNING STAGE, AND TO A MORE CAREFUL CONSIDERATION OF THE COST EFFECTIVENESS OF PARTICULAR PROJECTS AND ALTERNATIVE SOLUTIONS. WE RECOMMENDED TO THE CONGRESS IN A JULY 1980 REPORT THAT A COST/BENEFITS APPROACH TO FUNDING ADVANCED WASTE TREATMENT PROJECTS BE SERIOUSLY CONSIDERED.

BOTTLING A RAINSTORM

IF SOMEONE WERE TO ASK YOU, "WHAT IS THE MOST EXPENSIVE, SINGLE PUBLIC WORKS PROJECT EVER BUILT IN THIS COUNTRY?" YOU WOULD PROBABLY GUESS PROJECTS LIKE THE PANAMA CANAL, BOULDER DAM, OR THE ALASKA PIPELINE. IF YOU SAID THE ALASKA PIPELINE, WHICH COST \$9.2 BILLION, YOU WOULD BE CORRECT. BUT, HERE IN CHICAGO A PROJECT IS BEING BUILT TO CONTROL WATERWAY POLLUTION AND FLOODING THAT, IF COMPLETED, MAY COST MORE THAN \$12 BILLION.

THE SIZE OF THE CHICAGO PROJECT'S TUNNELS AND RESERVOIRS IS ENORMOUS. IMAGINE 131 MILES OF TUNNELS BUILT 200 TO 300 FEET UNDERGROUND WITH THREE BELOW GROUND OPEN-PIT RESERVOIRS. THIS IS THE CHICAGO TUNNEL AND RESERVOIR PROJECT (TARP) AND ITS ASSOCIATED PROJECTS OFTEN REFERRED TO AS "DEEP TUNNEL."

THE CONCEPT BEHIND THE PROJECT IS TO "BOTTLE A RAINSTORM" BY CAPTURING ALL THE RAINWATER AND HOLDING IT IN THE TUNNELS UNTIL IT CAN BE TREATED. AFTER BEING TREATED IT WILL BE RELATIVELY CLEAN, THUS ELIMINATING POLLUTION PROBLEMS. THE COMPLEX SYSTEM IS ALSO SUPPOSED TO DRAMATICALLY REDUCE FLOODING.

THE GOALS OF THE PROJECT ARE ADMIRABLE - WHO CAN OPPOSE ELIMINATING POLLUTION AND FLOODING? YET, WE MUST ASK, "ARE THE BENEFITS TO BE ACHIEVED WORTH THE COST TO ACHIEVE THEM?" SENATOR CHARLES PERCY, OF ILLINOIS, THOUGHT THIS QUESTION SHOULD BE REVIEWED MORE THOROUGHLY THAN IT HAD BEEN, AND ASKED GAO TO UNDERTAKE SUCH A STUDY. HE WAS INCREASINGLY CONCERNED WITH THE COST OF THE PROJECT AND WONDERED WHETHER THERE WERE LOWER COSTS ALTERNATIVES TO THE MASSIVE TUNNEL PROJECT.

TO US THE SOLUTION TO THE QUESTION MUST LIE WITHIN COST-EFFECTIVENESS IN ITS BROADEST SENSE. OUR NATION'S NEEDS ARE SO GREAT IN SO MANY AREAS--EDUCATION, HEALTH, ENVIRONMENT, HOUSING, TRANSPORTATION, ETC.--THAT IT IS OBVIOUS THAT MOST PROGRAMS ARE GOING TO BE FUNDED TO VARYING DEGREES. AND, THE MONEY TO SATISFY THESE NEEDS MUST COME FROM A TAXPAYER

WHO IS BECOMING MORE AND MORE RELUCTANT TO SUPPORT TAX INCREASES TO PAY FOR THE EVER BURGEONING COSTS. WE MUST, THEREFORE, USE OUR AVAILABLE FUNDS IN THE MOST COST EFFECTIVE WAY POSSIBLE. IN TARP'S CASE, ALTERNATIVE PROJECTS CAN BE MORE COST EFFECTIVE. YET, NOT ONE OF THESE ALTERNATIVES ALONE OR ALL OF THEM TOGETHER CAN PROVIDE THE DEGREE OF RELIEF THAT TARP PROMISES.

THUS, IT COMES DOWN TO THE BASIC QUESTIONS:

--CAN THE GOVERNMENT AFFORD TO SPEND \$12 BILLION ON ONE PROJECT IN ONE LOCATION?

--WHAT ARE THE POLICY IMPLICATIONS WHEN AT LEAST 15 OTHER MAJOR CITIES WHO HAVE SIMILAR PROBLEMS ALSO REQUIRE STAGGERING AMOUNTS? DOES APPROVAL OF THE CHICAGO PROJECT ESTABLISH A PRECEDENT ENTITLING OTHER CITIES TO FEDERAL AID?

--WHAT IS THE RESPONSIBILITY OF THE FEDERAL GOVERNMENT TO SUPPORT PROJECTS THAT THE LOCAL CITIZENS WILL NOT SUPPORT? (IN SOME CHICAGO SUBURBS LOCAL CITIZENS VOTED DOWN PROJECTS DESIGNED TO ELIMINATE FLOODING IN THEIR COMMUNITY.)

ANSWERS TO THESE QUESTIONS WILL ULTIMATELY DETERMINE THE FUTURE DIRECTION THE CONGRESS WILL TAKE IN DEALING WITH THE NATIONWIDE PROBLEMS CAUSED BY COMBINED SEWER OVERFLOWS.

TRANSPORTATION

THE NATION'S TRANSPORTATION NETWORK ALSO PRESENTS FORMIDABLE CHALLENGES FOR PUBLIC WORKS ADMINISTRATORS AND

OFFERS AN OPPORTUNITY FOR INFLUENCING PUBLIC POLICY DECISIONS.

DETERIORATING HIGHWAYS

AND LAGGING REVENUES

IT IS NO SECRET THAT THE NATION'S HIGHWAYS ARE DETERIORATING, PARTICULARLY THE INTERSTATE HIGHWAY SYSTEM. BILLIONS OF DOLLARS WILL BE REQUIRED TO SOLVE THE PROBLEM AND IF TIMELY ACTION IS NOT TAKEN, THE COST WILL BE MUCH GREATER.

ALTHOUGH 94 PERCENT OF THE INTERSTATE SYSTEM IS OPEN TO TRAFFIC, THE COST TO COMPLETE IT IS ESTIMATED AT \$53.8 BILLION (1979 DOLLARS) OR ABOUT 40 PERCENT OF THE ESTIMATED TOTAL COST OF THE SYSTEM. ONLY 53 PERCENT OF THE ESTIMATED COMPLETION COST IS FOR BUILDING THE 2,500 MILES NEEDED TO CLOSE GAPS IN THE SYSTEM. THE REMAINDER IS FOR ELIGIBLE IMPROVEMENTS DEFINED AS INITIAL CONSTRUCTION ON SEGMENTS ALREADY SERVING TRAFFIC. THESE IMPROVEMENTS INCLUDE FEATURES SUCH AS NOISE ABATEMENT MEASURES, FRINGE PARKING AREAS, AND PREFERENTIAL LANES FOR BUSES AND VANPOOLS.

IF THE \$53.8 BILLION ESTIMATE IS REASONABLE AND IF HIGHWAY CONSTRUCTION COSTS CONTINUE TO INCREASE AT THE AVERAGE RATE OF ABOUT 17 PERCENT ANNUALLY SINCE 1970, THE CURRENT INTERSTATE FUNDING OF ABOUT \$3.5 BILLION ANNUALLY CLEARLY WILL NOT BE SUFFICIENT TO MEET THE FEDERAL SHARE OF THE REMAINING COSTS. AN ESTIMATED AVERAGE OF \$10.4 BILLION ANNUALLY WOULD BE NEEDED TO COMPLETE THE SYSTEM IN 10 YEARS, ASSUMING NO ADDITIONS AND AN ANNUAL INFLATION RATE OF 17 PERCENT.

CONSIDERING THE MAGNITUDE OF THE COMPLETION NEEDS AND THE ADDITIONAL NEED FOR PRESERVATION WORK, THE GOAL OF COMPLETION, AS NOW DEFINED, MAY NOT BE PRACTICAL.

THE CUMULATIVE EFFECTS OF INCREASING NEEDS FOR HIGHWAY PRESERVATION, INCREASED COSTS OF INTERSTATE COMPLETION, THE INFLATIONARY TRENDS IN HIGHWAY CONSTRUCTION AND MAINTENANCE, AND LAGGING REVENUES NECESSITATES A REASSESSMENT OF THE FEDERAL-AID HIGHWAY PROGRAM TO MEET THE CHALLENGE OF THE 1980S. SUCH A REASSESSMENT SHOULD CONSIDER:

- PRIORITY FUNDING FOR THE PRESERVATION OF EXISTING ROADS.
- CLEARLY ESTABLISHING RESPONSIBILITY FOR PRESERVING EXISTING ROADS AND THE EXTENT OF THIS RESPONSIBILITY. MECHANISMS SHOULD BE ESTABLISHED TO ASSURE THESE RESPONSIBILITIES ARE CARRIED OUT.
- ASSESSING THE GOAL OF COMPLETING THE INTERSTATE AS COMPLETION IS NOW DEFINED, POSSIBLY GIVING PRIORITY TO FUNDING ESSENTIAL GAPS.
- EFFORTS BY STATES TO INCREASE HIGHWAY REVENUES AND TO PRESERVE HIGHWAYS.
- REVISING THE FEDERAL MOTOR FUEL TAX TO A BASIS THAT WOULD BE MORE RESPONSIVE TO THE INFLATIONARY TRENDS IN HIGHWAY COSTS.

PEOPLE MOVER PROJECTS NEED
BETTER JUSTIFICATION

AMONG THE PROBLEMS FACING MAJOR CITIES ARE INCREASING TRANSIT OPERATING DEFICITS, TRAFFIC CONGESTION, AND

ASSOCIATED AIR POLLUTION. THE URBAN MASS TRANSPORTATION ADMINISTRATION (UMTA) BELIEVES THAT DOWNTOWN AUTOMATED PEOPLE MOVERS--DRIVERLESS VEHICLES OPERATING ON FIXED GUIDEWAYS--CAN HELP SOLVE THESE PROBLEMS.

IN AUGUST 1980 WE COMPLETED AN EVALUATION WHICH SHOWED THAT UMTA NEEDS TO JUSTIFY WHY EACH PLANNED PEOPLE MOVER DEMONSTRATION PROJECT IS NEEDED TO ACHIEVE DOWNTOWN PEOPLE MOVER PROGRAM OBJECTIVES. THE PROGRAM INCLUDES NINE PROJECTS WITH A POTENTIAL COST TO THE FEDERAL GOVERNMENT OF ABOUT \$675 MILLION.

UMTA BELIEVES THAT MULTIPLE PROJECTS ARE NECESSARY TO (1) ASSURE THAT AT LEAST ONE PROJECT IS IMPLEMENTED, (2) TEST DIFFERENT TECHNOLOGIES, (3) MINIMIZE THE RISK OF FAILURE TO MEET PROJECT EXPECTATIONS, AND (4) REFLECT LOCAL DIFFERENCES SUCH AS CLIMATE AND ECONOMIC CONDITIONS WHICH MIGHT AFFECT PROJECT RESULTS.

WE CONCLUDED THAT THESE ARGUMENTS DO NOT JUSTIFY THE HUGE FEDERAL INVESTMENT IN NINE PEOPLE MOVER PROJECTS. AN UMTA OFFICIAL ACKNOWLEDGED THAT PERHAPS THREE TO FIVE PROJECTS WOULD BE ENOUGH TO SHOW FUNDAMENTAL DIFFERENCES.

WATER RESOURCES

AS THE NATION FOCUSES ON ITS ABILITY TO SUPPLY WATER INTO THE 21ST CENTURY, THE ADEQUACY OF DRINKING WATER DISTRIBUTION SYSTEMS IN OUR OLDER CITIES IS RECEIVING INCREASED ATTENTION. LONG-STANDING FEDERAL POLICY HAS RECOGNIZED THAT SUPPLYING AND DISTRIBUTING DRINKING WATER FOR MUNICIPAL AND INDUSTRIAL USE IS THE PREROGATIVE AND RESPONSIBILITY OF STATE AND LOCAL GOVERNMENTS.

IN A NOVEMBER 1980 REPORT WE NOTED THAT MANY FEDERAL, STATE, AND LOCAL OFFICIALS ARE PROPOSING TO MODIFY THIS FEDERAL POLICY TO PROVIDE SUBSTANTIAL FEDERAL AID TO HELP LARGE CITIES REHABILITATE AND IMPROVE THEIR WATER SUPPLY AND DISTRIBUTION SYSTEMS. BILLIONS OF DOLLARS WOULD HAVE TO BE ADDED TO THE FEDERAL BUDGET.

TWO WATER INDUSTRY TRADE ASSOCIATIONS GENERALLY OPPOSE SUCH AID AND BELIEVE THAT WATER SYSTEMS SHOULD BE FINANCIALLY SELF-SUSTAINING ENTITIES SUPPORTED FROM CHARGES TO CUSTOMERS. OUR EVALUATION FOUND NOTHING TO LEAD US TO CONCLUDE OTHERWISE. MOST URBAN WATER SYSTEMS ARE FINANCIALLY SELF-SUPPORTING FROM CONSUMER PAYMENTS AND RECEIVE LITTLE OR NO AID FROM MUNICIPAL GOVERNMENT OR OTHER SOURCES.

WE CONCLUDED THAT THE CASE FOR MORE FEDERAL AID FOR URBAN WATER DISTRIBUTION SYSTEMS IS NOT CONVINCING, AND LEGISLATION TO ALTER FEDERAL POLICY TO PROVIDE SUCH AID SHOULD NOT BE ENACTED UNTIL THE NEEDS ARE CLEARLY ESTABLISHED.

WHAT LIES AHEAD IN
PUBLIC WORKS POLICY

THE 1980S PROMISE SIGNIFICANT CHALLENGES FOR PUBLIC WORKS ADMINISTRATORS AND OFFER MAJOR OPPORTUNITIES FOR PARTICIPATING IN PUBLIC POLICY FORMULATION. LET US BRIEFLY EXPLORE SOME OF THE EMERGING FEDERAL INITIATIVES WHICH SHOULD BE CAREFULLY SCRUTINIZED FOR THEIR IMPACT ON STATE AND LOCAL PROGRAM ADMINISTRATORS.

WASTEWATER TREATMENT PLANT CONSTRUCTION

THE WASTEWATER TREATMENT CONSTRUCTION GRANT PROGRAM WILL BE EXAMINED CLOSELY THIS YEAR DURING THE REAUTHORIZATION PROCESS. THERE MAY BE PROPOSALS TO REDUCE GRANT FUNDING AS PART OF EFFORTS TO CUT THE FEDERAL BUDGET. OTHER PROPOSED CHANGES WOULD (1) CREATE A BLOCK GRANT PROGRAM ALLOWING STATES TO DECIDE HOW TO SPEND THEIR ALLOCATIONS, (2) ESTABLISH A SEPARATE GRANT PROGRAM FOR LARGE CITIES, OR (3) ESTABLISH A LOAN OR LOAN GUARANTEE PROGRAM.

DRINKING WATER TREATMENT

THE SAFE DRINKING WATER ACT WILL FACE A MAJOR ASSAULT WHEN IT COMES UP FOR RENEWAL IN THE CONGRESS IN 1982. CRITICS WILL PROPOSE EASING THE STANDARDS TO REDUCE THE COST TO COMMUNITIES OF CONSTRUCTING WATER TREATMENT FACILITIES. IN THE PAST THERE HAVE ALSO BEEN PROPOSALS TO ESTABLISH A GRANT PROGRAM FOR CONSTRUCTION OF SUCH FACILITIES.

TRANSPORTATION AID

SOME POLICY MAKERS HAVE DEVELOPED PROPOSALS TO SUBSTANTIALLY REDUCE GOVERNMENT SPENDING FOR AND REGULATION OF THE NATION'S TRANSPORTATION NETWORK. THESE PROPOSALS SUGGEST THAT MASS-TRANSIT SPENDING SHOULD BE CUT AND MORE EMPHASIS PUT ON PRIVATE FORMS OF TRANSPORTATION SUCH AS RIDESHARING, AND THAT UNCOMPLETED AND CONTROVERSIAL SEGMENTS OF THE INTERSTATE HIGHWAY SYSTEM SHOULD BE QUICKLY DROPPED.

CONCLUSIONS

IN CLOSING, LET ME EMPHASIZE THAT PUBLIC WORKS ADMINISTRATORS WILL ENCOUNTER SIGNIFICANT CHALLENGES IN THE 1980S. TRADITIONALLY SACRED POLICIES WILL COME UNDER ATTACK. PUBLIC

WORKS PROGRAMS, BECAUSE OF THEIR SHEER MAGNITUDE AND HIGH VISIBILITY, WILL COME UNDER INCREASING SCRUTINY. INCREASING CONCERN OVER INFLATION AND EXISTING BUDGET AND CREDIT CONSTRAINTS, WILL GIVE RISE TO MORE SERIOUS EXAMINATION AS TO HOW LIMITED FEDERAL, STATE, AND LOCAL FUNDS CAN BE USED IN THE MOST COST EFFECTIVE WAY. IN THE VERNACULAR, "WE MUST GET MORE BANG FOR THE BUCK."

OVER THE NEXT SEVERAL MONTHS, STATE AND LOCAL PUBLIC WORKS OFFICIALS WILL WANT TO SEIZE THE OPPORTUNITY TO MAKE THEIR CASE BEFORE THE NEW ADMINISTRATION AND THE NEW CONGRESS. YOU WILL BE IN A CONTEST, MATCHING YOUR NEEDS WITH SOCIAL, DEFENSE AND OTHER PROGRAMS AS MAJOR PUBLIC POLICIES ARE FORMULATED, REVISED, OR DISCARDED. IT IS ESPECIALLY IMPORTANT FOR YOU TO MARSHALL THE FACTS AND PROVIDE THE BEST POSSIBLE ANALYSIS IN SUPPORT OF YOUR VIEWS, IF THE PROGRAMS AND PROJECTS YOU CONSIDER VITAL TO THE STATES, MUNICIPALITIES, AND THE GENERAL PUBLIC ARE TO SURVIVE.

THE GENERAL ACCOUNTING OFFICE WILL CONTINUE TO ANALYZE POLICIES AND EVALUATE THE EFFECTIVENESS OF THE NATION'S PUBLIC WORKS PROGRAMS. MORE IMPORTANTLY WE WILL ATTEMPT TO IDENTIFY ALTERNATIVE, LESS COSTLY APPROACHES TO MEETING PROGRAM OBJECTIVES.

IN THIS EFFORT WE WOULD WELCOME YOUR ASSOCIATION'S VIEWS AND WE LOOK FORWARD TO HEARING FROM YOU.

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ADDRESS TO THE
THIRD ANNUAL
GOVERNMENT CASH MANAGERS CONFERENCE

BY



JOHN J. CRONIN, JR.
SENIOR GROUP DIRECTOR
U.S. GENERAL ACCOUNTING OFFICE

[ACCOUNTABILITY FOR CASH MANAGEMENT
IN GOVERNMENT]

WHEN MARSHALL SOKOL ASKED ME TO SPEAK AGAIN THIS YEAR AND SUGGESTED THE TOPIC OF ACCOUNTABILITY FOR CASH MANAGEMENT, I THOUGHT IT WOULD BE A RELATIVELY EASY TOPIC TO TALK ABOUT SINCE MY STAFF AND I AT THE GAO HAVE BEEN VERY HEAVILY INVOLVED IN NUMEROUS CASH MANAGEMENT REVIEWS IN A NUMBER OF CIVIL AGENCIES IN RECENT YEARS. WHEN I STARTED TO PUT MY TALK TOGETHER, I CAME TO THE REALIZATION THAT ACCOUNTABILITY WAS A BIGGER AND TOUGHER TO SOLVE PROBLEM THAN ALL THE TECHNICAL PROBLEMS THAT CASH MANAGERS HAVE BEEN TALKING ABOUT FOR YEARS, LIKE LETTERS-OF-CREDIT, DELAYED DRAW DOWNS, COMPENSATING BALANCES, INTEREST RATES, SERVICE CHARGES, ETC.

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BEFORE I GET INTO A DISCUSSION OF ACCOUNTABILITY ITSELF, I WOULD LIKE TO PLAY THE ROLE OF A TEACHER FOR A MOMENT AND GO OVER SOME OF MY PRIOR LECTURES TO SEE IF YOU DID YOUR HOMEWORK. SO, I WOULD LIKE TO SEE A SHOW OF HANDS OF HOW MANY HAVE ATTENDED THE FIRST OR SECOND GOVERNMENT CASH MANAGERS CONFERENCES. THOSE OF YOU WHO HEARD MY TALK 2 YEARS AGO, HEARD ME TALK ABOUT THE NEGOTIABLE ORDER OF WITHDRAWAL ACCOUNTS BEING MADE POPULAR IN THE NEW ENGLAND STATES. I ASKED HOW GOOD A CASH MANAGER EACH OF YOU WAS, AND WE REVIEWED THE FOLLOWING EXAMPLE OF ONE OF OUR STAFF'S CHECKING ACCOUNTS SHOWING THE OPPORTUNITY FOR INTEREST INCOME. WHILE SUCH ACCOUNTS MAY HAVE BEEN DIFFICULT TO FIND DURING THE PAST 2 YEARS, LAST MONTH THEY BECAME A REALITY IN MOST BANKING INSTITUTIONS. LET ME SEE HOW MANY OF YOU REALLY DID YOUR HOMEWORK AND RAISE YOUR HANDS IF YOU HAVE NOW ACCOUNTS. OF COURSE, IF YOU ARE STILL LOOKING FOR ONE, MANY OF THE SAME CASH MANAGEMENT PROBLEMS WE HAVE TALKED ABOUT BEFORE, SUCH AS INTEREST RATES, SERVICE CHARGES, AND COMPENSATING BALANCES ALSO BECOME AN ISSUE HERE. IN FACT, IF ANYONE IS INTERESTED, AFTER MY TALK I CAN GIVE YOU THE NAME OF A BANK IN MARYLAND AND ONE IN VIRGINIA THAT SEEM TO HAVE THE BEST DEAL, AND A WELL KNOWN BANK IN WASHINGTON THAT HAS THE WORST DEAL.

BUT NOW LET'S MOVE ON TO THE QUESTION OF ACCOUNTABILITY FOR CASH MANAGEMENT--OR THE LACK OF ACCOUNTABILITY AS I SEE IT.

BACK IN 1972, BEFORE TRANSFERRING INTO MY PRESENT RESPONSIBILITY AREA, I HEADED UP A SPECIAL TASK FORCE ESTABLISHED BY THE COMPTROLLER GENERAL TO IDENTIFY PROBLEMS WITH OVERLAPPING AND DUPLICATION OF FEDERAL GRANTS-IN-AID PROGRAMS. THE REPORTS THAT WE ISSUED AND PROBLEMS THAT WE IDENTIFIED WERE OF A PROGRAMMATIC NATURE. AN EFFECTIVE CASH MANAGEMENT SYSTEM WAS NOT ONE OF THE OBJECTIVES OF THE TASK FORCE. WE CONDUCTED OUR STUDY IN THE DISTRICT OF COLUMBIA AND WHAT WE FOUND WAS A NIGHTMARE OF OVERLAPPING AND DUPLICATION. ALTHOUGH SOME OF THE PROGRAMS AND ORGANIZATIONS HAVE CHANGED SINCE 1972, LET ME SHARE WITH YOU THE SITUATION AS WE FOUND IT THEN. AS THIS NIGHTMARE UNFOLDS, I WOULD LIKE EACH OF YOU TO THINK IN TERMS OF CASH MANAGEMENT APPLICATIONS AND WHO SHOULD BE RESPONSIBLE FOR REVIEWING THE DISBURSEMENT RATE AND COLLECTING ANY EXCESSIVE GRANT FUNDS REMAINING.

THE GENERAL SUBJECT MATTER OF ONE OF OUR REPORTS WAS MANPOWER TRAINING SERVICES FOR THE DISADVANTAGED. I WANT TO GO THROUGH, IN A VERY GENERAL WAY, THE FEDERAL AGENCIES, FEDERAL PROGRAMS, LOCAL RECIPIENTS, AND LOCAL CONTRACTORS THAT ARE INVOLVED. IT IS THE NUMBER THAT IS SIGNIFICANT HERE AND NOT THE LABEL. WHAT YOU SEE ON THE FIRST SLIDE IS THE SITUATION AS IT EXISTED PRE-1960. WHEN WE MOVED INTO THE SOCIAL PROGRAMS OF THE 60'S, SEVERAL EDUCATION AND LABOR PROGRAMS CAME INTO BEING. NEXT, SOME OF THE EARLY ECONOMIC OPPORTUNITY PROGRAMS CAME INTO BEING, AND MORE FEDERAL

PROGRAMS, MORE ADMINISTERING AGENCIES AND CONTRACTORS WERE CREATED. THEN ADDITIONAL ECONOMIC PROGRAMS AUTHORIZED BY THE ECONOMIC OPPORTUNITY ACT BECAME OPERATIONAL. FINALLY, IN THE LATE 60'S, ADDITIONAL PROGRAMS WERE IMPLEMENTED UNDER THE ECONOMIC OPPORTUNITY AREA AS WELL AS HUD'S MODEL CITIES PROGRAM AND HERE IS THE FINAL RESULT.

WE HAVE 18 INDEPENDENT OPERATORS DOING BASICALLY THE SAME THING. OF THE 18 OPERATORS, SIX RECEIVE THEIR MONEY FROM A SINGLE SOURCE; 1 RECEIVES MONEY FROM TWO SOURCES; SIX FROM THREE SOURCES; FOUR FROM FOUR SOURCES; AND 1 FROM 6 SOURCES--LEAVING US WITH A BIT OF AN ACCOUNTABILITY NIGHTMARE. THAT IS THE PROBLEM WE FOUND IN THE DISTRICT OF COLUMBIA. WE DID OTHER FUNCTIONAL STUDIES IN THE AREAS OF CHILD CARE AND HEALTH SERVICES AND FOUND MANY OF THE SAME PROBLEMS. SOME OF THESE STUDIES WERE DONE IN OTHER CITIES AND, AGAIN, SIMILAR PROBLEMS WERE FOUND. CONVERTING THIS CHART INTO A SINGLE FEDERAL DEPARTMENT WITH A LARGE NUMBER OF DIVERSE PROGRAMS WOULD PRESENT A SOMEWHAT SIMILAR PROBLEM.

LET'S TAKE A LOOK AT A PORTION OF THE ORGANIZATION OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES AND SOME OF THE KEY COMPONENTS THAT HAVE THE CONTROL OF BILLIONS OF FEDERAL DOLLARS. ON THE ACCOUNTING SIDE OF THE LEDGER, THERE IS THE ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET. ON THE PROGRAM SIDE, 3 MAJOR AGENCIES--THE OFFICE OF HUMAN DEVELOPMENT SERVICES, THE PUBLIC HEALTH SERVICE, AND THE HEALTH CARE FINANCING

ADMINISTRATION, SO AS NOT TO BE LIMITED TO ONE DEPARTMENT, LET'S ALSO TAKE A LOOK AT A PORTION OF THE DEPARTMENT OF EDUCATION. ON THE ACCOUNTING SIDE OF THE LEDGER IS THE ASSISTANT SECRETARY FOR MANAGEMENT, ON THE PROGRAM SIDE OF THE LEDGER ARE 5 ASSISTANT SECRETARIES FOR ELEMENTARY AND SECONDARY EDUCATION, POST SECONDARY EDUCATION, EDUCATIONAL RESEARCH AND IMPROVEMENT, VOCATIONAL AND ADULT EDUCATION, AND SPECIAL EDUCATION. BOTH OF THESE DEPARTMENTS, AS WELL AS MANY OTHERS, HAVE SERIOUS PROBLEMS IN IDENTIFYING RESPONSIBILITY FOR CASH MANAGEMENT ISSUES. ABOUT A YEAR AGO, WE ISSUED A REPORT ON THE PREDECESSOR AGENCY, THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE STATING THAT IMPROVEMENTS WERE NEEDED IN CONTROLLING BILLIONS OF DOLLARS IN CASH ADVANCES MADE THROUGH THEIR CENTRAL SYSTEM CALLED DFAFS. WE ESTIMATED THAT \$249 MILLION IN EXCESS FEDERAL FUNDS WERE BEING HELD BY RECIPIENTS OF MONEY DISBURSED BY DFAFS.

ALTHOUGH DFAFS WAS ESTABLISHED PARTIALLY TO IMPROVE HEW'S MANAGEMENT OF CASH ADVANCES, THE SYSTEM HAS BEEN USED ONLY TO MAKE ADVANCES, RECOVER EXCESSES FROM PREMATURE WITHDRAWALS, AND ACCUMULATE ACCOUNTING DATA. OTHER HEW COMPONENTS PERFORMED KEY CASH MANAGEMENT FUNCTIONS, SUCH AS CLOSING AGREEMENTS AND RECOVERING CASH EXCESSES. SOMETIMES SPLITTING RESPONSIBILITIES IS INEFFICIENT, AND IN THIS CASE, HEW EMPLOYEES FAILED TO PERFORM MANY OF THEIR CASH MANAGEMENT FUNCTIONS BECAUSE OF AN APPARENT CONFUSION OVER THE SPLIT RESPONSIBILITIES.

AT THE TIME OF OUR REVIEW, DFAFS EMPLOYEES WORKED PRIMARILY AS FISCAL AGENTS, OR INTERMEDIARIES, BETWEEN HEW AGENCIES AND RECIPIENT ORGANIZATIONS; THEY PROCESSED REQUESTS FOR CASH ADVANCES, HAD CHECKS ISSUED, AND GENERATED ACCOUNTING DATA ON THE 3 AREAS OF DFAFS' CONCERN IN MANAGING CASH ADVANCES-- RECIPIENTS' AUTHORIZED FUNDING, CASH ADVANCES, AND DISBURSEMENTS.

THE DFAFS USER GUIDE SAID THAT DFAFS AND THE DEPARTMENT'S AGENCIES WERE RESPONSIBLE FOR CASH MANAGEMENT. FOR EXAMPLE, THE GUIDE SAID DFAFS WAS RESPONSIBLE FOR RECOVERING EXCESS CASH FROM PREMATURE ADVANCES AND DEPOSITING IT IN DFAFS ACCOUNTS. BUT IT SAID AGENCIES WERE RESPONSIBLE FOR CLOSING GRANT AGREEMENTS AND DETERMINING HOW MUCH SHOULD BE RETURNED TO DFAFS. THIS DIVISION OF CASH MANAGEMENT CREATED SERIOUS PROBLEMS IN CLOSING GRANTS OR LOANS. IN ONE CASE, DFAFS DROPPED ABOUT 35,000 OFFICE OF EDUCATION LOANS AND GRANTS FROM DFAFS RECORDS AND FORWARDED INFORMATION ON THEM TO THE OFFICE OF EDUCATION. DFAFS SAID IT DID THIS TO RECONCILE ITS RECORDS WITH RECIPIENTS' RECORDS. OFFICE OF EDUCATION OFFICIALS SAID SOME OF THE LOANS AND GRANTS SHOULD NOT HAVE BEEN DROPPED BUT THAT THEY HAD NO PLANS TO DETERMINE WHICH ONES.

AS OF MARCH 31, 1978, AN HEW REPORT SHOWED ABOUT 52,400 INACTIVE GRANTS OR LOANS WHICH SHOULD HAVE BEEN CLOSED. INCLUDED WERE LOANS OR GRANTS MADE BY THE OFFICE OF EDUCATION (35,700); THE HEALTH RESEARCH ADMINISTRATION (9,100); THE

ALCOHOL, DRUG ABUSE, AND MENTAL HEALTH ADMINISTRATION (2,000); REGIONAL OFFICES (ABOUT 3,900); AND OTHER OFFICES (1,700). HEW OFFICIALS SAID THEY BEGAN A DEPARTMENT-WIDE EFFORT TO DO THIS.

THE DIVISION OF RESPONSIBILITY ALSO CREATED DIFFICULTIES IN HANDLING CONDITIONS SUCH AS HIGH ERROR RATES IN ACCOUNTING DATA IN THE SYSTEM, UNRECONCILED DIFFERENCES IN THE SYSTEM'S AND RECIPIENTS' ACCOUNTS, AND DELAYS IN CORRECTING IDENTIFIED ERRORS. ALSO, DFAFS' RECORDS SHOWED THAT THE EXPENDITURES OF ADVANCES EXCEEDED AUTHORIZATIONS BY ABOUT \$822 MILLION FOR ABOUT 16,000 GRANTS.

WHEN WE TALKED TO SOME PEOPLE ABOUT CLOSING OUT THESE GRANTS, THE QUESTION WAS, IF THERE WAS MONEY LEFT, WHICH PROGRAM AND WHICH AGENCY DID IT BELONG TO? WE WERE TOLD THE AGENCY USED THE WELL KNOWN INVENTORY TECHNIQUE-- FIRST IN, FIRST OUT, OR FIFO. THAT MAY BE FINE FOR INVENTORIES, BUT IS IT REALLY APPROPRIATE FOR CASH MANAGEMENT?

WHEN AN EARLY GRANT IN A PARTICULAR YEAR MIGHT ACCOUNT FOR TWO-THIRDS OF THE FEDERAL FUNDING, AND A LATER GRANT PROVIDES 5 OR 10 PERCENT, SHOULD THE LATER GRANTOR AGENCY BE RESPONSIBLE FOR CLOSING OUT THE GRANT? I THINK NOT.

LET'S CHANGE THE SUBJECT FOR A MOMENT AND TALK ABOUT AN ORGANIZATIONAL STRUCTURE EVEN LESS COMPLEX, THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT -- AND DON'T WORRY, IF YOU ARE FROM AGENCIES AND DEPARTMENTS I HAVEN'T GOTTEN TO YET, JUST GIVE ME TIME, I HAVE A LOT OF MATERIAL. HUD HAS 2 PARTICULAR OFFICES WITH FREQUENT JURISDICTIONAL OVERLAPPING, THESE ARE THE ASSISTANT SECRETARY FOR ADMINISTRATION AND THE ASSISTANT SECRETARY FOR HOUSING.

WE UNCOVERED BOTH ACCOUNTING AND CASH MANAGEMENT PROBLEMS, PARTICULARLY IN THE COLLECTION OF MORTGAGES IN CASES WHERE HUD ACTS AS THE MORTGAGEE THAT PARTIALLY RESULTED FROM SUCH OVERLAPPING. ABOUT A YEAR AGO, WE TESTIFIED BEFORE SENATOR PROXMIRE ON PROBLEMS WITH HUD'S MULTIFAMILY MORTGAGE PROGRAM. THESE ARE CASES WHERE HUD HAS BECOME THE MORTGAGEE AND IS RESPONSIBLE FOR COLLECTING THE MORTGAGE. SINCE ALL OF THESE CASES ARISE FROM DEFAULTED MORTGAGES, HUD OFTEN REDUCES MORTGAGE PAYMENTS TO HELP THE MORTGAGOR GET BACK ON HIS FEET. THE ACCOUNTING AND BILLING SYSTEM IS UNDER THE ASSISTANT SECRETARY FOR ADMINISTRATION. THE DAY-TO-DAY COLLECTION AND SERVICING EFFORTS ARE THE RESPONSIBILITY OF HUD FIELD OFFICES WHICH ARE UNDER THE SUPERVISION OF HUD'S ASSISTANT SECRETARY FOR HOUSING.

ON THE PROGRAM SIDE, ACCOUNTING AND SERVICING DOES NOT APPEAR TO BE HIGH ON THE PRIORITY LIST AND, ON OCCASIONS, THE PROGRAM PEOPLE HAVE DIFFICULTY IN COMMUNICATING WITH THE ACCOUNTING PEOPLE. LET ME GIVE YOU AN EXAMPLE FROM OUR TESTIMONY.

WE FOUND A VERY LARGE PROJECT IN A MAJOR CITY WHICH HAD BEEN IN DEFAULT FOR OVER 5 YEARS WITHOUT A SINGLE PAYMENT BEING MADE ON THE MORTGAGE; IN FACT, HUD HAD EVEN ADVANCED MONEY FOR INSURANCE AND TAXES WHICH, I MIGHT ADD, ON THE ACCRUAL BASIS OF ACCOUNTING, BECAME TAX DEDUCTIONS FOR THE MORTGAGOR. THE AUDITED FINANCIAL STATEMENTS SUBMITTED TO THE LOCAL HUD OFFICE EVERY YEAR FOR THE 5 YEARS CLEARLY SHOWED THE PROJECTS GENERATED SUFFICIENT CASH TO PAY THE MORTGAGES. IN FACT, THEY ALSO VERY CLEARLY SHOWED THE OWNERS TOOK THE CASH IN THE FORM OF WITHDRAWALS AND INTEREST-FREE LOANS. OVER A 5-YEAR PERIOD, THE OWNERS DIVERTED OVER \$3 MILLION.

THE LOCAL HUD EMPLOYEES SAID THE FINANCIAL STATEMENTS WERE NOT REVIEWED FOR 2 REASONS: (1) SHORTAGE OF PEOPLE AND (2) SHORTAGE OF TRAINED ACCOUNTANTS. CLEARLY, SOMETHING NEEDS TO BE DONE.

VERY SHORTLY, WE WILL BE TESTIFYING ON THE DEBT COLLECTION ACT OF 1981. ONE OF OUR EXAMPLES, AGAIN, INVOLVES HUD. IN A SINGLE YEAR, HUD WROTE-OFF \$24 MILLION IN ITS TITLE I HOME IMPROVEMENT LOAN PROGRAM. THESE WRITE-OFFS OCCURRED FOR TWO MAIN REASONS. FIRST, BECAUSE HUD AND THE PARTICIPATING LENDERS DROPPED THE BALL IN APPROVING AND DISBURSING LOANS TO INDIVIDUALS WHO WERE IN DEFAULT ON OTHER LOANS BECAUSE THERE WAS NO MECHANISM FOR CHECKING, ..SECOND, AND MORE IMPORTANTLY FROM A CASH MANAGEMENT VIEWPOINT, LITTLE IF ANY COLLECTION

EFFORTS WERE BEING TAKEN BY HUD FIELD OFFICES, I LOOKED AT SEVERAL CASES IN DEFAULT FOR 6 TO 10 YEARS, WITH ONLY 2 OR 3 COLLECTION EFFORTS BEING MADE AND THEN AT WIDELY SCATTERED INTERVALS.

SINCE I JUST MENTIONED DEBT COLLECTION, I DON'T THINK THIS TOPIC CAN BE DISCUSSED WITHOUT MENTIONING THE JUSTICE DEPARTMENT. HERE, TOO, THE ACCOUNTABILITY PROBLEM SURFACES. AGENCIES FORWARD THEIR UNCOLLECTIBLE DEBTS TO THE JUSTICE DEPARTMENT IN WASHINGTON, AFTER FIRST RECEIVING THEM FROM THEIR PARTICULAR FIELD OFFICES; THE JUSTICE DEPARTMENT THEN FORWARDS THE CASES BACK TO THE LOCAL U.S. ATTORNEYS IN THE CITIES WHERE THE CASES ORIGINATED. WE FOUND THAT, AGAIN, DEBT COLLECTION IS NOT HIGH ON THE PRIORITY LIST. IN OUR VIEW, MORE AGGRESSIVE ACTIONS CAN BE TAKEN TO AVOID THE STAGGERING LOSSES FEDERAL AGENCIES HAVE IN WRITE-OFFS OF UNCOLLECTIBLES. IF WE COULD ONLY GET THESE AGENCIES TALKING A LITTLE MORE, SIMPLE AGREEMENTS BETWEEN AGENCIES LIKE JUSTICE AND HUD TO ALLOW VARYING DEGREES OF LOCAL LITIGATION TO BE UNDERTAKEN BY THE AGENCY INVOLVED COULD SAVE MILLIONS.

LAST YEAR, HUD WROTE-OFF \$24 MILLION IN ITS TITLE I HOME IMPROVEMENT LOAN PROGRAM. MOST OF THESE LOANS ARE SIGNATURE LOANS AND OFTEN THE BORROWER DEFAULTS, SUBSEQUENTLY SELLS HIS HOUSE, AND SPLITS. IF LOCAL HUD OFFICES HAD THE AUTHORITY TO FILE LIENS ON THE PROPERTY, MILLIONS COULD BE COLLECTED BECAUSE CLEAR TITLE COULD NOT BE PASSED WITHOUT SATISFYING THE DEBT.

NOW I WOULD LIKE TO MOVE OVER TO THE DEFENSE DEPARTMENT FOR A MOMENT TO POINT OUT HOW ACCOUNTABILITY PROBLEMS OCCUR THERE ALSO. WE ARE CURRENTLY LOOKING AT THE ARMY'S FOREIGN MILITARY SALES PROGRAM WHICH LAST YEAR HANDLED SOME \$5.4 BILLION IN SALES--HERE AGAIN THE PROGRAM AND ACCOUNTABILITY RESPONSIBILITY IS SPLIT BETWEEN 2 COMMANDS, ONE WHICH ENTERS INTO THE CONTRACTS AND SHIPS THE MATERIAL, AND THE OTHER IN THE MIDWEST WHICH IS RESPONSIBLE FOR CENTRALIZED ACCOUNTING, BILLING, AND COLLECTION. QUITE OFTEN, BILLINGS ARE NOT SENT OUT OR ARE SENT OUT LATE RESULTING IN NOT ONLY LOSSES OF THE AMOUNTS DUE FOR THE ITEMS THEMSELVES BUT LOST INTEREST AS WELL THROUGH DELAYS IN BILLING -- JUST ANOTHER EXAMPLE IN A NEED TO PINPOINT ACCOUNTABILITY.

NO TALK ON CASH MANAGEMENT WOULD BE COMPLETE WITHOUT MENTIONING THE GOVERNMENT'S PRINCIPAL AGENCY FOR HANDLING RECEIPTS AND DISBURSEMENTS--THE TREASURY DEPARTMENT. ALTHOUGH THEIR CASH MANAGEMENT PERFORMANCE IN RECENT YEARS HAS SAVED THE GOVERNMENT MILLIONS, THEY OFTEN HAVE ACCOUNTABILITY PROBLEMS. LET'S TAKE DUPLICATE CHECKS.

PERIODICALLY, CHECKS ARE LOST AND SUBSTITUTES ARE ISSUED. ALTHOUGH PRECAUTIONS ARE TO BE TAKEN SO THAT ONLY ONE CHECK IS CASHED, OFTEN BOTH CHECKS ARE CASHED. WE FOUND THAT RECENTLY THIS HAPPENED TO THE TUNE OF \$70 MILLION IN RECEIVABLES. WE ARE SEEKING TO CLARIFY THE APPLICABLE LAWS

AND HAVE REGULATIONS ISSUED THAT WILL REQUIRE THE AGENCIES WHO PROCESS THE INITIAL TRANSACTIONS TO BE RESPONSIBLE FOR THE COLLECTION OF THE DUPLICATE PAYMENT. AGAIN, WHEN ONE OR MORE AGENCIES ARE INVOLVED THE QUESTION IS--WHO CARRIES THE BALL?

IT LOOKS TO US IN THE GAO AS IF THERE AREN'T TOO MANY PEOPLE CRACKING THE WHIP FOR GOOD CASH MANAGEMENT. WHAT ARE THE SOLUTIONS? OR ARE THERE ANY SOLUTIONS?

LAST YEAR, DR. JOAN WALLACE, ASSISTANT SECRETARY FOR ADMINISTRATION AT AGRICULTURE GAVE A VERY ELOQUENT TALK ON THE POSITIVE SIDE OF INCENTIVES FOR GOOD CASH MANAGEMENT. SINCE AUDITORS ARE OFTEN CONSIDERED NEGATIVE TYPES OF INDIVIDUALS, AND I PROBABLY FALL INTO THAT CATEGORY, I WOULD LIKE TO SEE THE PROBLEM APPROACHED BY PUTTING A FEW PEOPLE'S FEET TO THE FIRE.

IN THE CASES OF MULTIPLE GRANT RECIPIENTS, THE SINGLE AUDIT CONCEPT NEEDS TO BE STRESSED, THAT IS ONE AUDIT FOR ALL LIKE PROGRAMS OF THE RECIPIENT. WHEN FINDINGS ARE IDENTIFIED INCLUDING CASH MANAGEMENT PROBLEMS, THE GRANTOR AGENCY WITH THE LARGEST AMOUNT OF FUNDING SHOULD BE AUTOMATICALLY RESPONSIBLE FOR COLLECTION AND RESOLUTION OF MONIES DUE. ONE OF THE BASES OF THE SENIOR EXECUTIVE SERVICE WAS TO ESTABLISH PERFORMANCE MEASURES FOR OUR SENIOR EXECUTIVES. ALTHOUGH NOT AN OFFICIAL POSITION OF THE GAO, I THINK THIS IS EXTREMELY IMPORTANT IN THE COLLECTION AREA. WHERE AUDIT

FINDINGS OF A CASH MANAGEMENT NATURE ARE MADE EITHER BY GAO OR THE AGENCY'S INSPECTOR GENERAL, THE AMOUNTS DUE THE GOVERNMENT SHOULD BE REFLECTED IN THE EMPLOYMENT CONTRACT OF FIRST-LEVEL SES EMPLOYEE RESPONSIBLE AND HIS OR HER PERFORMANCE MEASURED ACCORDINGLY. I MIGHT ADD THAT THIS POSITION WAS ALSO TAKEN IN THE JUNE 1979 HOUSE APPROPRIATIONS COMMITTEE REPORT.

WE SHOULD NOT JUST PICK ON OUR SES PERSONNEL, HOWEVER, BECAUSE CASH MANAGEMENT RESPONSIBILITIES GO RIGHT DOWN THE LINE. IN A REPORT WE ISSUED LAST YEAR ON "CONTINUING AND WIDESPREAD WEAKNESSES IN INTERNAL CONTROLS RESULT IN LOSSES THROUGH FRAUD, WASTE, AND ABUSE," WE IDENTIFIED THE BILLIONS OF DOLLARS THAT ARE LOST ANNUALLY FOR THESE REASONS. BY FAR, THE BIGGEST AMOUNT OF DOLLARS IS IN THE AREA OF WASTE, AND WITHIN THAT CLASSIFICATION--CASH MANAGEMENT, PARTICULARLY IN DISBURSEMENTS AND COLLECTIONS. WE CONDUCTED THIS REVIEW AT 157 ACCOUNTING STATIONS IN 11 FEDERAL AGENCIES AND THE ACTIVITIES REVIEWED REPRESENTED A CROSS-SECTION OF GOVERNMENT ACTIVITIES, CIVILIAN AND MILITARY, DOMESTIC AND OVERSEAS.

AT EIGHT OF THE 11 AGENCIES WE REVIEWED, CONTROLS WERE INADEQUATE TO ENSURE THAT AMOUNTS OWED THE GOVERNMENT WERE RECORDED AS ACCOUNTS RECEIVABLE OR THAT OVERDUE ACCOUNTS WERE IDENTIFIED AND COLLECTED. AS A RESULT, MILLIONS OF DOLLARS WENT UNCOLLECTED. FOR EXAMPLE, DEPARTMENT OF LABOR FISCAL OFFICES HAD NOT RECORDED ABOUT \$218 MILLION AS ACCOUNTS RECEIVABLE DUE THE GOVERNMENT AND SO NO EFFORTS WERE MADE TO COLLECT THAT AMOUNT.

THE ACCOUNTS RECEIVABLE THAT WERE COLLECTED OFTEN WERE SO POORLY CONTROLLED AND SAFEGUARDED THAT THE POTENTIAL FOR THEFT, LOSS, OR OTHER MISUSE WAS QUITE HIGH. FURTHER, SEVERAL AGENCIES WERE SO LAX IN CONTROLLING RECEIVABLES FROM TRAVEL ADVANCES THAT EMPLOYEES WERE ABLE TO LEAVE THEIR JOBS WITHOUT EVER REPAYING AMOUNTS DUE THE GOVERNMENT.

CONTROLS OVER DISBURSEMENT ACTIVITIES WERE ALSO FOUND TO BE DEFICIENT IN MANY FISCAL OFFICES REVIEWED. TO ILLUSTRATE, THE NAVAL FLEET FINANCE CENTER HAD NOT PREAUDITED TRAVEL VOUCHERS SUBMITTED FOR PAYMENT. BECAUSE OF THIS, IT HAD MADE OVER \$700,000 IN OVERPAYMENTS IN 2 MONTHS. ALSO, ARMY EUROPEAN COMMAND FISCAL OFFICES HAD FAILED TO TAKE ADVANTAGE OF \$99,000 IN DISCOUNTS OFFERED IN 1 YEAR.

SUCH WASTE OCCURRED BECAUSE MANY FISCAL OFFICES HAD DISREGARDED BASIC CONTROL PROCEDURES PRESCRIBED IN MANUALS PUBLISHED BY GAO, TREASURY, AND THEIR OWN AGENCIES. SOMETIMES, AGENCIES WERE NOT EVEN USING SOUND JUDGMENT IN MAKING DISBURSEMENTS. FOR EXAMPLE, SEVERAL ENVIRONMENTAL PROTECTION AGENCY OFFICIALS HAD ROUTINELY MADE DISBURSEMENTS WITHOUT DETERMINING IF THE AMOUNT OF PAYMENT AND NAME OF PAYEE WERE CORRECT.

THESE TYPES OF WEAKNESSES REQUIRE THE AVERAGE WORKING LEVEL EMPLOYEE IN ALL AGENCIES TO BE ATTENTIVE. HERE

TOO, WE HAVE OPPORTUNITIES FOR KEEPING PEOPLE'S FEET TO THE FIRE UNDER THE MERIT PAY SYSTEM. THOSE GS-13'S THROUGH GS-15'S WHO ALLOW THE TYPES OF SITUATIONS WE HAVE REPORTED TO OCCUR, SHOULD HAVE THEM TAKEN INTO CONSIDERATION IN THEIR ANNUAL MERIT PAY ADJUSTMENTS. IN MY VIEW, WHEN YOU START AFFECTING PEOPLE'S TAKE-HOME PAY, THEY WILL SIT UP AND TAKE NOTICE AND SAY, "THESE PEOPLE ARE SERIOUS."

WHETHER OR NOT IT COMES TO SOMETHING AS SERIOUS AS I JUST TALKED ABOUT, DEPENDS UPON THE EFFORTS OF EACH OF YOU RESPONSIBLE FOR CASH MANAGEMENT.