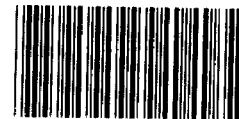


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
CHARLES A. BOWSER
COMPTROLLER GENERAL
OF THE
UNITED STATES
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON
S. 2230
THE FEDERAL MANAGEMENT REORGANIZATION
AND COST CONTROL ACT OF 1986



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Mr. Chairman and Members of the Committee, I am pleased to appear today to testify on the "Federal Management Reorganization and Cost Control Act of 1986" (S.2230). This bill seeks to address significant management problems that have hampered the efficient and effective operation of government for many years. I share your concern that the management of government programs and operations must be greatly improved.

As the Congress and the President grapple with the budget deficit and make hard decisions on controlling government expenditures while maintaining essential programs and operations, it is vital that ongoing operations be as efficient as possible. This can only be accomplished if we have adequate management systems. Unfortunately, today, the government does not have top-notch management systems. Consequently, we lack the fundamental financial information needed to direct a trillion dollar operation and to restore taxpayer confidence in the government's ability to safeguard and manage its resources.

OFFICE OF FEDERAL MANAGEMENT

Your bill seeks to upgrade attention to management by establishing a separate Office of Federal Management. I share your concern over the relatively ineffective management improvement efforts of the past decade or more and understand your desire to move the "M" out of OMB to provide the necessary focus on management.

GAO studied centrally directed, government-wide management improvement programs conducted in the 1970's, and found that few

Let me make the point by using the financial management problem as an example. Problems in the government's financial management structure are serious and pervasive.

1. Financial information provided to Congress and the public concerning the condition and operations of the federal government is incomplete, inconsistent, unreliable, and untimely.
2. The accounting and other financial management systems used to manage and control government operations and to report the condition of the federal government are obsolete and inefficient.
3. Current financial reporting practices do not disclose the actual cost of operations:
 - they do not disclose the financial position of the government;
 - they do not disclose the current and probable future costs of investment decisions, such as the procurement of major weapons systems;
 - they do not permit effective comparison of actual costs and accomplishments to budget plans; and
 - they do not provide the timely information required for efficient management of programs.
4. The accuracy of financial information about the federal government is uncertain because most of the information is unaudited.

operations and condition of the federal government is important for:

1. effective oversight of government programs;
2. effective and efficient management of government programs;
3. informed decisionmaking about budget priorities; and
4. public understanding and confidence in the performance of the government.

Most would agree that the financial information about the federal government which is needed by the Congress, the executive branch, and the public will require modern accounting and other financial management systems. But agreement on these broad generalities is not enough. We must also implement the systems to provide the specific types of information needed. For example, I feel strongly that audited agency-level financial statements are essential.

AGENCY FINANCIAL STATEMENTS

It is time for federal agencies to prepare annual financial statements so that the Congress and the public, not to mention the agencies themselves, have complete, accurate, and timely information on their financial position and results of operation. Since 1934, publicly-held corporations have been required by law to prepare annual financial statements which can sustain the scrutiny of an independent audit. In addition the Single Audit Act of 1984, passed under the leadership of this Committee, equires state and local governments receiving federal assistance

OVERALL FINANCIAL MANAGEMENT REFORM NEEDED

The need for audited financial statements is but one item -- although a vitally important one -- in the broad blueprint for reshaping our financial management structure. Other important decisions must be made to ensure improvements are guided by a cohesive framework which lays out clear objectives. Such a framework can help to assure that there is continuity across successive administrations and that we are working toward a common set of long-term financial management goals.

To develop this framework we must make some tough choices, such as:

1. What types of information should be provided to compare program costs and accomplishments with the amounts and levels of activity planned in budgets?
2. What types of project reporting is needed to better manage major research, development, and construction projects?
3. What levels of detail should be available and who should have access to data from the financial management systems?

GAO has studied these issues and last year proposed a conceptual design in our report, Managing the Cost of Government, which I would like to submit for the record along with a joint study on federal reporting that we conducted with the Auditor General of Canada. These reports outline the need to develop a modern financial management structure guided by an overall plan that supports:

continue to work with you and your Committee in an effort to improve government management.

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This concludes my remarks. I would be happy to answer any questions.