

GAO

United States General Accounting Office

Report to the Chairman
Committee on Government Operations
House of Representatives

August 1992

OMB'S HIGH RISK PROGRAM

Benefits Found But Greater Oversight Needed



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**Accounting and Financial
Management Division**

B-249317

August 6, 1992

**The Honorable John Conyers, Jr.
Chairman, Committee on Government Operations
House of Representatives**

Dear Mr. Chairman:

At your request, we reviewed the Office of Management and Budget's (OMB) high risk program that focuses attention and resources on eliminating major problems confronting the federal government.

In 1989 OMB, in coordination with federal agency officials, identified 106 areas in which it concluded that the government's vulnerability to waste, fraud, and abuse was such that agency heads, as a matter of priority, must personally see to their correction. OMB designated these 106 areas as high risk areas and initiated its high risk program to strengthen management in these areas. As agreed with your office, this report discusses (1) the involvement of high-level government officials in the program, (2) the accuracy of the high risk program progress and status information presented in the President's fiscal year 1993 budget, and (3) OMB's general management, organization, staffing, and recordkeeping practices for the high risk program. It also presents our conclusions and recommendations on ways to strengthen the program.

Results in Brief

OMB's high risk program has provided a much needed focus and emphasis by top-level officials in executive departments and agencies as well as within OMB on strengthening the operation of federal programs. Further, reporting the status of agency accomplishments in each high risk area in the President's budget is a positive step toward ensuring continued high visibility and attention to correcting existing problems.

Although the majority of the information presented in the budget appears reasonable and accurate, the results of our audits show that the progress reported in several areas is misleading or overly optimistic. Further, the budget does not disclose that material weaknesses continue to exist in some high risk areas deleted from the list.

OMB's Management Integrity Branch (MIB) is responsible for the day-to-day operation of the high risk program and for annual reporting on the program through the budget. OMB estimated that it devotes the equivalent

of 3 staff years to the high risk program. However, no OMB staff work solely on the program and MIB frequently rotates its staff among high risk areas. With changes in staff member areas of responsibilities, the preparation and maintenance of documentation of key events and agreements in order to track and evaluate agency progress in correcting high risk areas is critical. We found that records of meetings and agreements made with agency officials and OMB evaluations of agency-provided information were frequently not available.

Background

Following the disclosure of widespread and costly problems at the Department of Housing and Urban Development in 1989, OMB implemented its high risk program—a major effort to identify federal programs at risk to abuse, fraud, and waste and to take the needed corrective actions. In the summer of 1989, the Director of OMB and other OMB officials asked top officials in the executive departments and agencies to make a fresh assessment of their agency's internal control and audit follow-up processes. At the same time, OMB created an internal task force to oversee agencies' assessment efforts. Based on the assessment results, discussions with inspector general staff, and reviews of Federal Managers' Financial Integrity Act (FMFIA) reports, OMB identified areas it considered to be major risks confronting the agencies. After coordinating its conclusions with agency officials, OMB initiated a program through which it monitors and works with agencies to resolve the problems that led to the risks identified. This effort has become known as OMB's high risk program. As a result of additions, deletions, and other changes in high risk areas, the list consisted of 99 areas as of January 1992. As of that date, OMB estimated that \$138 billion was at risk due to waste, fraud, abuse, and mismanagement in these areas.

The Director of OMB has placed responsibility for the high risk program with his Deputy Director for Management. The Management Integrity Branch, within OMB's Office of Federal Financial Management, is responsible for day-to-day program management.

The high risk program's coverage in the President's annual budget has increased each year. The fiscal year 1991 budget contained only general program information, whereas the fiscal year 1993 budget coverage was expanded to a fairly extensive set of tables and narrative information. For example, the fiscal year 1993 budget, published in January 1992, included a summary of the high risk program and its accomplishments as well as

status and progress information, including funding needs, for each of the 99 high risk areas then in the program.

Objectives, Scope, and Methodology

The objectives of our review were to assess OMB's management of and reporting on its high risk program. Specifically, we reviewed (1) the involvement of top OMB and agency officials in overseeing actions to correct high risk area problems, (2) the accuracy of the high risk program progress and status information presented in the President's fiscal year 1993 budget, and (3) OMB's management of the program, including the resources allocated to the program and the manner in which OMB staff perform their duties and responsibilities.

To address these objectives, we interviewed key OMB personnel responsible for overall high risk program management and for individual high risk areas to determine their duties and responsibilities and the procedures used for recording and documenting information about the program, in general, and each high risk area. We also reviewed OMB testimony before congressional committees on the high risk program, examined special OMB/agency reviews referred to as SWAT teams (see appendixes I, II, and III for information on these special activities), and reviewed weekly progress reports submitted to the Director of OMB. In addition, we reviewed documents that agencies provided OMB, including high risk area corrective action plans, progress reports, and special analyses.

We met with agency and inspector general officials to ascertain (1) their perspective of OMB's management of the program, (2) the frequency and purpose of contacts they had with OMB staff, and (3) the information they provided OMB on the status of actions to reduce or eliminate program risks.

We also obtained evaluations and comments on agency progress in the budget from our staff responsible for completed and/or ongoing work in areas on OMB's high risk list. Further, we reviewed selected agency FMFIA reports to determine whether the information contained therein was consistent with the progress information contained in the budget.

We performed our work at OMB and other federal agency headquarters in Washington, D.C., during the period April 1991 through April 1992. Our review was performed in accordance with generally accepted government auditing standards. We did not obtain written OMB comments on this report, but we discussed our findings with responsible OMB officials, who

agreed with our findings. We have incorporated their comments where appropriate.

The High Risk Program Receives Top-Level OMB and Agency Management Attention

Top-level officials in OMB and the federal agencies have been involved with high risk issues since the inception of the program. For an activity like OMB's high risk program to succeed, such attention and participation is essential.

In 1989, the Director of OMB called a White House meeting of deputy secretaries of cabinet-level departments and the deputy administrators of the Environmental Protection Agency and the National Aeronautics and Space Administration (NASA). At that meeting, he stated that he wanted these officials to personally work with their inspectors general, assistant secretaries for management, and chief financial officers to assess and report back on their agency's internal control and audit follow-up programs. Other OMB officials requested similar reports from the smaller agencies and met with agency inspectors general to discuss their concerns regarding vulnerable agency programs and activities.

The Director's involvement has continued through weekly status reports on the progress made on selected high risk areas. Further, OMB's Director and Deputy Director for Management approve decisions concerning high risk area status ratings and decisions to add or delete areas from the list. This information is presented in the President's budget.

As shown in the following examples, OMB officials, in addition to their general oversight of the program, also worked closely with agency officials in evaluating weaknesses and identifying potential corrective actions in several high risk areas.

- OMB officials and the Department of Education's Deputy Secretary prepared the SWAT team report on the Guaranteed Student Loan high risk area and the head of each agency jointly announced a plan to refocus and restructure Education's student aid programs. That report addressed escalating student loan defaults and discussed the participation of too many "shoddy schools" in student aid programs and inadequate expertise in the Office of Post-secondary Education in managing credit programs. Some of the recommendations included strengthened and more coordinated control and monitoring of activities to ensure that only legitimate educational facilities participate in aid programs; improved oversight of guaranty agencies and lenders to provide for early warning of

problems and timely departmental intervention; consolidation of all Education's student aid operations under one official; and immediate establishment of a high-level temporary team to implement the recommendations.

- An OMB official and the Department of Agriculture's Under Secretary for Small Community and Rural Development formed an interagency management group that examined high delinquency rates and billions of dollars in delinquencies in Farmers Home Administration loan programs. The Department developed an approach which included a training program and improved financial systems. The Department also instructed all state offices to include ways to improve their field office operations for loan-underwriting and appraising activities in their annual strategic plans.
- At the Railroad Retirement Board, OMB officials were involved in a joint review of management weaknesses, including major claims backlogs, beneficiary fraud, and underpayment by railroads of employment taxes. The outcome of this SWAT effort was a joint agreement where the Board agreed to use additional funds appropriated by the Congress to correct the specific weaknesses identified by the review.

Also, in April 1992, OMB's Deputy Director for Management began to issue letters to top agency officials that provided them with feedback on their high risk efforts. For example, some letters proposed adding new areas to the high risk list; others cited OMB's basis for reporting that specific areas were deleted in the fiscal year 1993 budget; and some requested agencies to continue to track and report, through FMFIA, their progress in correcting material weaknesses associated with previous high risk areas. The letters also stated that OMB staff would be meeting with staff from offices such as the Office of the Secretary, Office of the Assistant Secretary for Management and Budget, and the Inspector General's Office to discuss selected issues.

Agency officials have generally reacted positively to OMB's high risk program and feel it has helped focus a high-level interest on the program. For example, inspector general staff at one agency stated that they have seen increased accountability, more monitoring, and direct management involvement in high risk areas. In another instance, an agency administrator expressed appreciation for the efforts made by the OMB staff in monitoring the agency's corrective action progress and stated that with OMB's assistance the agency has made progress. Further, an official in another agency told us that if top agency management had not been interested in the high risk issue, it would have gone to the bottom of the agency's priority list.

Reported Progress in Some Areas Is Misleading or Overly Optimistic

At the beginning of 1992, 99 areas were on the high risk list. Ninety-two of these were on the list throughout 1991, and OMB concluded in the fiscal year 1993 budget that

- agencies have made significant progress in correcting the deficiencies in 30 areas,
- agencies have active efforts underway to improve progress in correcting the deficiencies in 48 areas, and
- it has reservations about the adequacy of agency plans and/or progress made in 13 areas.

For one additional high risk area, the status code was withheld until the results of a governmentwide survey of the Single Audit Act of 1984 were known.

While these ratings generally reflect positive agency efforts to correct their problems, the results of our work raise questions about the progress claimed.

Our comparison of data in the fiscal year 1993 budget with agency FMFIA reports and the results of completed and/or ongoing GAO and inspector general audits showed that the budget contains misleading or overly optimistic information on agency progress for about 23 percent of the 68 areas in which GAO has conducted audit work. We found that OMB inappropriately deleted some areas from the list and provided status ratings for others that showed greater progress in correcting problems in the high risk area than has actually occurred. (Appendix IV contains a listing of all areas deleted from the list.)

The budget contains a progress report and status rating on agency actions to correct problems in each high risk area. In preparing this segment of the budget, OMB officials told us it was their policy to rely on the agency head's progress report, agency FMFIA certifications, and comments from the inspectors general and GAO officials in assessing and validating agency progress in correcting high risk areas. We found, for the 28 areas deleted since the program began, that OMB generally followed its policy of obtaining advice from inspectors general on agency progress in correcting high risk area problems. It did not do so with regard to GAO. As shown in the examples discussed below, this limited the information OMB had on the adequacy and effectiveness of agency actions to correct problems and impacted the accuracy of information contained in the budget.

Material Weaknesses Remain in Problem Areas Deleted From the High Risk List

Since implementation of the high risk program, OMB has deleted 28 areas from the list because they were "sufficiently corrected so as no longer to require highlighting as a high risk." The fiscal year 1993 budget deleted 17 areas, stating that they were "...removed from the List based on agency correction of problems." We have either completed or are conducting work in 9 of these 17 deleted areas. In 4 of the 9 instances, our work raises questions about whether an item has been corrected sufficiently to justify deletion from the list. We have also found instances in which OMB deleted items from the list, indicating correction of the problem, when material weaknesses remained.

For example, the fiscal year 1993 budget deleted the Environmental Protection Agency's (EPA) enforcement oversight from the high risk list. This high risk area encompassed such issues as the agency's inability to (1) develop enforcement actions, (2) set enforcement priorities, (3) respond to crises, and (4) conduct program oversight. The budget stated that the agency had developed and put in use an integrated data base, and the agency's 1991 FMFIA report did not include this item as a material weakness. According to supporting documentation, OMB contacted inspector general staff who advised OMB that while their office did not object to removing the area from the list, the inspector general's office had not reviewed the system in question.

Based on our recent work, we believe the item should not have been deleted. Our April 1992 report, Environmental Enforcement: EPA Needs A Better Strategy to Manage Its Cross-Media Information (GAO/IMTEC-92-14), stated that EPA cannot readily bring together and correlate data from its various programs—such as air, water, hazardous waste, and pesticides—in order to assess environmental risks comprehensively or identify and target the most important enforcement priorities. The report further stated that EPA's system does not have all of the analytical capabilities users need to routinely set priorities and target enforcement actions. It also notes that the agency's regional enforcement staff are not using the system for targeting enforcement actions partly because of the difficulty in operating the system in its current state of development.¹ These problems severely limit the agency's ability to effectively implement enforcement oversight.

OMB removes items from the list when it concludes they no longer require highlighting as high risk. In some instances, however, material weaknesses, as defined under FMFIA, still remain in these areas. The budget

¹See also Environmental Enforcement: Penalties May Not Recover Economic Benefits Gained by Violators, (GAO/RCED-91-166, June 1991), which concluded that civil penalty enforcement oversight was still inadequate.

does not distinguish between items deleted for which effective corrective actions have been completed and those for which material weaknesses remain to be corrected. It reports both situations as "D," meaning that the item(s) were deleted from the high risk list. OMB directs agencies to report deleted areas in which material weaknesses remain in their annual FMFIA reports to the President and the Congress. However, the budget makes no reference to this FMFIA reporting and users of the budget have no way of knowing that serious problems remain unless they also obtain and review the annual agency FMFIA reports.

Education's contract and grant closeout process² is such a case. Education's 1991 FMFIA report states that the agency plans to continue actions to reduce the closeout backlog until all expired grants more than 1 year old are retired and to subsequently maintain no more than a 1-fiscal-year backlog of expired but unclosed grants. It further plans to regularly review internal and departmental grant closeout procedures. In contrast, the fiscal year 1993 budget, issued 1 month after the agency's FMFIA report, stated that Education eliminated backlogs of contract and grant closeouts and that it is processing closeouts as contracts and grants expire. The differences between the budget statement and Education's FMFIA statement raise questions about the accuracy of progress reported in the budget.

Progress Is Overstated for Some Areas Still on the List

OMB derives most of its high risk budget presentation material from agency-provided progress and status information. Based on our recently completed or ongoing audit work in 68 of the 99 areas listed in the President's fiscal year 1993 budget, we have identified 16 instances, which include the 4 items mentioned in the previous section, where the budget portrays greater progress in correcting problems in these high risk areas than has actually occurred.

For example, the budget reported that "Defense Management Report actions have produced major improvements..." in Department of Defense and military service supply operations. It states that supply depots were consolidated; inventory points were centralized from the Services to the Defense Logistics Agency; and policy and procedures revisions were completed to address private contractor access weaknesses. However, our ongoing work in this area shows that some of these reported key actions

²This process encompasses financial and administrative procedures employed to close a contract or grant, i.e., deobligating unused balances once the contract or grant has expired or obtaining missing documents needed to complete the agency's file.

have not yet taken place.³ While supply depots have been placed under the Defense Logistics Agency management, few have been consolidated, and Defense has made little progress in standardizing the automated systems needed to support consolidated depots. Further, a prerequisite to developing these automated systems is knowing how your business will operate, but Defense has not yet determined this. In addition, our financial audit of the Air Force⁴ showed that the systems used to control over \$63.8 billion in spare parts and supplies inventories do not provide accurate, reliable data on either inventory quantities or value. Our work in the Department of the Army is identifying similar problems.

NASA financial systems are another high risk area where our audit work showed less progress than was reported in the budget. NASA has long recognized that improvements are needed in this area and in fiscal year 1988 initiated a project to develop a standard agencywide NASA Accounting and Financial Information System. In its December 1991 FMFIA report, NASA provided information concerning key target dates related to implementing the system and stated that its financial system problems would be corrected by October 1996. The President's 1993 budget discussed NASA's progress in developing and implementing the system and rated NASA's progress as "significant." However, we do not believe that NASA has as yet made significant progress in this area.

Recent GAO audit work,⁵ as well as testimony from NASA's Comptroller, shows that the reported progress for the system is overstated. In May 1992, we testified that NASA has no target date for full implementation of the system.⁶ NASA's Comptroller and Chief Financial Officer nominee, also testifying in May 1992, supported our position that NASA's reported progress is overstated when he said that the 1996 implementation date reported in NASA's 1991 FMFIA report related to only one location and that NASA has no implementation target dates for its other centers.

³See Defense Inventory: DOD Needs to Continue Efforts to Improve Its Requirements Determination and Ordering Processes, (GAO/T-NSIAD-92-18, March 11, 1992); Defense Logistics: DOD Initiatives Related to Cutting Costs, (GAO/T-NSIAD-92-24, March 26, 1992); and Defense Inventory: DOD Actions Needed to Ensure Benefits From Supply Depot Consolidation Efforts, (GAO/NSIAD-92-136, May 1992).

⁴See Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources, (GAO/AFMD-90-23, February 1990) and Financial Audit: Status of Air Force Actions to Correct Deficiencies in Financial Management Systems, (GAO/AFMD-91-55, May 1991).

⁵In August 1991 we stated that it will take longer than NASA's estimated 1996 target date to implement the system. See Financial Management: Actions Needed to Ensure Effective Implementation of NASA's Accounting System, (GAO/AFMD-91-74, August 1991).

⁶See Financial Management: NASA's Decisions Are Based on Unreliable Systems Data and Reports, (GAO/T-AFMD-92-9, May 7, 1992).

Progress in Correcting Individual High Risk Areas Does Not Ensure That More Pervasive Weaknesses Are Corrected

Over the years, the Department of Housing and Urban Development has had serious internal control problems. These problems continue as supported by the fact that the fiscal year 1993 budget contains 10 high risk areas for the Department. We believe the Department is making progress in resolving its individual high risk areas but are concerned that its problems extend beyond these specific areas and that the underlying causes of the problems involve long-standing, departmentwide deficiencies that remain largely unresolved.⁷ These deficiencies include inadequate information and financial management systems, weak internal controls, inappropriate organizational structure, and insufficient staffing. The Department is only in the initial stages of resolving the underlying departmentwide deficiencies that continue to threaten the integrity of its operations and specific programs. Until the Department implements actions correcting departmentwide deficiencies, it cannot guarantee that actions correcting individual program deficiencies (i.e., high risk areas) will prevent abuses similar to those uncovered 3 years ago. The budget does not recognize the importance of departmentwide corrective actions to the correction of the 10 high risk areas reported.

(See appendix V for additional examples of high risk areas where our audit findings conflict with budget-reported progress.)

Current Staffing and Documentation Practices Limit OMB Control and Oversight of the Program

The Management Integrity Branch is primarily responsible for oversight and management of the high risk program. MIB staff and staff from other OMB branches or offices monitor agency actions on specific high risk areas. For example, staff working in specialized areas, such as credit management or federal financial systems, are responsible for high risk areas with problems in those issues. While this is a logical approach and provides certain advantages, competing demands on these staff limits MIB's ability to control day-to-day activities of staff with high risk area responsibilities. These responsibilities include (1) identifying and reporting agency efforts to correct problem areas and (2) ensuring adequate documentation of key events or agreements related to the program or to individual high risk areas.

Competing Demands on Staff Hinder Effective Program Operations

The Management Integrity Branch manages the high risk program by using its own staff and staff from other OMB branches and offices to perform general oversight of agency high risk activities and to participate on SWAT

⁷See HUD Reforms: Progress Made Since the HUD Scandals but Much Work Remains, (GAO/RCEd-92-46, January 1992).

and review efforts. None of these staff, however, works solely on high risk program activities. Further, high risk program activities may not be a priority with all staff having program responsibilities, since many of them do not work in MIB.

OMB estimates that the time spent by the staff assigned responsibilities for high risk areas is the equivalent of three full-time employees. This does not include the time spent on SWAT and review team efforts, which OMB had not estimated. For each assigned agency, the OMB staff members' high risk responsibilities include (1) reviewing and commenting on agency plans for correcting high risk area problems, (2) preparing the progress and status information contained in the President's budget, and (3) assisting with SWAT team efforts as needed.

OMB constantly adjusted the high risk assignments as employees left and new employees were hired. For example, MIB has delegated general oversight of the high risks of the 30 agencies identified in the fiscal year 1993 budget with high risk areas to seven of its staff members. Our comparison of high risk responsibilities showed that 19 of the 30 agencies were being monitored by different staff than last year.

In addition to the general oversight of agency efforts performed by MIB staff, other OMB staff have responsibilities in specialized high risk areas involving issues such as credit management and financial systems. Further, OMB staff responsible for agency budget oversight as well as individuals from its Office of Federal Procurement Policy, the Office of Information and Regulatory Affairs, and the General Management Division play key roles in the program. For example, an individual in OMB's General Management Division led a SWAT team review of the Railroad Retirement Board, and an individual from OMB's Office of Federal Procurement Policy led a review team working with Department of Defense personnel on the Contracted Advisory Assistance Services area.

This situation, in which staff from many OMB organizational units have high risk program responsibilities, while providing expertise in the high risk area, also makes it difficult for MIB to oversee and coordinate all program activities. This in turn has sometimes impacted its ability to promptly obtain needed program information. In one instance, we were told that it would be difficult to obtain all requested information because it was budget season and the files belonged to an individual who worked on the budget side of OMB. In other cases, it took MIB up to several months to obtain basic information, such as background information on OMB staff

working on the high risk program and the names of OMB's principal agency, inspector general and GAO contacts on selected high risk areas.

OMB has recognized the need to increase its staffing for high risk program efforts. Its fiscal year 1993 budget request asks for one additional staff position to be added to the three full-time staff equivalents currently used to identify, report, and track high risk conditions. It also requested two positions for work on SWAT and review teams to "provide reasonable capabilities in this area."

While additional staff may strengthen OMB's oversight of the high risk program, OMB can improve its general oversight of the program by placing full-time high risk program responsibilities with a core group consisting of several staff members. These staff could work with and assist other OMB personnel with specific high risk area responsibilities and, among other things, evaluate and monitor the effectiveness of agency-reported corrective actions in order to provide the Congress and the President with a complete and accurate description of the progress being made to correct high risk problems facing the government.

Limited Documentation Hampers Effective Oversight

OMB does not expect staff to maintain detailed records and files on their high risk areas and efforts. The documentation practices followed by OMB staff varied and resulted in inconsistent and scattered records of key events. We found that few or no records existed on meetings held or agreements made with agency officials, internal OMB agreements regarding funding, or other issues. Because of the program's importance, its high visibility, and the constant staff changes, a minimum level of documentation is necessary to ensure program continuity and to support program information reported in the budget.

The section of the budget that discusses the progress and status of individual high risk areas states that items have been deleted from the high risk list "based on agency correction of problems." The documentation supporting decisions to delete an item most often consisted of agency-prepared records with indications, in only half of the areas, that contacts were made with inspector general staff to validate the accuracy of that information. Further, the documentation contained few indications of the OMB staff's views or comments on the information provided by agencies, the need for followup with agency officials on questions, or the results of discussions held.

The following examples show the range of documentation maintained for items deleted in the fiscal year 1993 budget.

- OMB's records supporting its decision to delete the Federal Highway Administration's high risk area from the list did not contain evidence that OMB had (1) met with agency officials to discuss the issue or obtained an explanation of why it had taken the agency 8 years to write regulations to resolve this issue which had first been identified under FMFIA in 1983, (2) assessed whether the proposed regulations will correct the problem, (3) identified key contacts at the agency and the inspector general's office, or (4) contacted GAO on present or recently conducted work in the area.
- In contrast, the file for the Food and Nutrition Service's food stamp trafficking high risk area contained such items as an internal OMB memorandum to the Deputy Director for Management citing the reason to delete the item from the list, recommendations for deletion from the OMB review team that monitored the agency's effort to resolve the issue, and the Service's plan to implement identified corrective actions. It also included a memorandum to the record citing an independent review by a private firm to verify that the problem was corrected and references to inspector general, chief financial officer, and agency budget office coordination. Additional documents provided by OMB to support its decision were the agency's mid-year progress report and excerpts from the agency's 1991 FMFIA report.

The adequacy of OMB's files relating to priority high risk areas⁸ also varied greatly. Records for three high risk areas illustrate the inconsistencies regarding documentation maintained. Each of these areas had been on the high risk list since the program began in 1989; thus, it is reasonable to expect that OMB's files would provide an adequate history of what the agency has done to address the high risk area.

- OMB's files relating to the inadequacies in debt collection practices at the Department of Justice contained only a draft financial litigation plan. The plan provides a framework for the departmentwide financial litigation process and a comprehensive approach toward the debt collection process. Individual department component plans will be developed to conform to this framework. However, the files contained no analyses of the plan or indication that OMB staff had discussed their views of the plan with Justice officials.

⁸The President's 1992 and 1993 budgets identified certain program priorities and noted that the administration planned intensive efforts in them; these we refer to as priority high risk areas.

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- OMB's files documenting work related to high rates of delinquencies at the Farmers Home Administration were more complete. Documents included an unsigned memorandum of understanding setting up a joint advisory committee; internal OMB memorandums related to the Field Office Specialization Project—a major corrective action for this high risk issue, and correspondence between the Department and the Congress on this project.
 - OMB's files on inadequate management controls at the Railroad Retirement Board were more comprehensive. Included were such items as agendas for meetings, a paper summarizing major areas of concern, correspondence addressing agreements between OMB and the agency, a timetable for the review, internal and external correspondence with OMB's Deputy Director for Management, the SWAT team report, and 262 pages of proceedings related to an OMB hearing on the high risk area.

The information found in the Food and Nutrition Service and the Railroad Retirement Board files can provide OMB with needed assurances about the adequacy of agency actions to correct the high risk area and assist in maintaining the institutional knowledge essential for program oversight where staff frequently turns over.

On June 12, 1992, OMB issued guidance defining staff responsibilities for the high risk program and criteria for documenting their monitoring activities and maintaining their high risk program information. Therefore, we will make no recommendation in these areas.

Conclusions

The involvement of top-level officials from OMB and federal agencies in OMB's high risk program is a positive and important step in reducing the government's risk to waste, fraud, and abuse in the areas included in the program. Also, annual reporting of the government's progress in the high risk program helps ensure the needed visibility and continued focus on actions taken to resolve problems that result in risks to billions of federal dollars.

OMB can strengthen its current procedures for validating the accuracy of agency progress in correcting problems in high risk areas. As a result of primarily relying on agency-submitted information, OMB prematurely deleted areas from the high risk list, and presented some progress information in the budget that was misleading or overly optimistic.

Further, OMB's relatively low staffing level, practice of frequently changing high risk areas of responsibility among staff, and generally low level of documentation maintained for high risk areas pose unacceptable risks to the efficient and effective operation of the program. They can result in a loss of institutional knowledge of OMB and agency actions and agreements on individual areas. They can also negatively affect OMB's ability to hold agencies accountable for specific corrective actions.

Recommendations

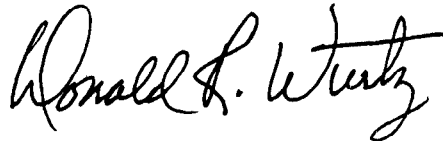
To strengthen OMB's management of and reporting on program progress, we recommend that the Director, OMB, take the following actions.

- Require the agencies to supply documentation supporting their reported progress and reemphasize to OMB staff responsible for individual high risk areas the need to independently confirm agency-reported progress such as by referring to recent work by the inspector generals and GAO.
- Differentiate in the budget, possibly through the use of additional status codes, between those areas deleted with no material weaknesses remaining and those areas deleted which continue to have material weaknesses and which OMB has directed the agency to report under FMFIA.
- Designate a core staff of several individuals with full-time responsibilities for overseeing OMB staff and agency efforts on the high risk program.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the Director of the Office of Management and Budget and to other interested parties. We will also make copies available to others upon request.

Please contact me at (202) 275-0850 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix VI.

Sincerely yours,

A handwritten signature in cursive script that reads "Donald R. Wurtz".

Donald R. Wurtz
Director, Financial
Integrity Issues

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**Appendix VI
Major Contributors to
This Report**

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Abbreviations

ADP	automated data processing
CIM	Corporate Information Management
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration, Department of Transportation
FMFIA	Federal Managers' Financial Integrity Act
FTA	Federal Transit Administration, Department of Transportation
GAO	General Accounting Office
MIB	Management Integrity Branch
NASA	National Aeronautics and Space Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
UMTA	Urban Mass Transportation Administration

Description of SWAT Management Reviews

OMB created SWAT management reviews as part of an effort to improve the management and operation of government programs. These reviews address problems where OMB believes it can make a difference and where it is unlikely that the agency will be able to correct existing weaknesses by itself. The issues addressed are usually discrete, clearly defined, significant problems of major concern. The review teams work for 90 to 120 days and OMB expects agencies to use the results.

OMB uses a standard structure for its SWAT management review efforts. Senior agency and OMB officials serve as a board of directors to guide each project. The reviews use a multi-disciplinary, multi-agency approach and draw upon the expertise of agency and outside experts. In large problem areas, OMB often divides staff into multiple teams that examine discrete issues (e.g., financial management, budgeting, systems, personnel, etc.). Within 90-120 days, the team produces a preliminary action plan to either resolve the issue or to define an agenda that addresses longer-term tasks.

1991 Active SWAT Teams Listed in the President's Fiscal Year 1993 Budget

Agency	Topic
Department of Education	Student Financial Aid Program management
Federal Emergency Management Agency	Management of \$650 million/year disaster assistance program
Department of Health and Human Services	Health Care Financing Administration management of \$85 billion federal-state Medicaid program
Department of Housing and Urban Development	Section-8 housing subsidy budget estimates
Department of the Interior	Bureau of Indian Affairs accounting systems
Railroad Retirement Board	Management weaknesses

1991 Active Review Teams Listed in the President's Fiscal Year 1993 Budget

Agency	Topic
Department of Agriculture	Food stamp program
Department of Defense	Use of contracted advisory and assistance services
Department of Energy	Environmental cleanup
Department of Health and Human Services	Health Care Financing Administration: Medicare durable medical equipment costs
Department of Labor	Job Training Partnership Act controls
National Aeronautics and Space Administration	Contractor oversight
Department of the Treasury	Internal Revenue Service: accounts receivable and tax systems modernization
Department of Veterans Affairs	Home Loan Guaranty Program

High Risk Areas Deleted in the President's Budgets

Deletions in the Fiscal Year 1992 Budget

Department of Education, Office of Special Education and Rehabilitation Services: allegations of mismanagement

Department of Health and Human Services, Social Security Administration: Social Security Administration and the Internal Revenue Service are not reconciling earnings records

Department of Housing and Urban Development: Secretary's discretionary loan management set-aside funds produce arbitrary awards

Department of Labor: ADP procurement concerns

National Aeronautics and Space Administration: audit follow-up weak

Commission on Civil Rights: poor practices in hiring, travel management, and recordkeeping

Executive Office of the President: comprehensive internal control program needed

Executive Office of the President: internal audit coverage

National Labor Relations Board: policy for payment of employer back pay improper

Pension Benefit Guaranty Corporation: lack of procurement policy and procedures

Securities and Exchange Commission: undue delays in EEO complaint resolution

Deletions in the Fiscal Year 1993 Budget

Department of Agriculture, Food and Nutrition Service: food stamp coupon and bank deposit data not reconcilable

Department of Commerce, Minority Business Development Agency: inadequate grants management

Department of Commerce, Patent and Trademark Office: problems in automating systems

**Appendix IV
High Risk Areas Deleted in the President's
Budgets**

Department of Defense, Foreign Military Sales Program: millions in unreconciled balances

Department of Education: departmental contract and grant closeout processes are vulnerable to unauthorized drawdowns

Department of Health and Human Services, Food and Drug Administration: application review process for generic drug approval faulty

Department of Health and Human Services, Health Care Financing Administration: Medicare contractors have not provided adequate safeguards to prevent inappropriate payments

Department of Housing and Urban Development, Federal Housing Administration: Mutual Mortgage Insurance Fund lacks proper controls and has backlog of distributive shares and premium refunds

Department of Transportation, Federal Highway Administration: poor practices in grantees' use of consultants

Department of Transportation, Maritime Administration: inadequate controls over disbursement of federal funds

Department of the Treasury, Bureau of Public Debt: account reconciliation issues need to be resolved

Department of Veterans Affairs: Loan Guaranty Program lacks system for assessing credit risk exposure

Environmental Protection Agency: agency enforcement oversight inadequate

General Services Administration: major internal control weaknesses not being reported

National Credit Union Administration: deficiencies in internal control process

**Appendix IV
High Risk Areas Deleted in the President's
Budgets**

**National Credit Union Administration: centralized asset liquidation center
needs effective internal controls**

Pension Benefit Guaranty Corporation: poor coordination of pension plans

Cases Where GAO Audit Findings Conflict With Budget-Reported Progress

This appendix presents additional examples of high risk areas where the information developed in completed or ongoing GAO audit work is not consistent with the progress or status information presented in the President's 1993 budget.

The information presented under the "High Risk Area" and "Progress Reported" captions are the description of the area and the related progress according to the budget. Under the "GAO Evaluation" caption, we provide an overall assessment of the accuracy of the budget information and a brief discussion of the reason(s) for our disagreement with that information. While our audit work has not addressed each reported action taken by an agency to correct its high risk problem, it provided perspective as to whether the progress reported in the President's 1993 budget was generally accurate.

Department of Transportation Federal Transit— Administration Grants Management Oversight

High Risk Area

Grant management oversight is inadequate within the Department of Transportation's Federal Transit Administration. FTA has \$30 billion in active grants, with \$50 million to \$250 million at risk due to improper use of grant funds.

Progress Reported

The President's 1992 budget reported efforts to improve progress in correcting grants management weaknesses in FTA.¹ The 1993 budget characterized the Department's progress as significant and stated that the backlog of inactive grants had been eliminated, disbursement practices were improved, additional staff had been approved for 1992 and proposed in the budget, and a contract had been awarded to train grantees in third

¹This issue was originally reported as a high risk area in the Urban Mass Transportation Administration (UMTA) since renamed. In the President's Fiscal Year 1993 Budget, this high risk area was associated with the Federal Transit Administration.

party contracting. FTA plans to recruit new staff and assign them to grant processing and oversight activities.

GAO Evaluation

Based on recently completed work,² we believe the reported progress is overstated. In a January 1992 report,³ we found that, among other things, FTA's Region II was not aware of or did not effectively use findings by other organizations concerning waste and mismanagement at two major operating agencies of New York's Metropolitan Transportation Authority. In a November 1991 report,⁴ we noted that FTA's philosophy was to rely on grantees to follow federal requirements and protect federal funds; however, the extent and nature of the deficiencies identified raised serious concerns about the propriety of FTA's reliance on Region IX grantees' assurances to safeguard funds. A 1991 report⁵ noted that FTA's Region III monitoring has relied on grantees' assurances that they will use the funds in compliance with federal requirements and that, when problems were brought to the attention of the region, it often did not require grantees to take corrective actions and return misspent funds.

In May 1992, 4 months after the President's 1993 budget was issued, the FTA Administrator approved a plan to develop and implement a more stringent grant oversight strategy. The new strategy is scheduled to be in place by October 1992.

²Our most recent report in this area is Mass Transit Grants: Risk of Misspent and Ineffectively Used Funds in FTA's Chicago Region, (GAO/RCED-92-53, March 1992).

³See Mass Transit Grants: Noncompliance and Misspent Funds by Two Grantees in UMTA's New York Region, (GAO/RCED-92-39, January 1992).

⁴See Mass Transit Grants: Improved Management Could Reduce Misuse of Funds in UMTA's Region IX, (GAO/RCED-92-7, November 1991).

⁵See Mass Transit Grants: Scarce Federal Funds Misused in UMTA's Philadelphia Region, (GAO/RCED-91-107, June 1991).

**Department of
Transportation—
Departmental Major
Systems Acquisition
Procedures**

High Risk Area

Major systems acquisition procedures are inadequate in the Coast Guard and the Federal Aviation Administration (FAA). The Coast Guard's budget for procurement totals \$1.5 billion over 5 years, and FAA's procurement budget amounts to \$1.7 billion annually. The Department risks paying too much on contracts due to its poor management practices.

Progress Reported

The President's fiscal year 1993 budget reported significant progress at both agencies. In 1991, the Coast Guard reportedly was developing a competency model for assessing requirements for project managers and instituting training programs. FAA's 1991 progress included issuing acquisition planning guidance to all components.

GAO Evaluation

Our recently issued reports show that progress is not as significant as reported. In July 1991, we issued two reports⁶ on major systems acquisitions at the Coast Guard and FAA which express continuing concerns about the adequacy of their major acquisition processes. In our report on the adequacy of the Coast Guard's justification for "Heritage Class" patrol boats, we found the Coast Guard did not adequately justify the patrol boat's capabilities and the number of boats needed to carry out its missions, or thoroughly evaluate alternative fleet replacements before selecting the heritage design. In addition, the agency's cost estimates have been understated, poorly supported, and excluded the significant expense needed to renovate home ports if fleet replacements bigger than the current patrol boats are acquired.

We reviewed FAA's progress in incorporating federal acquisition principles into its acquisition process and its budgeting procedures for major

⁶See Coast Guard: Adequacy of the Justification for Heritage Patrol Boats, (GAO/RCED-91-188, July 1991) and Aviation Acquisition: Further Changes Needed in FAA's Management and Budgeting Practices, (GAO/RCED-91-159, July 1991).

acquisitions. We recently testified⁷ that despite some positive steps, our work to date indicates some improvements are still needed. FAA's acquisition order states that mission needs statements should include quantitative support, such as the results of studies, data analyses, or air traffic forecasts. However, most of the statements we have reviewed do not include such support nor do they quantify shortfalls in current systems. Without quantifying shortfalls, it will be difficult for FAA to revalidate missions needs statements throughout the acquisition life cycle, develop appropriate operations requirements, and measure the extent to which completed projects improve system performance.

Department of
Defense—
Departmental and
Service Information
Technology
Development and
ADP Security

High Risk Area

Department of Defense and military service information technology development and ADP security are deficient. The President's fiscal year 1993 budget requests \$9 billion for general purpose ADP, with the risk being concerns over the effective use of these funds.

Progress Reported

The President's fiscal year 1992 budget identified this as a priority area and reported that Defense had efforts underway to improve progress. The fiscal year 1993 budget continued to report active efforts to improve progress and that OMB eliminated the area from the priority list.

The fiscal year 1993 budget reported that, under the Corporate Information Management (CIM) initiative, Defense is improving information technology life cycle management policies and procedures (including information technology acquisitions and inventory control), eliminating unnecessary redundancy in automated management information systems, developing standardized data dictionaries, and improving the processes

⁷See FAA Budget: Key Issues Need to Be Addressed, (GAO/T-RCED-92-51, April 6, 1992).

that foster management information systems. Defense plans over 100 information resources management reviews for 1992. Further, its 1993 funding includes the additional costs associated with the consolidation of ADP operations and design centers and the implementation of electronic data interchange.

GAO Evaluation

The progress reported is overstated and can be misunderstood. The information provided simply repeats CIM's objectives. We have found that after 2 years Defense has made minimal progress in implementing it. For example, Defense estimates that reengineering business practices will save \$35 billion under the CIM effort. Our audit work has identified no evidence that Defense has decided what processes to reengineer or how. Further, Defense selected several standard systems (such as that for the Navy's for civilian payroll system) before it evaluated the business processes that the systems are supposed to support.

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