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The General Accounting Office—How Its Activities Support Better Management of Federal Programs

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The American Society for Public Administration was founded and has its great strength in the common interest of all people in improving the art, science, and process of public administration. This is the common denominator objective which has always been important; at no time, however, has it been as important as it is today.

The increasing size of Government, the rapid growth of governmental influence in the area of science and technology, the blurring of lines between public and private enterprise, and the rapidly changing relationships between Federal, State, and local gov-

ernments—all demonstrate the importance of this society which can bring together these interests on the common ground of learning how to carry out these programs more effectively and efficiently.

Without fear of exaggeration, it is my belief that the learning gap—the technological gap if you will—of the next decade will be in finding ways to make governmental machinery more effective. And that is why it is so important that all citizens interested in improving the public service and all backgrounds and disciplines find a common focus of interest in the improvement of public administration.

Elmer B. Staats, Comptroller General of the United States.



It is fair to say that it is much easier to stimulate the public interest, and to some extent people in Government, in the action side of government programs than it is in the techniques and perfection of management. Yet we all well know how basic are careful planning and sound management to the success of these programs. This is true whether we are talking about technological management, administrative management, or financial management.

GAO Responsibilities and Functions

As you know, I speak for an organization established and directed by law to achieve greater efficiency and economy in the management of the U.S. Government—the General Accounting Office.

It has far-reaching responsibilities in prescribing accounting principles and approving accounting systems, in assisting agencies in the development of improved financial and management information systems, as an arm of the Congress in evaluating and appraising governmental programs, in reviewing weaknesses in management procedures and organizations, and in assisting the Congress generally on studies of whether programs are being carried out effectively and in accordance with the intent of the Congress.

I would like to emphasize at this time two of our basic functions.

- The role of GAO in the improvement of financial management practices.
- The evaluation or audit of the agencies' management of Governmental programs.

The concept of independent and impartial review, or audit, of governmental expenditures, which underlies the law creating the General Accounting Office, is founded in American and Anglo-Saxon history. While our organization was not established until 1921, this ancient concept of independence underlies that legislation.

The Comptroller General, the chief executive officer of the General Accounting Office, is an agent of the Congress. While appointed by the President, he can be removed only by impeachment or joint resolution by the Congress. The Comptroller General cannot be reappointed. Both he and the Assistant Comptroller General are appointed for terms of 15 years.

The Comptroller General and his staff are appointed on a nonpolitical basis; every Comptroller General has emphasized the nonpartisan nature of the organization.

We have a staff of 4,025 people, including 2,200 professional accountants and auditors. Our staff includes about 100 attorneys, highly trained and with reputation both in and out of Government for competence and objectivity.

Headquarters of GAO are in Washington. We have 16 regional offices in the United States and 4 overseas.

We have one of the most active recruiting and training programs for accountants and auditors in the country. We visit over 400 colleges and universities each year where we interview interested quality students.

As critics of Government operations by agencies and contractors we must develop the facts correctly and must interpret them fairly to all par-

ties. GAO must maintain, therefore—and it is my purpose to maintain and improve wherever possible—the high professional competence of our personnel.

As an agency of the Congress, we provide a multitude of services to the Congress.

- Assisting in the drafting of legislation.
- Handling inquiries from Members as well as committees.
- Making factual investigations.
- Testifying before committees.
- Furnishing audit reports on the Federal agency operations.

Our Office is responsible, with limited exceptions, for audit of all programs, activities, operations, and financial transactions of the Federal Government. The scope of our work extends to 12 major departments and some 60 independent agencies and commissions in the executive branch. We also make audits of financial transactions of organizations in the legislative and judicial branches.

I am directed by law, as Comptroller General, to “prescribe the principles, standards and related requirements for accounting to be observed by each executive agency.” And I am directed by the statute also, together with the Secretary of the Treasury and the Director of the Bureau of the Budget, to “conduct a continuous program” of improving accounting and financial reporting in the Government.

Need for Improved Financial Management

These and similar directives in other statutes stipulating the duties

of the Comptroller General are specific and clear. But in financial management in the Federal Government there is too large a gap between the requirements of the law and its execution. One reason for the difficulty Government agencies have in living up to what the law requires is, I think, lack of understanding.

And lack of understanding is due in considerable part to difficulty in communication. If we all better understood the importance of wise financial management out of which come intelligent courses of action, we would all work harder to require the maintenance of good accounting systems that tell us where we are at all times.

Accordingly, I hope to be able to communicate to you my sense of the importance of achieving better financial management throughout the Government and to suggest some ways in which we are trying to make progress. Let me begin by discussing briefly the Federal budget.

In January of this year, the President presented his budget for the fiscal year 1968. It called for administrative budget expenditures of \$135 billion.

At that time the President also stated that administrative budget expenditures for the fiscal year 1967 would be \$13.9 billion higher than the expenditures he estimated 1 year ago. I know of no more vivid example of the increasing complexity of public administration.

An expanding economy; a growing population; and increasing space, military, and economic commitments create an ever-increasing demand for Federal expenditures. Economic, so-

cial, and welfare programs gradually have become national programs rather than being confined to State or local levels. This in turn creates a greater need for understanding and cooperative effort—including cooperative efforts in the field of accounting and auditing—among Federal, State, and local administrators.

Approval of Agency Accounting Systems

One of the most important responsibilities of the General Accounting Office is the requirement—by law—to approve all executive agency accounting systems when they are deemed adequate and in conformity with our prescribed principles and standards. The first GAO comprehensive statement of accounting principles and standards was issued in 1952, 2 years after passage of the Budget and Accounting Procedures Act of 1950 which spelled out these requirements.

Although the General Accounting Office has been vigorously pressing the various Government agencies since then to establish accounting systems which could be approved, there is still much to be done.

For many years we have provided professional and advisory assistance to the agencies to assist in developing their accounting and financial management systems. And with the need for doing so growing constantly, we recently increased the number of our staff assigned to this work by four-fold with the hope that, within the reasonably near future, the goal sought by the Congress and the President of improved Federal agency accounting may be attained.

Planning-Programming-Budgeting Systems

In close relation to this, the President has directed the introduction of integrated planning-programming-budgeting systems (PPBS) in the primary executive departments and agencies. In announcing this action the President said:

“Each Cabinet and Agency head will set up a special staff of experts who, using the most modern methods of program analysis, will define the goal of the department for the coming year. Once the goals are set, this system will permit us to find the most effective and least costly alternative to achieve these goals.”

One of the important elements of this system is accounting-based cost data. It is apparent that many agencies do not, at this time, have accounting systems that will produce such data and, consequently, much work needs to be done if PPBS is to be fully effective.

In May 1966, I met with the Secretary of the Treasury and the Director of the Bureau of the Budget to discuss ways and means to make the Joint Financial Management Improvement Program more effective.

The Chairman of the Civil Service Commission also participated in this meeting. He is concerned with the critical problems of recruiting, classifying, and training people for accounting and financial management work.

We found ourselves in agreement that direct support by the President would provide a most important stimulus to all agencies to bring about improvements in financial management. Accordingly, the President issued a statement to the heads of Federal departments and agencies on May 24,

1966, requesting them to take specific actions.

I consider the President's support of transcendent importance. With his forceful interest as well as the interest of other top Governmental officials, it behooves us all to improve the financial management systems greatly throughout Government.

The Planning-Program in Budgeting System has been highly publicized in the Federal service over the past 2 years. While it has contributed much to more effective management and to more adequate program evaluation, it is still in most agencies more of a promise than a reality.

There is still much to be done to relate the budget process to the program planning process in most agencies. There is still inadequate cost data. In most cases the management information system is inadequate to produce the kind of reports needed by top management.

Of critical importance is the fact that we have too few people who can apply the theory of PPBS to practical problems faced by administrators in getting acceptance in the Congress and elsewhere of the results flowing from the cost effectiveness analyses.

We believe that GAO can contribute to the long-range PPBS objectives through improvements in accounting systems, which will produce needed cost data for use in estimating and in measuring performance. We want to be sure that automatic data processing techniques are used properly in agency accounting systems and that these systems are integrated with the overall information system.

We have joined with the Civil Service Commission and the Bureau of the Budget in developing an interagency ADP training program. Internally within GAO we plan to provide all of our professional accountants and auditors with at least some ADP training. Also, we hope to introduce more cost effectiveness analysis in our audit reports and to evaluate agency cost effectiveness analysis as a part of our audit work.

Project PRIME in the Department of Defense

Some of you, perhaps, are participating in the development and installation of Resource Management Systems within the Department of Defense of which Assistant Secretary Robert N. Anthony's project PRIME is a part. Essentially, Project PRIME seeks to revise the programming system, the budgeting system, and the management accounting system so that they will be more useful to managers at all levels. Its focus is on two objectives:

- The integration of programming, budgeting, and management accounting so that the information used in these three systems will be consistent.
- The development of more intelligible information on the consumption of operating resources (as opposed to investment resources).

Our Office consults almost on a day-to-day basis with the Department of Defense on this project. We hope that this endeavor will get active support at all levels within the Department of Defense, because we feel that it will help to fill a serious gap now

existing in the Department's management system.

National Aeronautics and Space Administration Projects

The Financial Management Division of NASA has as one of its objectives the research and development of new techniques for performing management functions. A current joint project with the Management Information Systems Division is to provide NASA headquarters with a real-time accounting and reporting system.

Another project of NASA's Financial Management Division is the training of scientific, technical, engineering, and administrative people involved in project management in the uses to be made of financial and cost data reported to NASA by its contractors.

GAO Auditing and Reporting

Of equal importance to GAO's responsibility for encouraging and assisting the Government agencies to establish adequate accounting and financial management systems is its responsibility for evaluating how the agencies carry out their activities.

In the words of one Member of the Congress, GAO must evaluate from time to time how effectively appropriated funds are *applied* by the agencies to the purposes legislated by the Congress. Accurate, unbiased, and non-political audit reports to the Congress, reflecting the independent judgment of GAO on the effectiveness, efficiency, and economy with which programs are carried out will continue to be one of our primary missions. We are constantly working to improve these reports to make them more useful to the Congress and to the public.

Preparing and issuing these reports is admittedly difficult. At times we are accused of being "the department of 20/20 hindsight." We do not believe that this characterization is warranted, but I hope that we will always be receptive to constructive criticism.

We ourselves have the responsibility of the critic. This, in part, is what the Congress established us to be. But we also have a responsibility—in addition to criticism—for offering constructive proposals where our audits show need for improved service, organization, or procedures, or where a change in the law may be desirable.

One of our principal objectives in making audit reports is to encourage better evaluation and better planning in the agencies themselves. We believe that these reports provide a healthy discipline in this respect. But over and above these gains we hope to point out through our audit reports—as well as in other ways—instances where adequate and reliable cost data have been useful in fostering cost consciousness and better management. In some cases, however, we expect to submit reports where we conclude that the absence of these data has resulted in waste or inefficiency.

Internal Auditing

Another method for obtaining effective financial management is the developing of strong internal audit machinery in the Federal agencies. Too many agencies do not have adequate audit staffs, or their charters may be weak, or there is absence of attention by top management to their reports.

We have in mind several reports to the Congress over the next few months which we hope will contribute to a greater recognition of the importance of internal auditing to good management.

Last summer we submitted such a report to the Congress setting forth our views as to the adequacy of the internal auditing in Vietnam. More recently we sent a report on the Defense Contract Audit Agency to the Congress in which we offered a number of suggestions for improving the internal auditing.

In all this we have a closely related responsibility to help congressional committees directly in carrying out their evaluation function. And we hope to be even more useful in this respect by carefully relating our time schedules and the subjects of our reports with those of the congressional committees. Many of our reports to the committees are quite similar to those which we make public; in fact, some of our reports to the committees are made public by the committees or later by GAO itself.

GAO audits, at one time or another, almost every application of appropriated funds you can think of. But of particular interest are our audit responsibilities in the field of negotiation and administration of Government contracts. In these audits, we inquire into whether or not:

- Contracts are made with due regard to the "lawfulness and justice" of public accounts.
- Prices paid to the contractors are reasonable.
- Contractors properly discharge their responsibilities under the contracts.

- Administrative contracting practices are effective and efficient.

Since June 1964 for example, the work of our auditors here at Huntsville—with, of course, the cooperation of the managers of the various programs—has resulted in changes in types of contracts, cancellations of unessential procurement items, cutbacks in certain types of test equipment and similar improvements.

The most important measure of this accomplishment—aside from the dollar savings involved—is the better administration of programs that has been achieved and which will continue.

GAO Audit Work in the Department of Defense

In carrying out our audit programs we focus on areas of heavy expenditures as much as possible. Today over 50 percent of our staff is assigned to work with the Defense Department, particularly on procurement, construction, and manpower matters.

Let me report at this point that we have had fine cooperation from the Department of Defense and from NASA. Secretaries McNamara, Vance, Morris, and Ignatius—and Administrator Webb—are strong supporters of GAO. While we may differ in given situations, there is no reluctance on their part to seek out the facts and to act accordingly, and they do.

In this connection, we have recently reorganized our operating division in Washington responsible for our accounting and auditing work in the Department of Defense. This division—the Defense Division—has been organized, and is now operated,

along the functional lines of the Department of Defense. We now have operating groups responsible for audit work in seven functional areas—facilities and construction, management control systems, procurement, manpower, research and development, supply management, and support services.

Our Defense Division recently completed a review of the implementation of Public Law 87-653—the “Truth-in-Negotiations” Act of 1962. This law was passed largely as a result of a series of GAO reports showing how costs to the Government were increased substantially because contractors did not furnish, and the Government did not demand, adequate cost or pricing data for contracts awarded without competitive bids.

We made a sample review of 242 contracts negotiated since the law was passed. In the large majority of these contracts we found that verifiable cost and pricing data still were not identified adequately, notwithstanding the new law. Department of Defense officials and prime contractors had no record identifying the cost or pricing data submitted and certified to by the prime contractors and subcontractors in most of these cases to support significant cost estimates.

A similar broad examination of a large number of supply and construction contracts negotiated in Europe and the Far East showed essentially the same conditions. Insufficient cost and pricing data prevailed in the award of these contracts.

Let me mention other examples of the broader, across-the-board type of evaluation that we are making. We are surveying the extent to which facilities—such as buildings, furni-

ture, or equipment—used by Defense Department contractors engaged primarily on negotiated contracts are being leased rather than purchased. We want to know whether Government costs are increased appreciably as a result of these practices. And we want to know to what extent these leased facilities are used in the operations of the contractors.

We are making a survey of procurement practices of the Defense Department and the military services. We want to know and compare the degrees of competition sought in the award of procurement contracts by the military services, the appropriateness of the types of contracts awarded by each, the controls each service retains over approval of subcontracts and contract changes, and similar types of comparative information.

We also have undertaken a defense-wide review of Government-owned facilities and equipment in possession of contractors.

GAO Audit Work on Civil Agency Programs

My remarks so far have been directed largely toward GAO activities in the defense and space areas. Let me turn now briefly toward the areas of health, education, welfare, and urban development.

The commitments made by the Congress for new programs in all these areas are very large indeed and our auditors are heavily engaged in specific reviews of many types of new undertakings. Here, also, we plan to step up our efforts on extensive, across-the-board types of audit review.

Because these programs involve so many agencies and organizations out-

side the Federal Government, General Accounting Office audits are being carried to an increasing extent beyond the activities of the responsible Federal agencies into State and local agencies using Federal funds.

Need for Improved Communication in Intergovernmental Programs

The increasing responsibilities associated with our social programs have led many prominent officials to the conclusion that a greater dialogue among Federal, State, and local administrators is sorely needed. Duplication of effort, groups working at cross-purpose, and general inefficiency is the concern of many leaders.

Lack of technical competence and administrative ability which often identifies itself with "patronage" appointments contributes to this dilemma. Thus, Federal programs do not always achieve the intended goals—they frequently show lack of coordinated effort to the point of near failure.

There is also the question of greater State and local voice in the planning of Federal grants and national programs. Certainly little support can be mustered for those programs considered by local authorities to be of low priority compared with other programs they regard to be of high priority. Conflicts between Federal and local planning show the need for greater coordination in the programming and planning stages.

This was the force of the President's memorandum to heads of certain Federal agencies last November. He directed Federal administrators to take steps to afford representatives of

State and local governments the opportunity to advise and consult in the development and execution of Federal programs directly affecting the conduct of State and local affairs "to the fullest practical extent."

The President recently has recommended legislation to broaden educational and training opportunities for students planning careers in the public service and for public employees who desire to improve their skills. The President wants provision made for financial and technical assistance to strengthen State and local personnel management and to permit interchange of personnel between the Federal Government and State and local governments.

Legislative proposals toward these goals are now before the Congress but it may be some time before the Congress will enact some form of legislation. Meanwhile, I believe that there is much that can be done to improve intergovernmental relationships without violating basic principles held dear by various segments of our society.

Associations such as the American Society for Public Administration, the Federal Government Accountants Association, and others can hold regional conferences, with workshops where Federal, State, and local administrators, accountants, and educators can confront one another in professional discussions.

These forums present an excellent opportunity to break down barriers of misunderstanding. Discussions can provide solutions to the most perplexing problem.

In these sessions, Federal Government administrators could work with State and local executives to improve

budgeting and management. Our Federal administrators might learn even more than State and local administrators. There is no better way to allay apprehensions than to let all sides be heard.

How will the General Accounting Office fit into these new patterns of

interrelation? We will carry out the responsibilities given to us by the Congress. But I would like to emphasize that we will make every effort to do so within the spirit of the President's dictum when he said last November: "The basis of creative federalism is cooperation."