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TO THE
AMERICAN GAS ASSOCIATION CONFERENCE

FOR ITS CHIEF ACCOUNTING OFFICERS
SCOTTSDALE, ARIZONA

ON

THE GAO: HOW ITS ACTIVITIES
AFFECT FEDERAL REGULATORY POLICY

FEBRUARY 22, 1980

I am certainly pleased to be here before an important segment of the energy industry to discuss how the work of the General Accounting Office can influence Federal regulatory policies and practices affecting you. I will begin with some general comments about GAO and go on to some matters which may be particularly germane to your work.

When GAO was established by the Budget and Accounting Act of 1921, it was a financial audit agency--doing practically all of its auditing at GAO headquarters in Washington, D.C., where it examined vouchers and kept various appropriation accounts. Over the years, GAO evolved into a principal source of information and advice for the Congress.

The Budget and Accounting Act of 1921 protects the Comptroller General against outside pressure or influence with a nonrenewable 15-year appointment by the President and confirmation by the Senate. Once in office, the Comptroller

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General may be removed only by the Congress, for cause, and this has never happened. These, and other provisions of the law, go far to guarantee a Comptroller General's independence in office, and likewise GAO's.

Broadly speaking, the GAO's objectives cannot be separated from the Congress' needs for information and advice in carrying out its legislative and oversight or review responsibilities. The Congress requires reliable data not only on how efficiently the Federal departments and agencies operate, but also on how effectively they meet their objectives; this the Comptroller General endeavors to provide.

Today GAO's authority has been broadened and deepened by many laws. We have a staff of over 4,000 professionals drawn from many disciplines--accounting and the related fields of law, systems analysis, economics, and business administration. We also employ professionals from other disciplines which you might not as readily identify with auditing--for example, engineers and psychologists. About half the staff works in the Nation's capital while the other half works in our 15 regional offices in the continental United States and four small offices in Honolulu, Frankfurt, Bangkok, and Panama City. Many people are unaware that the Federal Government carries on its business in many places throughout this country as well as in many other countries throughout the world. We place our staff "where the action is" whenever possible.

GAO's primary role today is the analysis--or if you prefer, audit--of Federal programs to determine if services can be performed more efficiently and objectives achieved more economically. We are required by law to audit periodically all Government Corporations, such as TVA, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board. Some legislation specifically directs us to evaluate or audit specific programs or activities and report to the Congress by a given date. Congressional committees and individual members ask us to look into a great variety of Federal operations of particular concern to them--energy issues being a prime example.

Our work on specific requests from the Congress takes about 35 percent of our total staff time. With the remaining 65 percent, we review as many of the key Federal programs and activities as we can, in accordance with an organized plan of priorities based on our perceptions of Congressional interest and major national issues for which the Congress will need our input. Last year we issued about 1,000 reports on subjects ranging from accounting to health care programs.

GAO has no power to enforce its recommendations. Our work is advisory. Our success in improving Federal operations depends basically on the strength of our factual analysis, the persuasiveness of our findings and recommendations, and the support our reports receive from the Congress, the press, and the public.

As you can well imagine, the agencies don't always agree with our conclusions and recommendations, nor does the Congress. But we have a fairly good batting average. Even though most of the improvements resulting from our work can not be measured in dollars, last year GAO recommendations saved the taxpayers about \$2.6 billion. Also, GAO takes credit for many other improvements in Federal programs.

GAO OFTEN ADDRESSES
"HIGH VISIBILITY" ISSUES

In many instances, our reports address the hottest issues of the day--Iran, Three Mile Island, GSA, and Government fraud. Often GAO already has studied an issue and sent the Congress a report on it weeks before it makes page one.

Look at Iran. Shortly after the crisis started, a reporter wanted to know if GAO had ever questioned security at embassies. Yes, in an April 1979 report, "What's Being Done to Protect the U.S. Diplomatic Community from Terrorism?"1/

And Three Mile Island. The day the accident took place, I signed a report on "Areas Around Nuclear Facilities Should Be Better Prepared for Radiological Emergencies."2/ This report, which was available to the Administration in draft form before the accident occurred, predicted the lessons reinforced by the events after the nuclear accident.

General Services Administration. When the press publicized its scandals, we were able to point to a large number of GAO

1/ID-79-3
2/EMD-78-110

reports criticizing the GSA management practices which made graft and corruption feasible. No one was listening.

Prevention of Fraud. In our September 1978 report, "Federal Agencies Can, and Should Do More to Combat Fraud in Government Programs,"^{1/} we pointed out that while no one knows the magnitude of fraud and abuse against the Government all indications are that it is a problem of critical proportions. Fraud usually is hidden in legitimate business and usually goes unreported. It occurs most often where internal controls are weak or absent.

In January 1979, I established a Special Task Force for the Prevention of Fraud and assigned substantial staff resources to assist the task force. The major responsibilities of this group are to

- evaluate the adequacy of Federal agencies' management control systems which are necessary for the prevention of fraud, and
- assess the adequacy of corrective actions taken on reports of agency auditors and investigators.

You may already have heard about the hotline which the fraud task force established. Over the past year we have received about 14,000 calls. We've received some rather unusual calls--one fellow asked GAO to help him get a refund for the poor quality of marijuana he recently purchased.

^{1/}GGD-78-62

However, about 40 percent of the calls appear substantial and are written up for further evaluation by agency inspectors general or by the Department of Justice.

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Let me now turn to four issues of more direct concern to you, issues GAO also is keenly interested in. The four are:

- Federal regulation and its reform,
- Federal paperwork requirements placed on the non-Federal sector,
- Regulatory accounting and financial reporting, and
- Energy policies and programs.

GAO has assigned high priority to these areas.

GOVERNMENT REGULATION

Government regulation has a far reaching impact on our economy. It is essential that regulations be limited to those that are necessary, and that they be as cost-effective as possible. This is particularly important given the expansion in Federal regulation in recent years. Between the end of the 1960's and the mid-1970's, about 2 dozen regulatory agencies were created and there was greatly increased Federal regulation, particularly to achieve the goals of cleaning and protecting the environment and ensuring every worker a safer and more healthful workplace.

The Congress is concerned about the unintended adverse consequences of regulation and is considering a number of regulatory reform proposals. We are actively helping the Congress evaluate the alternatives.

GAO has issued almost 100 reports over the past 3 years and has testified or commented on all the major regulatory reform bills introduced in this Congress. We strongly support reforms that would require regulatory agencies to carefully and comprehensively evaluate the effects of proposed and existing regulatory rules. Appropriate analyses should identify and help prevent adverse regulatory effects.

Ideally, proposed regulations should be subject to cost-benefit analyses. Such analyses, however, require information on all possible costs and benefits and on the probabilities that they will occur. Since this information is usually unavailable, a search for the one "best" regulatory alternative may be illusive. Agencies can only make estimates of costs and benefits. In some cases qualitative, non-numerical assessments may have to suffice.

Beyond the sheer magnitude of costs, there are several other economic impacts that should be considered. First, regulatory analyses should focus on the distribution of these costs among different segments of the population. Many of the costs attributed to health, safety, and environmental regulation are not new, but what has changed is who pays those costs, and this should be analyzed.

Second, the projected effects of regulation on differing industries and regions should be scrutinized to see whether there will be a disproportionately great impact.

Finally, the effects of regulation on the structure of an industry should be assessed. This assessment would include the effects on the position of small business.

No one of these considerations should, by itself, determine whether a regulation should be implemented. But, together, they are key elements in making a sound regulatory decision.

GAO'S ROLE IN CONTROLLING PAPERWORK BURDENS

Regulation often means paperwork. Of course, we want to be sure that appropriate regulatory goals are achieved. But GAO also has long been concerned with reducing unnecessary Federal paperwork requirements placed on the public.

We have increased our efforts in this area during the past few years. Our activities have included supporting the work of the Commission on Federal Paperwork, carrying out our statutory responsibility for reviewing individual forms and questionnaires proposed by the independent regulatory agencies, and conducting a broad program of audits designed to assess how well the Federal agencies are managing their information demands on the public.

I was a statutory member of the Commission on Federal Paperwork, which ended its 2-year study in October 1977. The Commission developed several hundred recommendations proposing solutions for major Federal paperwork and reporting problems affecting all sectors of our society. We have since worked closely with the Congress in developing legislation which would implement many of the Commission's most important recommendations.

I testified just a few days ago on this legislation, which is titled "The Paperwork Reduction Act of 1980," H.R. 6410. A key element of the bill provides for consolidating within OMB the currently fragmented paperwork control responsibilities with other closely related information management policy and oversight responsibilities. The bill contains provisions which I believe will go a long way toward improving the Federal Government's ability to manage not only its information demands from the public, but its internal information resources as well.

Under a 1973 amendment to the Federal Reports Act, GAO conducts advance "clearance" reviews of individual forms and questionnaires proposed for use by the independent regulatory agencies. Our efforts in this area are limited to determining that the information requested is not available from other Federal sources and that the burden imposed on the public is minimized.

Despite this limitation, we have had some success in working with the agencies to control paperwork burdens. For example, in reviewing an Office of Surface Mining requirement for information on coal production, we identified several other agencies which required similar information. Our staff convened an ad-hoc group representing the various agencies and got them working together to consolidate and standardize their information requirements. This effort has already resulted in plans for consolidating two agencies' separate requirements. We are hopeful that further progress can be made.

In our more conventional audit mode, we recently completed a report to the Congress on the effectiveness of the Federal paperwork control process as administered by OMB and the individual agencies. Our report recommended that OMB shift its emphasis from reviews of individual information requirements to evaluating the adequacy of controls in the departments and agencies. OMB agreed with our recommendation and has begun to take implementing actions.

We also are nearing completion of the first in a series of reviews of paperwork problems affecting American businesses. This work, requested by the Joint Economic Committee, will cover broad functional areas such as agriculture, transportation, environmental protection, and energy. A critical aspect of these studies is on-site observation and analysis of the time and costs required to complete Federal reporting requirements. It is quite possible we may call on some of you for assistance in this work.

Clearly, bringing Federal paperwork burdens under control is an issue of great concern to both the President and the Congress. I believe that some progress has been made, but much remains to be done. I expect that GAO will continue to be heavily involved in this issue.

REGULATORY ACCOUNTING
REQUIREMENTS

In mid-1978, GAO undertook a new effort which I believe is of particular interest to you as chief accounting officers. The primary objective of this group, the Regulatory Operations Group, is to improve the regulatory process by reducing the burden on industry respondents. The group does this by addressing the following questions:

- Have accounting rules established by Federal regulatory agencies been simplified and standardized to the extent possible?
- Have financial reports required by Federal regulatory agencies been simplified and standardized to the extent possible?
- How is accounting and financial information used in ratemaking?

Concerning the first area--accounting rules--as soon as we had indications that development of a revised accounting system for the telephone industry was "in trouble," we looked into how the Federal Communications Commission went about developing a new Uniform System of Accounts for that industry.

We reported to the Congress last November that, although the FCC began developing a new regulatory accounting system for the telephone industry about 4 years ago, progress has been slow and the outlook for its early implementation is dim.

Since the Congress is considering amending the Communications Act of 1934 to allow less regulation and more competition for the telephone industry, the need for a revised accounting system for the industry might become even greater.

We recommended ways to speed up the system's progress, including formally appointing an overall coordinator, providing adequate funds, identifying specific user needs, and planning effectively for developing as well as using the revised system.

Interestingly, the Chairman of the Federal Communications Commission, in response to our report, stated on several occasions that the report, although critical of the Commission, was directly on target, and he promised to take the corrective actions we recommended. There have also been comments that the report was well received by the Congress, the industry, and State regulatory commissions. We take pride in this and like to think future reports of the Regulatory Operations Group will be received just as well.

Now, the group is reviewing

- the Interstate Commerce Commission's progress in implementing and using a new uniform system of accounts for the railroad industry,
- how independent Federal regulatory agencies insure that only the information needed for their missions is collected,

--the accounting for track and roadbed structure in the railroad industry, and

--the Department of Energy's progress in establishing a computerized data bank for regulatory information.

We expect to report to the Congress very soon on ICC's progress in implementing and using the new system of accounts for the railroad industry. Because of pending legislation and public interest in stabilizing the railroad industry, both the Congress and the railroads are quite interested in this review, and we hope our conclusions and recommendations will assist the regulatory process for the railroad industry.

The last of the Regulatory Operations Group's four ongoing reviews perhaps is the most relevant to your industry. Our auditors are still in the early stages of looking into the progress of a regulatory system concept of the Energy Department dating back to the early 1970's. Some of you, I'm sure, are aware of the lengthy history of the so-called Regulatory Information System (sometimes referred to as the Respondent Information System) for which the Federal Power Commission originally had responsibility. The system was intended to centralize in a large computerized data base, most of the information reported by electric transmission and natural gas pipeline companies.

The Regulatory Information System was reviewed by the Commission on Federal Paperwork, which made several recommendations to reduce the burden it would place on industry. GAO briefly followed up on implementation of the recommendations and reported to the Paperwork Commission in September 1977. Still the system is not yet fully operational, and we plan to look at its current status and the relationship of this system to other Energy Department regulatory systems in operation or under development. We probably will issue a report to the Congress on that review some time late this year.

The Regulatory Operations Group plans to soon look into (1) the need for cost standards among Federal regulatory agencies, (2) how to consider "negative salvage" in both accounting terms and in ratemaking considerations, (3) the feasibility of greater standardization of financial reporting; and (4) the advantages or disadvantages of having certified public accountants certify to financial and nonfinancial data.

We have another review underway which may interest you. The Congress enacted the Foreign Corrupt Practices Act in December 1977, and gave the SEC and Justice Department shared responsibility for enforcing it. Violators of the act's accounting and antibribery provisions may be fined and imprisoned. We are currently assessing the impact of that act.

GAO INTEREST IN ENERGY
POLICIES AND PROGRAMS

We in GAO are very interested in the development of national energy policies and programs which will minimize our intolerable dependence on imported energy. The development of our domestic natural gas resources is an important part of the balanced program the Nation needs.

The 1973-74 oil embargo triggered a continual outpouring of energy-related legislation. In October 1978, much of the Administration's plan was, after long consideration, enacted. Moreover, the Congress is considering many other proposals with wide ranging ramifications. Much of this legislation does, or would, require GAO to report on the effectiveness of energy programs.

Several important pieces of legislation, which have prompted GAO to devote significant resources to studying various aspects of domestic gas production are:

- The Energy Policy and Conservation Act of 1975. One of the act's objectives is to establish a reliable energy data base for the production of crude oil and natural gas. The act requires the Securities and Exchange Commission to take steps necessary to assure that accounting practices are developed for, and observed by, people engaged in the production of crude oil or natural gas in the United States. In this regard the act requires the Commission to consult with the General Accounting Office.

--The Alaskan Natural Gas Transportation Act of 1976.

This act established the decisionmaking process and deadlines for selecting a transportation system to deliver North Slope Alaskan natural gas to U.S. markets.

--The Department of Energy Organization Act. This act provides for GAO to monitor and evaluate all the Department's functions and activities.

--The Natural Gas Policy Act of 1978 which contains provisions for natural gas pricing, emergency authority, and curtailment priorities.

The Congress is also now considering additional key energy legislation which has implications for both GAO and the gas industry, namely, the Windfall Profits Tax Bill, the Energy Mobilization Board Bill, and the Energy Security Act which provides for a security corporation to develop synthetic fuels as well as providing for other energy measures.

GAO recently completed several studies of national issues related to natural gas--and is still working on more. I will briefly discuss some of them.

What are the prospects for U.S. petroleum and natural gas production?

Domestic production supplies about half of America's consumption of petroleum and natural gas. Therefore, prospects for future domestic production are crucial to the Nation's energy future.

In a report issued last December we analyzed future trends in light of the physical factors affecting U.S. production. 1/ Future oil and natural gas production trends are not optimistic. Given the realities of the U.S. resource base, it is unlikely that production can even be held at current levels, let alone increased, in the next two decades.

While estimates are not precise, they suggest that domestic oil and natural gas will at best achieve some stability by the 1990s, but at production levels below those of today.

Let me point out one interesting feature of our work in this area. Our first estimates in early 1975, of future domestic petroleum and natural gas production were among the most pessimistic. Our most recent analysis is consistent with our analysis of 4 years ago--and during this time other analysts have become more cautious in their estimates.

Policy needed to guide
regulation of natural gas
from Federal lands

Over the past decade there have been repeated requests from all sectors of the United States, including the Congress, State governments, and the public, that the Government provide guidance on the role that natural gas from Federal land should play in meeting the Nation's energy needs. Last June, we

1/"Analysis of Current Trends in U.S. Petroleum and Natural Gas Production" (EMD-80-24, Dec. 7, 1979).

reported 1/ on the many adverse effects of not meeting these requests.

We said that the Government needs to establish (1) regulations to guide lessees' activities for the exploration, development, and production of natural gas from Federal lands and (2) a policy on the role of natural gas produced from Federal lands in the context of a national gas policy relative to the Nation's total energy needs and resources.

How should a synthetic fuels industry be financed?

GAO supports the idea of developing a synthetic fuels industry. However, we firmly believe that synthetic fuels must be part of a balanced program to reduce oil imports.

How can synthetic fuels production best be stimulated? The answer to this question must be based on the characteristics of such production--it will be complex, capital intensive, and technologically challenging. Moreover, significant production should not be expected until at least the late 1980s.

Because of the characteristics of synthetic fuels production, Federal involvement in the development of a synthetic fuels industry seems inevitable and desirable. Assuming that Uncle Sam will help to foot the bill, what financing mechanisms are most appropriate?

Assistance is available in a wide variety of forms. Each has certain benefits in terms of the extent of Government

1/"Policy Needed to Guide Natural Gas Regulation on Federal Lands" (EMD-78-86, June 15, 1979).

involvement. For each there is a degree of certainty of production, an extent of Federal and private risk, an impact on capital markets, and other characteristics. We concluded in an October 1979 report 1/ that price and purchase guarantees are preferable to loans and loan guarantees for three main reasons. Price and purchase guarantees provide greater certainty to synthetic fuel producers, greater certainty to the Government, and less severe affects on capital markets.

How should the proposed Alaska Highway Gas Pipeline project be financed?

The President and the Congress in 1977 approved construction of the Alaska Highway Gas Pipeline Project, a system to transport natural gas from northern Alaska to midwestern and western U.S. markets.

At that time, the project was expected to be privately financed; Federal financing assistance was explicitly rejected, according to the President's 1977 decision to develop the project. Last year, however, the then Secretary of Energy, in response to a question from the Joint Economic Committee, discussed the possibility of \$2 to \$3 billion in Federal loan guarantees for one segment of the project.

1/"Alternatives for Reducing Oil Imports by 1990; and Current Status of Recommendations in a 1976 GAO Report," letter report to the Chairman, House Subcommittee on Energy and Power, (EMD-80-18, Oct. 26, 1979).

We reported, last October 1/ on delays in the project's original completion dates and on the possibility of further delays stemming from the granting of Federal and State rights-of-way and the treatment of costs for purifying, compressing, and chilling the natural gas.

The international energy situation has increased interest in the question of Federal financial assistance for the project. Although the sponsors and the Government are working to have the project privately financed, we believe that the Government should be in a position to make an informed decision on Federal financial assistance, if proposed. In our view, the Congress should not consider Federal financial involvement until

- all regulatory procedures are completed and
- the sponsors show conclusively that the project cannot be financed privately.

However, should financial aid be requested, the Congress should evaluate alternative sources of natural gas as well. Such sources could include conservation opportunities, intensified drilling in the lower 48 States' frontier areas, production from unconventional natural gas sources, and imports from Canada, Mexico, and other foreign sources.

Finally, we advised the Congress, if it decides to grant financial aid, to

1/"Issues Relating to the Proposed Alaska Highway Gas Pipeline Project," (EMD-80-9, Oct. 26, 1979).

- evaluate all feasible alternatives for Federal financial involvement and
- ensure that the public interest is served and that the Government has an appropriate control over, and return on, its investment.

Potential impacts of Alaskan, Canadian, and Mexican natural gas and oil

Estimates of recoverable resources of natural gas and oil potentially available to the U.S. market have been revised sharply as a result of discoveries in Alaska, Mexico, and Canada. We are currently assessing several major issues related to these relatively recent discoveries. We will be issuing a report within the next few months.

Review of provisions and implementation of the Natural Gas Policy Act of 1978

The Natural Gas Policy Act of 1978 contains several crucial provisions which we are examining. Specifically, the act

- establishes a series of maximum lawful prices (periodically escalated) for various categories of natural gas;
- requires that natural gas be priced incrementally;
- specifies when the price of certain categories of natural gas will be deregulated; and
- establishes curtailment priorities to protect high priority users of natural gas from supply curtailment.

The Federal Energy Regulatory Commission (FERC) has primary responsibility for administering and enforcing the act while the States determine the price natural gas producers are eligible for if the well is located on lands subject to State jurisdiction. Likewise, the U.S. Geological Survey makes this determination if the well is on Federal land. Determination of eligibility is subject to FERC's review and can be appealed to the courts if FERC remands or reverses the determination of a State or the Geological Survey.

We are currently reviewing FERC's progress and problems in designing, implementing, and operating a program for incrementally pricing natural gas sold to certain industrial users. We will report our findings within the next 2 months.

Also, we will soon begin two other reviews involving the Natural Gas Policy Act of 1978. One will concentrate on FERC's implementation of the wellhead pricing provisions of Title I and the other will evaluate the impact of the act on natural gas supplies and prices.

Finally, as chief accounting officers, I'm sure you are all vitally interested in the recent efforts directed toward development of uniform accounting for the oil and gas industry. The Energy Policy and Conservation Act of 1975 spurred these efforts by requiring the development of an energy data base and related accounting standards.

GAO was brought into the project, through section 503 of the act, to perform a twofold role. First, consistent with our

traditional role in the Government, we oversee the work of the Securities and Exchange Commission and the Department of Energy and advise the Congress of additional actions required to fulfill the intent of the act. Second, we have a role as consultants to the SEC since Section 503 requires SEC to consult us in developing accounting practices. The approach we have taken to our role has been to closely monitor the efforts of SEC and DOE and to informally provide observations on their work as the project progresses.

CONCLUSION

As you can see, GAO's work covers a wide range of topics within the Government, and how Federal policies and programs affect the business community. If any of you have any suggestions for GAO reviews or audits, please let us know. Of course, since we have priorities to consider, I cannot promise that your suggestions will be acted upon, but they will be considered. Also, we publish a monthly list of GAO reports which are available to the public, and we would be pleased to put you on the mailing list for this publication if you wish.

This concludes prepared remarks. I will be glad to answer any questions.