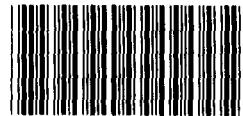


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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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Statement of  
  
Charles A. Bowsher  
  
Comptroller General of the United States  
  
Before The  
  
Committee on Governmental Affairs  
  
United States Senate  
  
on the  
  
The Recommendations of the President's Private Sector  
  
Survey on Cost Control



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Mr. Chairmen and Members of the Committee:

I am pleased to be here today to discuss the results of our review of the recommendations made by the President's Private Sector Survey on Cost Control--commonly known as the Grace Commission. We conducted this review over an 8-month period during which we reviewed each of the Commission's 784 issues and 2,478 associated recommendations. We based this review on previous and ongoing audit work and the broad institutional knowledge of our staff about the areas addressed by the Commission. From this experience and information, we judged that we had a reasonable basis for providing views on nearly 600 issues and over 1,400 recommendations.

#### OVERALL OBSERVATIONS

You asked that my testimony address our overall impression of the Grace Commission's report as well as whether substantial savings and improvements would result by implementing the Commission's recommendations. At the outset let me say that I believe it is worthwhile for external bodies such as the Grace Commission to periodically examine federal operations with an eye toward improving efficiency and effectiveness. In this context, we responded to the Commission's request for assistance, providing background information on federal programs and literally hundreds of previous GAO reports.

Reaching overall judgments about the quality and value of the Commission's report, however, is extremely difficult because the Commission's proposals are so diverse and our reaction so varied.

Accordingly, while our report contains our views on many of the Commission's proposals, we believe assessments of the Commission's report should focus on the relative merits of the individual proposals.

While it is difficult to reach an overall conclusion about the Commission's report, the theme of both our recent report to you and the February 1984 report prepared jointly with the Congressional Budget Office (CBO) is that many of the Commission's recommendations we examined have merit but the basis and reasonableness of the associated savings estimates are often questionable. For example, the February 1984 joint report focused on nearly 400 of the Commission's recommendations which account for almost 90 percent of the potential 3-year savings claimed by the Commission. In that report, CBO estimated savings to be one-third the level of Commission estimates (\$98 billion compared to \$298 billion) for 67 sets of issues on which it had sufficient information to prepare an estimate. We generally agreed with about two-thirds of the 400 individual recommendations but disagreed with many of the policy-oriented recommendations with the largest savings potential.

Our most recent report to you maintains this same basic theme. This report reflected additional work we had done to address the remaining Commission issues and recommendations which dealt largely with management improvements. To provide a complete account of our views, we also included the issues previously addressed in the joint report. Once again we found merit in a substantial number of the issues and recommendations on which we were able to comment.

Many of the recommendations in fact were similar or related to recommendations we made in previous GAO reports and testimony. However, we continued to disagree with many of the policy-oriented recommendations and to question the reasonableness of the associated savings estimates, finding numerous problems with the way the estimates were prepared. We believe, therefore, that many of the Commission's recommendations we examined would contribute to increasing management efficiencies but frequently would not generate the level of savings estimated by the Commission.

Finding ways to close the budget deficit is the most critical challenge facing the President and the Congress today. Unfortunately there are no painless solutions. We cannot balance the budget just by eliminating fraud, waste, and abuse or by increasing efficiency. These are certainly worthwhile objectives which should be vigorously pursued. However, fundamental progress in addressing the deficits depends largely on the willingness to make tough policy choices on the nature and levels of federal services and revenues. In this connection, we found that the Commission recommendations with the largest associated savings potential were often proposals to change policy and not to reduce waste or improve efficiency in any commonly recognized sense. As indicated earlier, we disagree with a number of these policy recommendations including, for example, those aimed at fundamentally restructuring federal subsidy programs and tying federal health care cost increases to a percentage of the gross national product.

## SPECIFIC ISSUES

The specific Commission issues you asked me to address today range widely across numerous aspects of federal management systems and program activities. For purposes of presentation I have combined the issues into eight categories:

- overall management systems
- federal employee productivity
- automated data processing
- civilian procurement
- defense programs
- natural resources and community development programs
- Postal Service operations, and
- tax collections.

### Overall management systems

The Commission presented a number of recommendations aimed at improving overall federal management systems including accounting, budgeting, monitoring and oversight. In particular, the Commission found that no single department or agency is responsible for overall administrative direction and policy setting. The impact of this fragmentation, in the Commission's view, is a "lack of attention focused on significant opportunities for cost reduction and management improvements." To remedy this situation, the Commission made six recommendations centered around establishing an Office of Federal Management (OFM) within the Executive Office of the President to provide centralized leadership and policy direction.

Many of the Commission's findings in this area, including the diffusion of responsibilities for financial management, are valid. While we have not yet taken a position on the establishment of an OFM, consideration should be given to the various proposals for dealing with the problem, including that of the Commission. The Commission's proposal warrants attention because it raises important institutional issues about the central management agencies' capabilities to provide leadership to needed crosscutting management improvement initiatives. Individual federal agencies have primary responsibility for improving internal management, but the President and OMB also have a responsibility to provide guidance and support in crosscutting areas such as procurement, information management, and financial management.

This last area--financial management--is of special interest and concern to me. The Commission noted that the increasing size and complexity of the federal government requires that the Congress and executive branch managers have timely, reliable, and useful information upon which to make effective policy and operational decisions. Advances in management and accounting have enhanced the government's ability to plan, execute, and report on its activities and to institute management improvements. However, the absence of a sound financial management structure has inhibited management improvements aimed at providing the information upon which effective policy and operational decisions can be made.

The Commission reported opportunities to improve executive branch accounting and budgeting systems and thereby improve the

quality of information available to the Congress for authorizing executive branch programs and to agency managers for instituting management improvements, reducing costs, and minimizing agency exposure to fraud, waste, and abuse. We agree that accounting and budgeting improvements are needed. However, such an effort must have a solid base of fundamental concepts to guide it and to present the baseline assumptions from which changes can be made. To this end, we have recently released a two-volume report, entitled Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35, February 1985). This report is intended to promote discussion about the need for reform and to suggest one possible way of building a sound financial management structure.

Relatedly, the Commission made numerous recommendations to improve the government's federal credit and cash management practices. One specific recommendation was that OMB should request federal agencies to prepare action plans and timetables outlining how they plan to enhance their cash management procedures. GAO supports and has previously recommended the need for the government to continually seek ways to effectively manage its cash. In this regard, we agree with the Commission that OMB, with Treasury, could appropriately establish cash management goals.

#### Employee productivity

The Commission made several recommendations to improve the productivity of federal employees by establishing an increased

governmentwide focus on productivity improvement. The Commission recommended that (1) OMB establish a permanent office with responsibility for promoting and coordinating formal, visible governmentwide productivity improvement programs, (2) the Office of Personnel Management support OMB's efforts with respect to the human factors of productivity improvement, (3) the government increase the incentives and eliminate the disincentives to productivity improvements, and (4) the performance appraisals of government managers and subordinates include an evaluation of their efforts to promote productivity improvement.

These recommendations are consistent with previous GAO recommendations. Productivity improvement offers an opportunity for significant cost reductions that is not being adequately addressed. Federal productivity is improving at a much slower rate than in private and public organizations that have focused on improving productivity. Steps such as those recommended by the Commission would help provide the focus necessary to improve federal performance in this area.

The Commission also made several recommendations for improving the productivity of federal craftsmen who perform maintenance on the federal government's real property. These recommendations included

- establishing a governmentwide maintenance productivity improvement program,
- fixing central responsibility for productivity improvement within each agency,



--developing performance indices for property maintenance,  
--using standards and variance analysis to improve planning  
and scheduling, and

--hiring outside consultants to help get the program started.

The Commission's recommendations are similar to those we have made in several reports, and, in general, we support them.

One of the major obstacles to productivity improvement has been the lack of a coordinated, governmentwide program. Consequently, we are pleased that the administration's recent report, titled Management of the United States Government, outlines a framework for such a program.

#### Automated data processing

The Commission identified 65 issues encompassing more than a hundred recommendations which call for improving federal automated data processing/office automation (ADP) activities. The Commission found that the federal government has not been effectively managing its information technology resources resulting in resources that are obsolete and inefficient. According to the Commission, the primary reason information technology resources have not been managed effectively is that OMB has not exercised managerial control over these resources, but has instead directed its efforts toward regulatory reform.

The Commission recommended that (1) the President appoint a Federal Information Resource Manager to serve in a proposed Office of Federal Information Resources Management and (2) the resources

provided to OMB under the Paperwork Reduction Act be moved to this Office.

We believe that, instead of implementing these recommendations, the Congress should direct OMB and the accountable officials in each agency--the management structure established by the Paperwork Reduction Act--to carry out the requirements of the act. There is little basis for believing that simply creating a new office for this purpose would be an improvement on the existing management structure. Also, creating a new office, in and of itself, will not ensure that OMB's current ADP responsibilities, which would be transferred to the new office, would be better carried out. We believe solutions to the federal government's ADP management problems depend on top management attention, adequate staff resources, and a commitment to solve identified problems, all of which can be accomplished under the existing structure.

Several other recommendations made by the Commission also relate closely to provisions of the Paperwork Reduction Act. For example, the Commission recommended that:

- An OMB instruction be revised to better define the role and qualifications needed by the agency information resource manager;
- Steering committees be established in each agency to guide the information resource manager; and
- Data processing activities in the Health Care Financing Administration be consolidated under a career professional

manager who reports directly to the Administrator and responsibility be assigned for creating a long-range strategic ADP plan.

We believe these recommendations have merit; OMB's formal guidance related to the agency information resource manager has been minimal, and steering committees can serve an important function in advising information resource managers. Further, placing ADP responsibility with a career professional manager at the Health Care Financing Administration could help the information resource manager ensure that the agency's information resources are used efficiently.

The Commission also found that specific agencies were experiencing a variety of other problems. To correct these problems, the Commission made numerous recommendations. For example, the Commission recommended that, to improve the implementation of its Systems Modernization Plan, the Social Security Administration should (1) reorganize certain data processing functions, (2) strengthen strategic and tactical planning for ADP resources, (3) obtain and retain highly skilled ADP professionals, and (4) improve the monitoring of contractor performance. We generally agree with these recommendations.

#### Civilian procurement

Of the many Commission issues in this area, you asked that I focus my remarks on one--increasing the use of centralized procurement. The Commission recommended that the General Services Administration (GSA) centrally procure more of the common-use

items such as paper, typewriters, tools, and furniture, now being procured by individual agencies. We generally agree with this recommendation. Numerous studies over the years, including some we have done, have encouraged centralized procurement when savings can be achieved, while maintaining quality and service. The Commission recommended that GSA conduct studies with the major agencies to identify those specific items which GSA should procure. We agree that further work is needed to identify the potential savings available and the changes necessary to achieve them.

I would also like to mention that, at your request, we are just beginning a series of reviews of GSA's procurement activities. One of the issues you asked us to address--agencies' reasons for not using GSA to obtain goods and services--relates closely to this Commission recommendation.

#### Defense programs

During our review we examined over 100 Commission issues dealing with defense programs. You asked me to focus on five dealing with weapons system cost estimating, commissary operations, and federal medical care facilities. Concerning weapons system cost estimating, the Commission recommended procedures aimed at generating more soundly conceived DOD cost estimates so that better decisions can be made and cost overruns can be reduced. We support the intent of these recommendations and, in fact, have reported that overoptimistic cost estimating is a major contributor to weapon systems cost growth. There are no easy solutions to the problems inherent in the acquisition process. What is needed is a sustained

and systematic approach towards addressing the problems. The Commission's recommendations in the cost estimating area reaffirm some valuable insights and should be useful within the overall framework for addressing the problems. For example, the problem of assuring affordability of each system before proceeding with production commitments needs greater emphasis and giving this responsibility to the Controller of DOD as recommended by the Commission may provide an independent evaluation within the context of a broad perspective of DOD financial matters.

While broadly supporting the Commission's objectives in this area, we believe several of the Commission's recommendations are impractical. In one such case, the Commission recommended withholding budget figures from the public during the request for proposals process. According to the Commission, this should enable the government to negotiate from a stronger position and obtain a better contract, but we do not believe it is practical for DOD to withhold such information because the DOD budget is publicly debated.

Concerning the Commission's recommendations to close or privatize military commissaries, we note that the debate over whether DOD should operate retail establishments, such as commissary stores, within the United States in direct competition with private industry is a question that has been before the Congress for at least the past 35 years. Nonetheless, military commissaries in the United States are still with us. Once again, as have previous study groups, the Commission recommended that, as a cost-saving

measure, they either be closed or turned over to the private sector to operate. But, the real question is: Would closing commissaries or "privatizing" them in today's environment actually save money?

Despite the work done on this issue by the Commission, the simple fact is that no one knows for sure. The question remains whether such an action could end up costing the government more to retain service personnel who highly value this benefit than the approximately \$470 million a year it costs to keep commissaries open.

It is very important to recognize that, whether the Congress intended it or not, personnel surveys done for the DOD show that the commissary privilege has become, in the minds of service members, a very important non-pay component of their compensation package. Service people may or may not have a correct perception of the value of this benefit, but nonetheless, if it is removed and nothing put in its place, retention could drop. To counteract these losses, some other action might have to be taken--pay raised, bonuses increased, or some other benefit enhanced that would be perceived by service members as equal in value to their lost commissary privileges. This tradeoff analysis has not been done by DOD, or by anyone else. Consequently, the manpower effect and cost implications of closing or "privatizing" commissaries is not known.

To begin the process of learning what commissaries are actually worth to service families, the Commission recommended that an independent market basket survey be done to determine just how much people save by shopping at commissary stores. We support this

recommendation. It is our understanding that such a survey is underway and will be completed by the end of this year. With such information in hand, we would urge DOD to mount an educational campaign to help service members correctly understand the true value of this benefit. DOD would then be in a position to properly evaluate whether the government would in fact save money by closing or "privatizing" commissary stores.

Concerning federal medical facilities, the Commission stated, and we agree, that federal hospitals and clinics have not taken sufficient advantage of sharing opportunities as a way to reduce costs and enhance their patient care capabilities. The Commission made several recommendations to promote the concept of federal medical resource sharing.

For nearly a decade, we have pointed out opportunities for (1) better coordination among federal agencies when they plan and construct facilities and (2) increased sharing of the already substantial inventory of federal medical resources. In 1978, we recommended that the Congress enact legislation to address several systemic obstacles that impeded sharing among federal hospitals and clinics. Legislation similar to what we recommended was introduced in 1980, considered by this Committee, and enacted in May 1982 as Public Law 97-174.

DOD and VA appear to have made some progress in implementing P.L. 97-174. We understand that about 130 sharing agreements have been finalized between 70 military and 68 VA hospitals or clinics.

These agreements, some of which are beginning to involve the sharing of inpatient services and staffing, are expected to result in annual savings of about \$15 million. As the Commission stated, however, much remains to be done to fully achieve the cost avoidances available through sharing. For example, we believe that better coordination among the military services and between DOD and VA needs to occur before funds for medical facility construction are requested from the Congress. In addition, some changes to P.L. 97-174 may be appropriate, primarily to enhance VA's ability to provide services for military dependents.

Natural resource and community development programs

You also asked us to focus on two of the more than 150 Commission issues our report addresses in the natural resource and community development programs area. In the first case, dealing with the reorganization of federal land management, the Commission recommended that the Bureau of Land Management (BLM) and the Forest Service expand implementation of land jurisdiction transfers between the two agencies and combine common administrative functions such as personnel training and public relations, primarily in the western states. We agree with these recommendations. Most of the land outside of Alaska managed by BLM and the Forest Service is located in the 12 western states. Current boundaries of BLM and Forest Service lands in those states are largely the result of historical accidents, and in many cases, the lands of one agency adjoin or are surrounded by the lands managed by another agency.



Because BLM and the Forest Service now manage their lands for similar uses and purposes, transfers to improve the two agencies' land management patterns has the potential to reduce land management costs, improve management efficiency, and increase public service.

In the second issue, the Commission estimated that nearly \$1 billion could be saved over 3 years if the Department of Transportation used better techniques for allocating highway program funds to states. Specifically, the Commission recommended consolidating related highway programs and allowing the states to determine which programs to fund. The Commission believed this would lead to states eliminating funding for many lower priority highway programs. While we have not specifically evaluated consolidating highway programs, we have been in favor of consolidating closely related programs within a functional area to improve administrative efficiency and reduce the potential for duplication in other programs. We are not at all certain that \$1 billion could be saved, however, because the Commission does not explain the rationale behind its assumption that, in the course of consolidating programs, states would eliminate expenditures of this magnitude.

#### Postal Service operations

Of the 39 Commission issues involving the Postal Service you asked that we focus on two--the use of casing trays to improve mail delivery operations and the establishment of a centralized marketing organization.

We believe the proposal that mail carriers use trays to expedite their efforts to sort mail for delivery on their routes merits

exploration. Carriers presently sort or "case" mail using a compartmentalized piece of equipment called a casing box. After sorting is completed, carriers pull out the mail from each compartment, bundle the mail, and tie each bundle. Under the casing tray concept, the shelves in the casing box would be replaced by trays which the carriers would remove and carry with them when filled with sorted mail. This would save carriers the time required to pull out, bundle, and tie the mail. The increased efficiency would enable carriers to spend more time delivering mail, and could reduce the number of employees required, thus contributing to lower delivery costs.

The Commission recommended that the Service design casing trays and field test prototypes of the trays. The Service has tested the casing tray concept and found the equipment difficult to handle and too space consuming. However, a redesign of casing equipment grew out of the tray concept and, according to the Service, the redesigned equipment shows promise. We understand that the Service plans to purchase several thousand units of the redesigned equipment sometime this year.

The Commission also raised the issue of whether the Service could become more effective in its relationship with its customers and more successful in the implementation of new products and services through the establishment of a centralized marketing organization. The Commission went on to recommend that the Service establish the position of Senior Assistant Postmaster General for Marketing and create an appropriate marketing organization.

We favor the establishment of both the position and the organization. Establishment would elevate the marketing function to the same level as other major functions within the Service and provide needed emphasis to the function. Our prior work (most recently on the Service's ZIP + 4/automation program) has shown that the Service is deficient in marketing its products. Further, the Postal Service Board of Governors has stated that a major factor contributing to the failure of the Service's electronic mail program was poor marketing. We understand that the Service is considering whether to establish the position and organization.

#### Tax collections

Finally, you asked that we address the Commission's issue and associated recommendations dealing with improving the collection of delinquent taxes. We agree with the Commission that the number and amount of delinquent tax accounts have in recent years been increasing faster than IRS can deal with them. At the close of 1983, IRS reported that almost 2 million taxpayers were delinquent in paying \$7.7 billion of assessed tax, penalty and interest. We have done extensive work in this area and indications are that passive collection policies, inadequate use of taxpayer financial information, and limited resources have contributed to this increase in tax delinquencies.

To remedy this situation, the Commission made 14 recommendations. We agree with seven of the recommendations, disagree with two, and had insufficient information to take a position on five. Of the seven recommendations we agree with, six are similar to, or

consistent with, recommendations contained in previous GAO reports. The recommendations with which we agree are (1) staffing IRS' Collections Department on the basis of the projected workload volume, (2) adding clerical support for IRS' revenue officers, (3) classifying delinquent taxpayer accounts on the basis of specified characteristics, (4) requiring the Examinations Branch to assist the Collections Branch by identifying payment sources, such as salaries and savings account interest, when examination personnel conclude their audits (5) providing for management control reports on collections activity, (6) requiring the use of payroll deductions or automatic bank transfer to collect all installment agreements, and (7) expanding the use of telephone contacts by making calls during evenings and Saturday mornings.

IRS has already implemented its Automated Collection System, which includes the use of evening and Saturday morning telephone contacts. It has also changed its regulations and now requires banks to accept IRS claims against accounts by mail--an issue which we did not evaluate because of insufficient information. Several other recommendations, which we support, such as classifying delinquent taxpayer accounts on the basis of specific characteristics and required payroll deduction or automatic bank transfer for collecting installment agreements, are being studied or tested by IRS.

This concludes my prepared remarks. I would be happy to respond to questions at this time.