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HOUSTON, TEXAS

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[THE WORK OF THE COMPTROLLER GENERAL
AND HIS ASSISTANCE TO THE CONGRESS]

I am honored to have been invited to address your annual meeting here in Houston on how the work of the United States General Accounting Office, which I head, contributes to greater economy, efficiency, and effectiveness of Federal programs.

GAO was established by the Budget and Accounting Act of 1921. Since that time GAO has changed from a financial audit agency--doing practically all of its audit work at the GAO headquarters building in Washington, examining vouchers shipped in and keeping various appropriation accounts--to a principal source of information and advice to the Congress.

The Budget and Accounting Act of 1921 insulates 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 General can 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.

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Broadly speaking, the objectives of GAO cannot be separated from the Congress' needs for information and advice in carrying out its legislative and oversight or review responsibilities. To do this, the Congress requires reliable data on how the departments and agencies operate; this the Comptroller General endeavors to provide.

Today GAO's authority has been broadened and deepened by many laws; the 1921 Act, though basic, was but a beginning. We have a staff of somewhat more than 4,000 professionals drawn from many disciplines--accounting, law, engineering, systems analysis, economics, business administration, and many others. About half of the staff is situated in Washington, D.C.; the other half is scattered in 15 regional offices and four small offices in Europe, the Orient, and in Latin America. People sometimes overlook the fact that the Federal Government carries on its business in many places throughout the country and overseas, as well as in Washington. We attempt to place our staff "where the action is" whenever possible.

CONGRESSIONAL BUDGET
AND OVERSIGHT REFORMS

Our present role was shaped largely by the concerns of the Congress about its own ability to control the programs and budgets it was asked to approve. Those concerns culminated recently in a very significant change in the congressional budget process.

In the early 1970s, the Congress was stirred to reassess its role in setting Federal budget priorities by; (1) the sharply increased outlays for defense and social programs, (2) a series of major Presidential impoundments of funds for programs the Congress especially wanted carried out, (3) the realization that a larger portion of the budget was not subject to appropriation control, and (4) the painful act of frequently raising the debt ceiling, a debt which has increased from \$382 billion to \$875 billion in just 10 years.

Congress, in July 1974, enacted the Congressional Budget and Impoundment Control Act of 1974. Budget committees were established in each House. Early in each session all congressional committees review the President's budget proposals for the next fiscal year and submit their views to these House and Senate Budget committees.

The budget committees, considering the overall economic situation and the views of the committees and the President, then recommend to the House and the Senate overall revenue spending and debt targets, and targets for each of the budget functions such as national defense, energy, health, and transportation. These recommended levels are acted on by each House, then brought into agreement between the House and the Senate through the normal legislative conference process.

As Congress acts on spending bills for individual departments and agencies, it keeps score against its targets. Any bill that would take Congress over one of its targets is subject to special parliamentary procedures; thus, Congress can go over a target but it can only do so knowingly.

In September, the Congress reviews the spending actions it has taken and sets firm ceilings on the budget totals and each of the budget functions in another concurrent resolution, which, together with the individual departments' and agencies' spending acts, comprise the Federal budget for the next fiscal year.

Today, the Congress is in the fourth year of operating successfully under the discipline of the Budget Act process. This reflects a strong commitment by the congressional leadership, the budget committees, and the Congress as a whole to make the process work, and for the most part it has worked.

This year the Congress has set spending ceilings that are well below the President's requested levels. The major strains have been over tough national policy issues that would heavily strain any process: Defense vs. social program spending, whether Federal tax credits should be provided for education costs, and the level of Federal support for agriculture.

To the extent the process helps Congress focus on major policy issues and their budgetary impacts, the process is working. As a result I believe there is also a great deal more understanding of the interest in the budget process by Members of the Congress, the news media, and the public. We can disagree with the results, but the process is logical, orderly, and a great improvement over the old system.

As I reflect on the cumulative effect of the various reforms in the past few decades in the Federal executive and legislative processes for setting national budget priorities and assess our posture in the late 1970s, I believe we have established a fairly strong institutional base. However, many individual supports need to be shored up to assure that this progress is sustained. For example:

--Over the past few years there has been a major increase in activities that are not reflected in the budget, including guaranteed and insured loans, interest subsidies, tax expenditures, and entities such as the Postal Service and the Federal Financing Bank. They are not in the budget, because there has been enough pressure to keep them out, thus avoiding the careful scrutiny other programs receive.

--We need to pay more attention to the long range budget implications of our actions. The President's adoption

- of a 3-year planning period is a good start. As we gain experience, I would like to see even longer projections-- for 10 or 20 years, and for some programs even longer-- estimating ranges of costs and possible accomplishments.
- We need better and more consistent ways to estimate budget costs.
 - We need better ways to monitor and report agency performance against budget plans. We simply don't have this discipline developed in the way most profit-making organizations have found essential.
 - We have a lot to learn about how to evaluate Government programs and how to use these evaluations in deciding national policy issues.

I testified on four separate occasions in support of this new process. Since 1974 GAO has contributed to the process of reform in other ways, ranging from our reports on individual programs to our recommendations for improving the general flow of information to the Congress; from our decisions about the legality of spending, or not spending money, to advice about how to improve the oversight process. More recently, growing out of our efforts to improve the quality and usefulness of program evaluation, we have been helping the Congress develop what is called "sunset" legislation. Under this concept,

programs would automatically terminate unless the Congress acted to continue them.

FEDERAL EXPENDITURES
AND HOW THEY ARE AUDITED

Total Federal expenditures for fiscal year 1978, which ended last September 30 are estimated to have been about \$460 billion. I think you will agree that no single audit organization could very efficiently examine all the centers of government decision and control over the spending of that much money. As a matter of fact, a large portion of the final payments to accomplish the purposes of many Federal programs are not made by Federal officials at all.

Federal financial assistance to State and local Governments in 1978 was estimated to be over \$80 billion. That money was in support of over 1,000 Federal programs administered by 52 Federal agencies in grants to the 50 states, about 3,000 counties, and nearly 90,000 cities and towns.

How, then, do we attempt to impose reasonable accounting and auditing controls over these enormous expenditures managed by thousands of organizational entities at every level of government? We do it by setting standards for accounting controls and auditing, and by a division of labor among auditing authorities.

The Federal Government must rely to a large extent on State and local government auditors and private firms who audit

these programs. I mentioned that the Federal Government paid out over \$80 billion to those levels of government last year. You are familiar with one of the largest of these, the Federal highway programs aggregating about \$7 billion a year. All the highway construction contracts are awarded by State and local agencies. The internal auditors of the Federal Highway Administration review the disbursement of funds to the States in accordance with Federal law and regulations but rely, with some checks and testing, on the State auditors to examine the award and administration of the construction contracts. The disbursements for all other Federal grant programs are similarly audit locally, under Federal regulations and standards and with oversight by the Federal internal auditors.

AUDIT BY GAO

Our primary role is the analysis--or if you prefer audit--of Federal programs to determine whether money can be saved, services performed more efficiently, and objectives achieved at the lowest cost. We are required by law to audit periodically all Government Corporations, such as TVA, the Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and many others. 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 request us to look into a great variety of Federal operations of particular concern to them.

Our work on specific requests from the Congress takes about 35 percent of our total staff time. Finally, on our own initiative, we review as many of the key Federal programs and activities as we can, in accordance with an organized plan of priorities. In 1977 we issued over 1,000 reports.

GAO has no power to enforce its recommendations. Its work is advisory. The extent to which it is successful in bringing about improvements depends basically on the adequacy of its factual analysis, the persuasiveness of its findings and recommendations, and the support its 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 encouraging results--you might say a fairly good batting average. Most of the improvements resulting from our work can not be measured in dollars, but many can.

In fiscal year 1977 we estimated that the measurable savings from our work amounted to approximately \$5.6 billion. Here are a few examples.

--We reviewed and analyzed the method of setting pay scales for Federal white-collar employees, which is based on the principle of comparability with pay in the private

sector for similar job classifications. We concluded that the range of jobs and firms sampled for this purpose did not truly represent the average scales to pay in the private sector and other pertinent employment markets. The adoption of the factors we recommended for this purpose will save an estimated \$3.5 billion annually.

--We had questioned for some time the extra 1 percent factor included in the automatic cost-of-living adjustment in Federal retirement pay. Congress had introduced the extra 1 percent to account for the further increase of inflation between the effective date of determining the semi-annual increase and the date when retirees actually received the first increased retirement check. We found that after some years the cumulative effect of this extra "kicker" had increased retirement pay well above the increase in the cost-of-living. Congress adopted our recommendation to eliminate it, with savings of about \$230 million a year.

--We audit Department of Defense sales of military equipment and supplies to foreign Governments. By agreement, Defense is supposed to charge the foreign government for transportation, administrative, and sales expenses, in addition to the cost of the basic items. Among the

expenses incurred by Defense that it was not recovering, was a substantial amount for packing, transportation, and handling of shipments. As a result of our work on these costs for the House Appropriations Committee, the Congress reduced Defense's fiscal year 1978 appropriation request by over \$200 million, representing the cost of those services that should be charged by Defense to foreign governments.

--Some years ago we pointed out to the Treasury that the United States was holding unnecessarily large balances in non-interest-bearing tax and loan accounts with commercial banks. The Treasury has now changed its policy and has reduced the average balances in commercial banks from about \$6 billion in 1972 to about \$1.5 billion. We estimate that Federal Reserve Banks now earn the Treasury about \$140 million a year in interest.

CONSTRUCTION IN THE BUDGET
OF THE UNITED STATES

Now I would like to turn to Government programs that more directly affect the construction industry. The two principal programs are

- the construction of facilities owned by the Federal Government; and
- grants for construction of facilities owned by State, local, or private entities.

Total Federal expenditures for public works in Fiscal Year 1978 were about \$9 billion, about \$2.3 billion for military facilities and nearly \$7 billion for civil works. The total expenditures for State-local grant programs to finance construction were much larger, an estimated total in fiscal year 1978 of about \$20 billion.

Altogether, then, when we talk about construction financed by the Federal Government, it is a \$30 billion a year topic. The subject is therefore one of considerable interest to GAO.

Let me first take up our oversight of construction grant programs. Independently, we review the objectives of these programs, Federal agency controls over the consideration of applications and the award of grants, the types of grant agreements entered into by Federal agencies with local political bodies, and the results being obtained from the grant expenditures. We inquire into such questions as

- Whether Federal agencies assure themselves that the scope of projects proposed are reasonable, well justified, and best designed to meet the objectives of the grant program;
- Whether local contracting officials are governed by procurement regulations of a high standard with respect to competition, openness of awards, availability of contractors' records for audit, etc.;

--Whether reasonable progress been made in meeting the grant program objectives. For example, after the expenditure of several billions of dollars, is the Nation's water significantly cleaner; do we have a better highway system; and are the local mass transit systems relieving traffic congestion?

We give Federal public works even more attention. We continue to rely primarily on internal auditors to audit cost-type construction contracts and change-orders, and to monitor the adherence by contracting officials and other personnel to procurement regulations and payment controls. We do some spot checking of these contracts, particularly for large projects, but we could not possibly do the entire job. The Department of Defense alone currently has over 2,000 active contracts for new construction.

A few examples of our work may be of interest. Let me start with a relatively simple one. A few months ago we analyzed 3 years of GSA contract awards for construction and major repairs of buildings. Our analysis showed that the extent of competition was questionable, noting that:

--About 13 percent of the contracts were awarded by negotiation rather than on the basis of sealed bids in response to formal advertising.

--Over 20 percent of the formally advertised contracts and 40 percent of the negotiated were awarded after receiving only 1 or 2 bids or responses.

--About two-thirds of the negotiated awards were justified on the basis of an emergency, not allowing time for formal advertising.

As a result of our report, GSA's Office of Investigations has begun an inquiry into some of the more questionable awards, and the controls necessary to assure adequate competition, thus restricting negotiated awards to clearly justified situations.

At the request of the House Appropriations Committee, we have reviewed annually the request of the Navy for funds to construct facilities at the Trident Submarine Base in Bangor, Washington--a total planned program of over \$600 million. We assisted the committee to sort out projects that could be eliminated, reduced in scope, or postponed to conform with delays in the production of the submarines. In the past 3 years our work resulted in reducing Trident appropriation requests by a total of \$10 million of projects eliminated or reduced, and \$40 million of projects postponed.

GAO did much to focus attention on the rapidly deteriorating Federal highway system in a report to the Congress last year. The Nation's investment in this system now totals about \$76 billion. Part of the problem stems from the shortage of maintenance funds in the States but it also stems from the

fact that federally prescribed maintenance standards for the States have not been developed by the Federal Highway Administration nor has the Administration developed criteria for use by its engineers when inspecting for adequacy of maintenance.

Also, last year we reviewed 48 municipal waste treatment facilities which receive financial assistance from the Environmental Protection Agency, pointing out that funds had been wasted because of overly elaborate and costly esthetic features, poorly designed facilities which would not produce adequate treatment, serious cost overruns, and inferior workmanship.

In recent years, we have given attention to many safety programs, including reports on the highway construction zone safety, rail-crossing safety, and unsafe bridges, all related of course to the Federal aid highway grant program.

A different safety issue has involved in a report we issued last year entitled "Actions Needed to Increase the Safety of Dams Built by the Bureau of Reclamation and the Corps of Engineers." This review arose out of the disaster of the Teton Dam which collapsed in 1976. With the help of a number of experts, we were able to advise the Congress that the design practices used by the Bureau of Reclamation were questionable, did not utilize an independent review process, and did not implement the designer's intent. We also found that the dam had been built without any effective emergency plan.

Still another type of undertaking was the study on computer-aided building design in which we were attempting to establish the extent to which computer technology, which has developed rapidly in the past decade, can improve the way buildings are designed and constructed. The Federal Government of course has a direct interest in how its own buildings and other structures are designed and built, but we think the Federal Government also has an interest in how State and local funds are utilized for construction. We have much to learn from the experience of other countries and plan to continue an active program in this area.

A review of great interest to all of us concerned with the cost of housing was a report we issued in May on "Why Are New House Prices So High, How Are They Influenced by Government Regulations, and Can Prices Be Reduced?" Some of the answers to this question have been well discussed but we wanted particularly to point out that local government regulations for land development and housing construction in many communities may be all out of proportion to their intended benefit.

Increasing U.S. exports is a major goal today--one that requires the Government and industry to work together. GAO is giving priority attention to this issue. An example of our recent work involves export licensing.

Government administration of export licensing is potentially damaging to the export business because management is spread among many agencies. This results in lack of accountability and delays and uncertainties in decisionmaking which can cause exporters to lose sales--even if the license is subsequently approved. To increase accountability, we have recommended to the Congress that license management responsibility be concentrated in the Department of Commerce. We also suggested that a high level multiagency committee should be established to develop an export control policy which balances national security, foreign security or trade policies, and international trade policies.

We expect to testify at hearings which will be held early next year on revisions to the Export Administration Act, and are continuing to evaluate various aspects of U.S. export control policy and practices, such as U.S. participation in multilateral controls, and compliance with controls.

In 1976 the Congress substantially reduced a long-standing tax incentive for citizens employed abroad. At that time there was a high degree of uncertainty as to what the loss of this incentive would mean to individuals, firms, and the U.S. economy. To find out, GAO surveyed nearly 400 U.S. citizens working in 11 countries and about 180 U.S. firms employing Americans abroad.

We found widespread concern, including estimates that the tax change would

- result in at least a 5 percent reduction of U.S. exports,
- cause companies to reduce the number of American employees abroad in response to higher costs, and
- prompt the return home of the large number of employees.

The greatest impacts were expected to occur for companies and employees located in high cost areas, such as the Middle East. Among the firms, the potential impact was considered greater for those in the building and construction industries because of their heavier reliance on American employees.

Based on our work in this area, GAO urged that consideration be given to continuing some type of incentive, at least until more effective policy instruments for promoting exports and commercial competitiveness abroad are identified and implemented. Now that we have the Foreign Earned Income Act of 1978, future GAO work will likely be directed to evaluating its impact--from the standpoint of the companies, the employees themselves, costs, and the potential need for future changes.

The declining rate of productivity growth in the United States is a problem deserving immediate attention. Experience indicates that this problem will continue unless positive steps

are taken now. As we all know, the Federal Government has a pervasive impact on the Nation's productivity, both directly, through ongoing programs administered by various agencies, and indirectly, through taxes, subsidies, regulations, fiscal policies, and so forth. For these reasons, GAO has focused, and will continue to focus, on identifying ways the Federal Government can improve productivity--within its own operations, as well as in State and local governments, and in the private sector.

Some major GAO efforts in this area include:

"Manufacturing Technology--A Changing Challenge to Improved Productivity." In this report, we concluded that the United States needs to make manufacturing productivity a national priority to remain internationally competitive and maintain strong industries. New technology can help, by increasing the productivity of industries that produce goods in small lots. Also, we can learn from foreign industrial nations about the ways they diffuse technological advances throughout their manufacturing bases.

"The Federal Role in Improving Productivity--Is the National Center for Productivity and Quality of Working Life the Proper Mechanism?" We found the center was falling short as a means to accomplish productivity goals,

and that the Federal Government needed to increase its efforts to help counter the decline in the rate of productivity in the Nation. To do so, we concluded that the Federal Government needed a stronger continuing program in this area, and recommended that the center's functions be assigned to existing agencies and that these agencies be given adequate funding and support.

GAO is currently undertaking a number of studies concerned with productivity improvement, including:

- The impact of Government regulations on productivity.
- Comparison of the productivity of functions performed in both the private and public sectors.
- The need and design of a national clearinghouse on productivity.
- Case studies of productivity improvements in selected industries.

Some economists believe that the economic outlook for the next decade depends largely on the growth rate of capital in the next few years. A faster rate of capital formation would tend to improve productivity and diminish the tendencies toward slower growth of real income and higher rates of inflation and unemployment. Some assert that the United States is currently accumulating capital at a rate which is historically low, low

relative to other developed countries, too low to promote adequate economic growth for the future, and too low to absorb the growing labor force. To address these issues, we have undertaken a study of the role of government in providing incentives and disincentives for capital formation and how the rate of capital formation affects such problems as inflation and unemployment.

Concerns are being voiced increasingly in the Congress and elsewhere about the apparent decreased confidence in the government, particularly in the government's ability to make programs work effectively and to serve well those individuals and groups for which public funds are spent. If these concerns are valid, it is more important than ever before that the public be aware of the work of GAO as an organization which has as its principal concerns fiscal integrity and the economical and effective management of governmental programs. GAO can play a part in overcoming these concerns.

What can we conclude from these all too brief remarks on the sometimes overlooked strengths of democratic government? Again, I do not wish to sound platitudinous. Let me leave with you something Winston Churchill said one day in Parliament in the 1950s:

"Many forms of Government have been tried, and will be tried in this world of sin and woe . . . No one pretends that democracy is perfect of all-wise. Indeed it has

been said that democracy is the worst form of Government except all those other forms that have been tried from time to time."

I have taken this time to describe the work of the General Accounting Office because this agency is one of the greater strengths of the Federal Government. It is important to remember also that the mere presence of an oversight agency such as GAO with the power to dig into problems and make them visible to the Congress and the public is an important asset to any government.

Likewise I have discussed in some detail the budget reform that the Congress has imposed on itself to bring more control over annual appropriations, because this will bring greater strengths to the government in the future.

We should remember that government, essentially, is people working for the public--some 3,000,000 Federal employees providing services everyday. Not newsworthy are the day to day functions, from the lowest orderly in a VA hospital to the nuclear physicist making technical gains in energy. Government being all-pervasive, any scandal in its ranks becomes notorious. When things go wrong in an agency--as presently in the General Services Administration, the Government's house-keeper--the whole government comes under a cloud in the hinterlands. This is understandable but unfair to the government and its workers and misleading to everyone.