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December 1992

Budget Issues





United States
General Accounting Office
Washington, D.C. 20548

**Comptroller General
of the United States**

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses one of the most urgent issues facing the new President and the new Congress—the federal budget deficit. Since the issuance of our 1988 transition series report on the budget deficit, despite the passage of the Budget Enforcement Act, the budget deficit has grown. Unless we gain control of this deficit, we will find it increasingly more difficult to address pressing national needs or to increase long-term economic growth.

This report discusses the scope of the current deficit and describes the factors that must be dealt with to bring it down. Other reports in this transition series address specific program and management issues facing the government. All of the reports in this transition series are based primarily on detailed reports and testimony that GAO has provided to the Congress.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.

A handwritten signature in black ink that reads "Charles A. Bowsher". The signature is written in a cursive, flowing style.

Charles A. Bowsher

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The Deficit—and Why It Is Bigger Than It Seems

The budget deficit remains among the most urgent issues facing the new President and the new Congress. This deficit has preoccupied Washington over the past decade, but concern about it has so far failed to galvanize the action needed to resolve it.

In 1988, we reported in our transition series that the unified budget deficit in that year was \$155 billion, or 3.2 percent of Gross Domestic Product (GDP). Since then, it has grown to \$290 billion in fiscal year 1992, or 4.9 percent of GDP.

The record \$290 billion deficit in the unified budget measures the cash position of the government. Although it is a fairly accurate indicator of the macroeconomic impact of the deficit on the economy, it masks the composition of the deficit and understates the problem. A \$96 billion surplus in the trust funds—including the Social Security trust funds—partially offsets a deficit of \$386 billion in federal funds, leading to a unified budget deficit of \$290 billion.

This trust fund surplus is a temporary phenomenon that will begin to evaporate within the next 20 years as the baby boom retires. The table below shows the relationship between the unified deficit, the

The Deficit—and Why It Is Bigger Than It Seems

trust fund surpluses, and the federal funds deficit.

Table 1: Deficits

Dollars in billions

	1981 actual	1992 actual	1993 estimate ^a	1997 estimate ^a
Unified deficit	\$79	\$290	\$331	\$290
Trust fund surpluses	\$7	\$96	\$108	\$140
Federal funds deficit ^b	\$86	\$386	\$439	\$430

^aCongressional Budget Office (CBO) estimates.

^bFederal funds projections are not provided beyond fiscal year 1997.

In addition, the deficit in 1992 was held down by a delay in providing funds for Resolution Trust Corporation (RTC) activities. Since more funds will be needed to complete the cleanup of the savings and loan disaster, this decision merely shifted spending from fiscal year 1992 to fiscal year 1993 and beyond.

Finally, as we reported in 1988, an explosion of unfunded costs—many of which constitute future claims on federal budgetary resources—is looming. Some of these costs, including the following, are discussed in more detail in other reports in this transition series:

- The head of RTC estimates that an additional \$25 billion will be needed for the savings and loan cleanup. Furthermore, several billion dollars will be needed to fund the new Savings Association Insurance Fund.
- The current administration has proposed a combination of management initiatives, base closings, and weapons terminations to bring Department of Defense (DOD) expenditures into line with the \$1.4 trillion 1993-97 defense spending plan assumed in the budget. However, our work shows that many of the assumed savings may not materialize. DOD may be faced with additional program reductions of nearly \$100 billion.
- In addition, the defense plans do not account for weapons systems cost growth. We estimate that these overruns will cost \$35 billion between 1993 and 1997. (See National Security Issues, GAO/OCG-93-9TR, Dec. 1992.)
- DOD must clean up the hazardous waste pollution that has been identified at military facilities across the nation. DOD estimates the costs of cleaning up the sites identified to date at \$24.5 billion. This figure is likely to increase. (See National Security Issues,

GAO/OCG-93-9TR, Dec. 1992.)

- The Department of Energy faces the task of cleaning up and modernizing its aging and environmentally hazardous nuclear weapons production complex. We estimate the long-term cost of cleanup and modernization to be at least \$160 billion, up from our 1988 estimate of \$100 billion to \$130 billion. (See Energy Issues, GAO/OCG-93-13TR, Dec. 1992.)
- The Pension Benefit Guarantee Corporation has a current deficit of \$2.3 billion, which could reach \$17.9 billion by the year 2001. Seriously underfunded pension plans create a large contingent liability for the federal government. (See Labor Issues, GAO/OCG-93-19TR, Dec. 1992, and Pension Benefit Guaranty Corporation, GAO/HR-93-5, Dec. 1992.)
- The cost to renew the Department of Housing and Urban Development's current contracts providing rent subsidies to low-income families will jump from an estimated \$7.5 billion in fiscal year 1993 to an estimated \$17.1 billion in fiscal year 1997. (See Housing and Community Development Issues, GAO/OCG-93-22TR, Dec. 1992.)

- The cost of the Federal Aviation Administration's program to modernize the nation's air traffic control system has grown to \$32 billion, an increase of about \$7 billion from projections 4 years ago. Virtually all ongoing major projects are well over budget and years behind schedule. (See Transportation Issues, GAO/OCG-93-14TR, Dec. 1992.)
- The costs to modernize and update the Internal Revenue Service's (IRS) tax processing systems now are estimated to be about \$23 billion through the year 2008. IRS needs experienced managers to direct modernization projects so that results can be delivered on schedule. (See Internal Revenue Service Issues, GAO/OCG-93-24TR, Dec. 1992.)
- The National Weather Service's modernization program has exceeded its expected cost and is far behind schedule. The initial cost estimate of \$1.4 billion has risen to \$4.6 billion, and the projected completion date has slipped from 1994 to 1999. (See Commerce Issues, GAO/OCG-93-12TR, Dec. 1992.)
- It could cost from \$5 billion to \$10 billion to modernize the Social Security Administration's computer systems over the

next 10 years. (See Health and Human Services Issues, GAO/OCG-93-20TR, Dec. 1992.)

In addition, public pressure is growing for government action on an agenda of national problems, including the following:

- The costs to modernize the public housing stock are estimated at over \$20 billion. In addition, estimates of the costs to abate lead-based paint in public housing range from \$6 billion to \$16 billion. (See Housing and Community Development Issues, GAO/OCG-93-22TR, Dec. 1992.)
- The Department of Transportation estimates the cost of merely maintaining the condition of the nation's highways and bridges at 1989 levels over the next 6 years to be about \$250 billion; improving their condition would increase costs to \$425 billion. These estimates do not include funds for mass transit or rail systems. (See Transportation Issues, GAO/OCG-93-14TR, Dec. 1992.)
- Pressure has grown to extend health insurance to the 35 million uninsured. Cost estimates range from \$12 billion to \$30 billion per year. (See Health Care Reform, GAO/OCG-93-8TR, Dec. 1992.)

Why the Deficit Has Grown

The large deficit is a function of changes in both spending and revenue policies and of the recession. In the early 1980s, the combination of spending for an accelerated defense buildup and a simultaneous reduction in taxes established a large deficit. Cuts in domestic programs were too small to offset the net effect of increases for defense and cuts in taxes.

Once this large deficit was established, interest payments increased rapidly—growing from \$69 billion in 1981 to \$195 billion in 1991. At the same time, federal spending on Medicare and Medicaid grew by 180 percent, from \$56 billion in 1981 to \$157 billion in 1991. Concurrently, spending for deposit insurance and resolution of the savings and loan disaster exploded. In 1981, the deposit insurance system took in more than it spent, but in 1991, outlays for deposit insurance were \$66.3 billion, or 5 percent of total outlays. Table 2 illustrates these trends.

Why the Deficit Has Grown

Table 2: Outlays for Fiscal Years 1981, 1986, and 1991

Dollars in billions

	1981 Actual outlays ^a	1986 Actual outlays ^a	1991 Actual outlays ^a	Percent change 1981-91
Defense	\$158	\$273	\$273	74
Net interest	69	136	195	183
Health				
Medicare	39	70	104	167
Medicaid	17	25	53	212
Medicare and Medicaid	56	95	157	180
Deposit insurance ^b	-1	1	66	
All other	397	485	632	59
Total^c	\$678	\$990	\$1,323	95

^aAmounts in nominal dollars.

^bCalculated on a cash basis.

^cMay not add because of rounding.

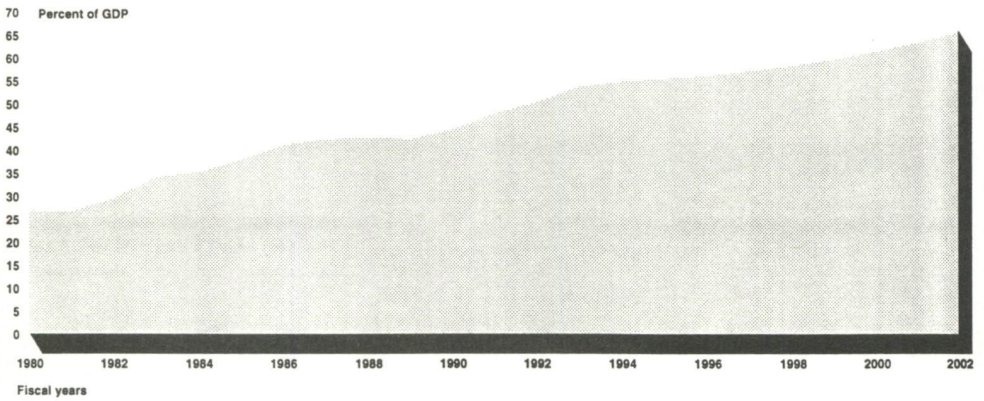
During this period, additional cuts in domestic programs and increases in taxes—combined in the second half of the decade with a slowdown in defense spending—were insufficient to eliminate the deficit built into the structure of the budget. Between 1981 and 1991, federal spending as a whole increased to 24 percent of GDP while revenues generally remained at about 19 percent of GDP. Indexing on the revenue side helped to hold revenues nearly flat and removed another source of fiscal slack. In

addition, tax expenditures have grown rapidly in the last few years, despite the 1986 tax reform, thereby further eroding the revenue base.

The federal debt grew rapidly with rising deficits. In 1981, debt held by the public was \$784.7 billion. In 1992, it was about \$3 trillion. CBO projects it to reach \$6.5 trillion in 2002. The interest payments on this debt have absorbed an increasing share of federal outlays, from 10 percent in 1981 to 15 percent in 1991. Furthermore, the debt has increased relative to GDP, growing from 26 percent in 1981 to 50 percent in 1992, as figure 1 shows.

Why the Deficit Has Grown

Figure 1: Debt Held by the Public (1980-2002)



Source: Budget of the U.S. Government and CBO projections.

Future Deficit Trends Not Promising

The deficit will not resolve itself without major changes in the federal policies responsible for the trends. Although improvements in the economy could help reduce the deficit in the short term, a large structural deficit would remain. Chronic deficits are embedded in federal fiscal policy, and forecasts indicate that, absent further policy changes, the deficit will only become worse over time.

Since we issued our 1988 transition series report, the 1990 Budget Enforcement Act (BEA) established a renewed framework to control spending. It succeeded in controlling the growth of discretionary spending provided through the appropriations process, and it prevented the expansion of entitlements or tax expenditures. It did nothing, however, to control growth in the cost of existing entitlements or existing tax expenditures.

Although BEA succeeded in trimming \$500 billion over 5 years, the deficit nonetheless grew to record levels, thanks to a worsening economy, rapid growth in health care costs, increasing interest payments, and the continued cost of resolving the savings and loan crisis.

Current projections suggest that unless current policies are changed, high deficits will persist even as the economy improves. CBO projects that under current policy the deficit in 2002 will reach \$514 billion, or 5.2 percent of GDP. Spending for health care and net interest continues to drive the deficit. However, deposit insurance should cease being a major contributor to the deficit as the industry's problems are resolved.

Without action, the problem will only worsen over the longer term. In a previous report, we adapted a long-term economic growth model developed at the New York Federal Reserve Bank to estimate the potential results in 2020 of alternative deficit reduction paths. If current policies remain unchanged, deficits could explode to over 20 percent of Gross National Product (GNP) by 2020. In this no-action scenario, health care costs, retirement costs, and ballooning interest costs combine to create a dramatic rise in spending; higher deficits and lower savings slow the growth of real GNP. Our economy could not possibly sustain deficits of this magnitude. Although this scenario is implausible, the trends demonstrate that the choice facing the nation is not whether to reduce the deficit but how and when.¹

¹Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy, (GAO/OCG-92-2, June 1992).

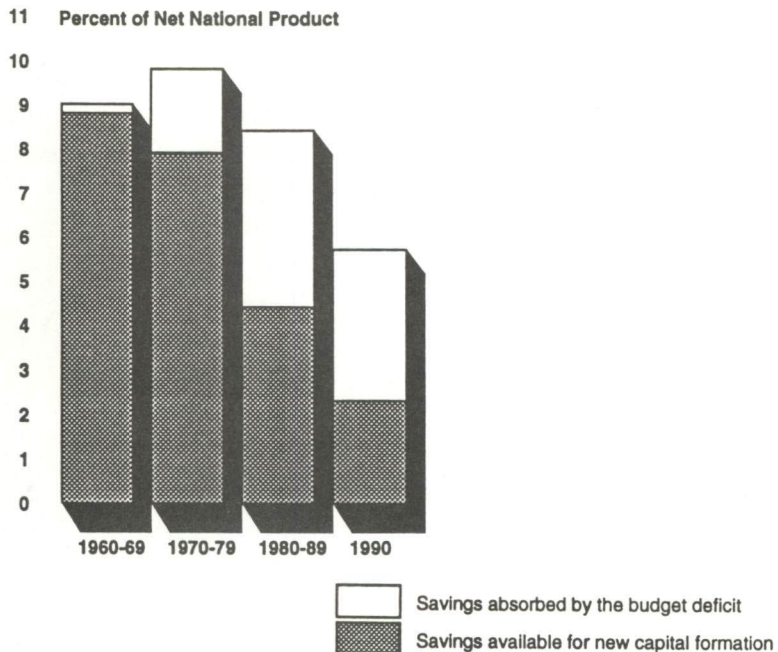
Why the Deficit Matters

Large and persistent federal deficits matter for three reasons. They constrain the ability of government to address the pressing national needs discussed above. Some economists say they also limit the ability of the government to respond to economic downturns through fiscal stimulus because such action might prompt offsetting increases in interest rates driven by markets already nervous about the impact of growing deficits.

In addition, the deficit matters because it absorbs savings that would otherwise be available to finance investment, and investment is critical to long-term economic growth.² During the 1960s, the budget deficit absorbed approximately 2 percent of net national savings. Today, federal borrowing absorbs over 50 percent of a diminished pool of national savings potentially available for economic investment. (See fig. 2.)

²See Investment (GAO/OCG-93-2TR, Dec. 1992) and Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy (GAO/OCG-92-2, June 1992).

Figure 2: Effect of the Budget Deficit on Net National Savings (1960-90)



Source: Economic Report of the President (Feb. 1992).

During the 1980s, investment levels were lower than in the previous two decades. Inflows of foreign capital kept investment higher than our savings would otherwise have permitted. However, this foreign investment has some cost—the United States

must ultimately pay dividends or interest to the foreign owners of the assets involved.

We may already be paying a price for the decline in national savings and investment. Low savings rates have increased real interest rates and thus reduced investment needed to raise productivity and economic output.

What Must Be Done

The nation needs to set a long-term fiscal policy path. The federal government should assume responsibility for increasing the level of national savings and investment enough to brighten the long-term prospects for healthy economic growth. This suggests the establishment of a set of long-term fiscal goals, perhaps stretching over a 30-year period, to promote accountability for the long-term economic consequences of today's decisions.

The agenda is daunting but not impossible. Successful examples of such actions include the creation of the interstate highway system, the enactment of credit reform that recognizes the long-term cost implications of current actions, and the enactment in 1983 of Social Security reforms that phased in changes over time.

If short-term stimulus is needed to jump-start the economy, it should be part of a long-run, credible plan for deficit reduction.³ Such a package would help assuage the financial markets and could forestall a self-defeating rise in long-term rates that could choke off the desired

³See *Investment* (GAO/OCG-93-2TR, Dec. 1992) for a discussion of the differences between short-term stimulus and programs designed to promote longer-term investment in infrastructure, human capital, and research and development.

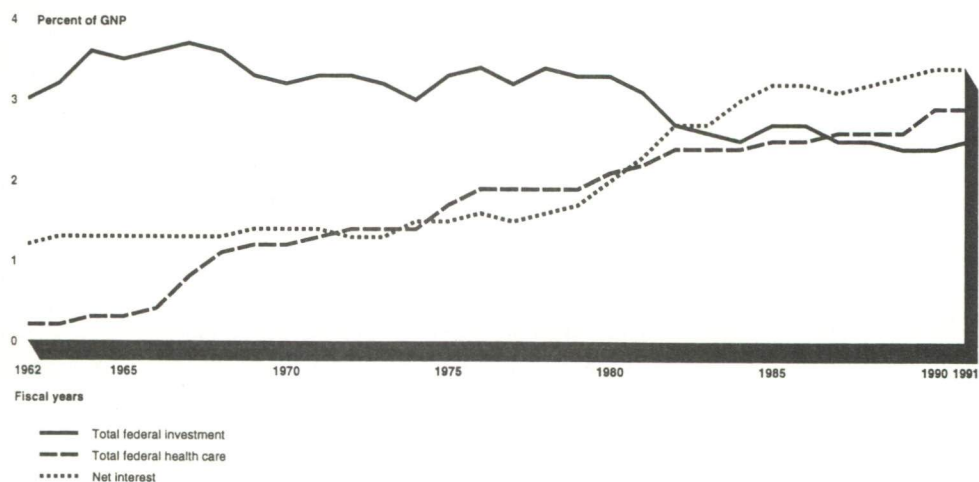
recovery. To ensure that measures introduced as temporary do not worsen the long-term deficit problem, programs intended to provide short-term stimulus should be phased out or paid for—either with cuts in other programs or new revenues—as the economy improves.

Early action on the deficit is important for several reasons. First, it will slow the growth in federal interest costs—and interest is the ultimate example of an expenditure that does not provide any current public service. Second, early action would take advantage of defense reductions arising from the changing U.S. position in the post-Cold War world. Third, demographics favor early action. Reforms in health care and retirement programs can be introduced and phased in before a shift in the worker-to-retiree ratio dramatically escalates both program costs and political obstacles.

Over the last decade, discretionary spending has fallen as a share of the budget from 45 percent in 1981 to 40 percent in 1991. One of the consequences of that decline has been a reduction in funding for federal programs with a potential long-term impact on

economic investment.⁴ (See fig. 3.) The budget and accounting process does not recognize the long-term economic benefits of these programs, and funding for them has declined as a percent of GDP since 1980, from 3.3 percent to 2.5 percent in 1991.

Figure 3: Outlays for Federal Investment, Health, and Net Interest (1962-91)



Source: Budget of the U.S. Government.

Federal programs promoting long-term investment should be highlighted, even as

⁴See Investment (GAO/OCG-93-2TR, Dec. 1992).

deficit reduction occurs. A shift in the composition of federal spending to investment could be supported, particularly if well-designed investment programs can be developed that promise significant returns for economic growth.

The nation's fiscal policy stance should be determined on macroeconomic grounds. The choice between spending for consumption and investment is a trade-off that should occur within the overall budgetary constraints of the previously selected fiscal policy path. While public investment programs can help promote economic growth, the large deficit remains as a critical impediment to private investment and long-term economic growth.

Better budgetary decisions could be facilitated by restructuring the way the budget is presented. For the investment debate, a restructured budget could highlight the investment portion of the budget. A restructured budget could also illuminate other structural aspects or trends in the budget, such as the role of trust fund surpluses in masking the federal funds deficit.

Strategies for Reducing the Deficit Will Have to Involve All Major Portions of the Budget

The conclusion that we reached in our 1988 transition series report remains valid today—there are no quick or painless solutions to the deficit. It will be difficult, if not impossible, to achieve either balance or a surplus early in the next century if any major areas of spending or potential revenues are set “off the table.” The very magnitude of the changes needed is likely to prompt a major debate over the role of the federal government and how to pay for it. It is also possible that the search for budgetary savings could prompt a reexamination of ways to achieve federal program goals at less cost.

To achieve the necessary deficit reduction, decisionmakers will need to look at large and/or growing areas of the budget—mandatory spending, defense, domestic discretionary spending, and revenues.

Controlling Mandatory Spending Means Containing Health Care Costs

Controlling the growth of mandatory spending is critical to regaining control over priorities in the budget and obtaining the flexibility needed to introduce new programs in response to changing needs. Most programs in this category are growing at a moderate rate. Within this category, health

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the Budget**

care costs both are now and will be the most rapidly growing segment. Social Security costs will not become a major problem until the second decade of the 21st century, when the Social Security surplus will disappear and outlays begin to exceed revenues.

Major health care reform is a necessary part of any effort to control the budget. Such reform would have to achieve major changes in the structure and incentives provided by our health care financing system to attain effective cost control. Across-the-board budget caps on federal health care spending, or on all mandatory programs, have been suggested as a way of controlling these costs. To be meaningful, however, such caps must be accompanied by the definitive changes in program structure and design that will be required to conform to the caps. Not making these fundamental choices simply postpones the hard choices and raises doubts about the enforceability of the caps.

As is the case for overall fiscal policy, a long-term plan is important in recapturing control over programs that seem to be out of control in the short run. Furthermore, long-range plans can help obtain consensus for major policy changes by giving affected

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the Budget**

beneficiaries and providers enough time to adapt. Such a strategy was used with considerable success in the 1983 Social Security reform to phase in potentially disruptive increases in the age that participants become eligible for benefits.

**Discretionary
Spending:
Reexamining
Roles**

Although defense spending has declined, it might become a candidate for further reduction as the nation continues to redefine its role in the post-Cold War world. Continued attention will be given to reducing U. S. overseas commitments, perhaps with a concurrent increase in the share of the defense burden borne by others. In 1991, the United States spent about 5.5 percent of its GDP on defense, compared with about 3.0 percent for other NATO nations and 1.0 percent for Japan.

Domestic discretionary programs bore the brunt of the budget cuts in the 1980s. This does not mean that these programs should now be exempt from examination. Some could be better designed or made more efficient to reduce program costs. Alternative sources of support, such as user fees and increased cost sharing, might be

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the Budget**

considered for some programs.⁵ In other cases, less costly means could be considered to achieve federal goals; for example, alternatives to traditional imprisonment—such as halfway houses, electronic home detention and “boot camps”—could help reduce the escalating costs of constructing and operating federal prisons.⁶

However, it seems likely that, within the discretionary category, the question may be less reducing the total than changing the mix of spending, by, for example, shifting toward programs that support long-term economic growth and away from those that finance current consumption. Although such a shift might not reduce the deficit, it would represent a healthy adaptation of the budget to changing social needs.

Further major cuts in domestic discretionary spending would necessitate a wide-ranging reassessment of the federal role in such areas as education, transportation, and housing. The federal role was originally premised on the inability or unwillingness of states and localities to provide sufficient services in these areas. Dramatic changes in state and local managerial and programmatic

⁵For a discussion of potential changes in the financing of federal natural resource programs, see Natural Resources Management Issues (GAO/OCG-93-17TR, Dec. 1992).

⁶See Justice Issues (GAO/OCG-93-23TR, Dec. 1992).

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the Budget**

profiles, due in part to the presence of many federal grant programs, may argue for a change in the federal role.

**Revenues Are
Likely to Be Part
of the Package**

It is likely that spending cuts alone will not suffice to eliminate the deficit. The size of the deficit and our recent budgetary history suggest that revenue increases are likely to be part of any credible strategy to substantially reduce the deficit. Proposals to raise taxes provoke controversy because tax increases take resources out of the economy. However, borrowing also takes resources from the economy, albeit in a less visible and less direct way.

Revenues are likely to be part of any package because a major factor driving up the deficit has been that growth in revenues has not kept pace with federal spending. Spending rose to nearly 24 percent of GDP while revenues remained at 19 percent. These figures alone, however, do not tell the whole story. The mix of revenues has also changed. Taxes supporting government operations other than social security dropped from 15.3 percent of GDP in 1980 to 13.5 percent in 1991 while social security taxes rose from 4 percent to 5.2 percent of GDP.

**Strategies for Reducing the Deficit Will
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the Budget**

If revenue increases are to be a part of the deficit reduction equation, several major revenue-raising options are available. The choice among them involves not only the amount of revenue that each raises but also differences in their impacts on economic choices, on who bears the burden, and on tax administration. Major revenue options include income tax rate increases, base broadening through reductions in tax expenditures, gasoline or general energy taxes and environmental taxes, and/or a value-added or consumed income tax.

Tax rate increases can raise significant revenues with little administrative difficulty. However, it could be argued that, although technically simple, raising rates beyond a certain level could unravel the consensus behind the 1986 tax reform, which broadened the income tax base in exchange for reduced rates.

Tax expenditures have continued to grow, resulting in \$374 billion in lost revenues in 1992. Reviewing these "programs" could both reduce revenue losses and prompt a much needed examination of the programmatic goals and impacts of these provisions. Our previous studies have questioned the efficiency of many of these

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the Budget**

provisions, finding that many subsidize activities that would be undertaken anyway. Further, the concept of shared sacrifice could prompt efforts to scrutinize this sector of the federal budget at a time when outlay programs benefiting other groups are being examined and perhaps reduced.

A gasoline tax and other energy and environmental taxes could provide both revenue and financial incentives promoting national goals in these areas.

Concern about low savings in the United States periodically gives rise to interest in value-added or consumed income taxes. Most recently, the Strengthening of America Commission recommended replacement of the income tax with a consumed income tax as a way of both providing savings incentives and reducing the deficit.

Conclusion

Current budget deficits hamper the government's ability to respond to economic downturns and pressing national needs and also absorb savings that would otherwise be available for investment to help increase long-term economic growth.

Action is necessary on two fronts. The deficit must be brought down. The composition of federal spending must be shifted to put a greater emphasis on investment than on consumption.

Reversing these patterns will require difficult decisions affecting spending and taxes. The benefits of doing so, however, are great. A credible program to put the long-term deficit on a downward path will help ensure a rising standard of living for ourselves and for succeeding generations.

Related GAO Products

Budget Policy: Budgetary Treatment of Investment Programs (GAO/T-AFMD-92-15, July 23, 1992).

Budget Policy: Long-Term Implications of the Deficit (GAO/T-OCG-92-4, June 5, 1992).

Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy (GAO/OCG-92-2, June 1992).

The Effects of Budget Enforcement Act Discretionary Spending Limits in Fiscal Years 1994 and 1995 (GAO/T-AFMD-91-8, July 16, 1991).

U.S. Health Care Spending: Trends, Contributing Factors, and Proposals for Reform (GAO/HRD-91-102, June 10, 1991).

Budgeting for the Future (GAO/T-AFMD-91-1, Apr. 12, 1991).

The Budget Deficit: Outlook, Implications, and Choices (GAO/OCG-90-5, Sept. 1990).

Budget Deficit: Appendixes on Outlook, Implications, and Choices (GAO/OCG-90-5A, Sept. 1990).

The Question of Rolling Back the Payroll Tax: Unmasking the Deficit Illusion
(GAO/THRD-90-10, Feb. 5, 1990).

The Budget Treatment of Trust Funds
(GAO/T-AFMD-90-1, Oct. 12, 1989).

Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices (GAO/AFMD-90-1, Oct. 1989).

Value-Added Tax Issues for U.S. Tax Policymakers (GAO/GGD-89-125BR, Sept. 15, 1989).

The Budget Deficit (GAO/OCG-89-1TR, Nov. 1988).

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December 1992

Investment





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General Accounting Office
Washington, D.C. 20548**

**Comptroller General
of the United States**

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses a topic critical to our nation's long-term economic future—the need to increase investment, both public and private. Investment is important because it increases the economy's long-term productive capacity.

Within an overall fiscal policy emphasizing deficit reduction, federal priorities should shift toward investment and away from consumption. Structuring the budget to emphasize well-chosen investment would help to support this shift.

The GAO products addressing related issues are listed at the end of this report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, and the designated heads of the appropriate agencies.

A handwritten signature in cursive script that reads 'Charles A. Bowsher'.

Charles A. Bowsher

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The Importance of Investment

Long-term economic growth is central to almost all our major concerns as a society. During the last two decades, growth in U.S. productivity has slowed substantially. Without improved productivity and increased growth, the nation cannot continue to expect an ever-improving standard of living for future generations.

Healthy economic growth depends on many things, but private and public investment in infrastructure, human capital, and technology are essential. Private investment can buy more and better equipment, enhance production processes, stimulate the development of new products and services, and support training to improve job skills—key ingredients required to improve productivity and the long-term productive capacity of the economy. Public investment policies both foster increased private investment and help provide the infrastructure, the education and training, and the technological advances that markets alone cannot provide.

Economic policy in general addresses two distinguishable issues: (1) the health of the economy today and (2) the productive capacity of the economy in the future. Fiscal stimulus, designed to focus on the first issue,

seeks to use existing but unused economic resources to improve the short-term cyclical health of the economy. A successful fiscal stimulus program could help to bring the economy to its full potential in the short term. In contrast, the interest in investment programs lies in their ability to increase the long-term productive capacity of the economy.

The economy will need additional productive capacity in the next century. By the year 2020, the United States will have undergone a large demographic shift. Most of the baby boom generation will have retired, and a relatively smaller working population will have to support this large number of retirees. Because investment takes time to bear fruit, the nation must invest now to ensure the long-term growth needed to support these retirees without causing a decline in workers' living standards.

Lagging Investment and Growth in Productivity

U.S. investment stands at its lowest level in three decades.¹ Since 1960, total gross U.S. fixed capital investment, public and private, has ranged between 17 and 20 percent of Gross Domestic Product (GDP). Until 1989, it never dropped below 17 percent. Since 1985, however, it has declined steadily, to an unprecedented low of 16 percent of GDP in 1990. Furthermore, net investment has declined even more sharply—from an average of 9.8 percent of the economy in the 1960s to an average of 6.0 percent in the 1980s.²

These trends alone would be cause for concern. In addition, however, other countries have far surpassed the United States in their commitment to investment. According to the Organization for Economic Cooperation and Development (OECD), Japan in 1990 invested 33 percent of its GDP in gross fixed capital—more than twice as much as the United States. Other major U.S. trading partners also have significantly higher levels

¹There are several ways to measure investment. To permit use of historical trend and cross-country comparative data, GAO uses the United Nations' System of National Accounts (SNA) definition in this section. Although this measure does not include education and training or research and development spending in its definition of investment, as GAO does, it nonetheless reflects an economy's relative commitment to investment.

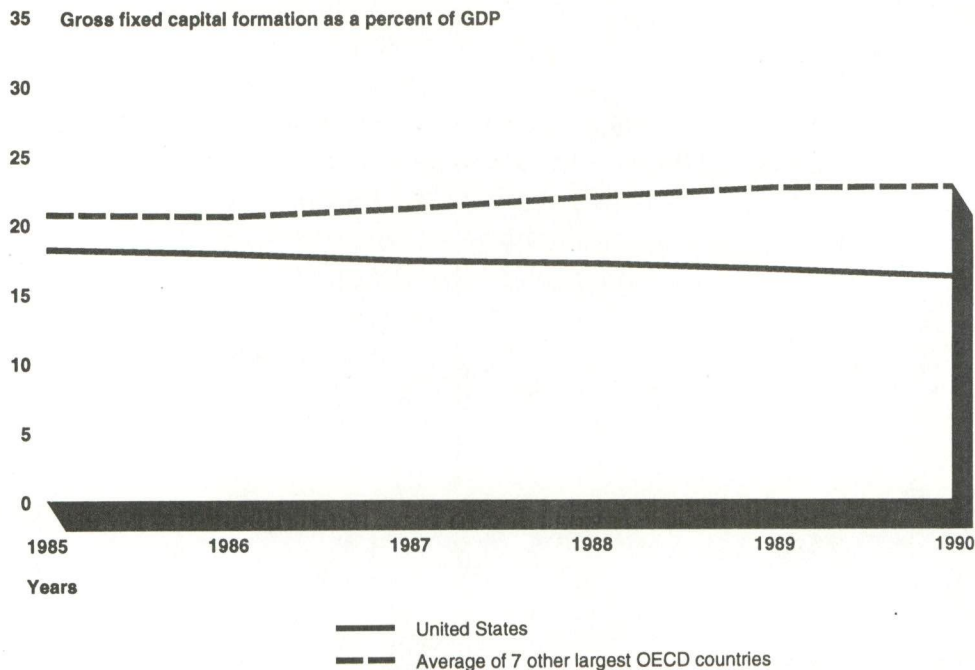
²Net investment is gross investment minus depreciation. Net investment measures the increase in the capital stock from year to year.

of investment: France, Germany, and Canada invest over 21 percent of GDP. In 1990, the United States ranked last in gross fixed capital formation not only among the 7 largest industrialized nations but also among the 24 OECD member countries.

As figure 1 shows, this gap has widened since 1985. While the other major industrialized countries of the OECD have, on average, been increasing fixed capital investment, the United States has slowed its investment spending.

Lagging Investment and Growth in Productivity

Figure 1: Gross Fixed Capital Formation



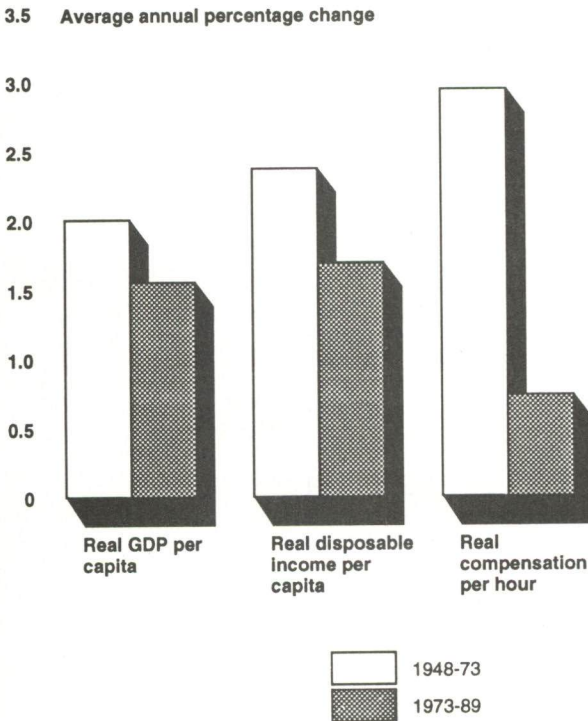
Source: OECD.

The U.S. economy is already paying a price for this slowdown. Figure 2 compares growth since 1973 to growth during 1948-73 in three measures of economic well-being: real GDP per capita, real disposable income per capita, and real compensation per capita.

Lagging Investment and Growth in
Productivity

These measures illustrate the slowdown of the postwar boom in the U.S. standard of living since 1973.

Figure 2: Comparison of Growth Rates of Several Measures of Economic Performance



Source: Committee for Economic Development.

**Lagging Investment and Growth in
Productivity**

In addition, an analysis by the Committee for Economic Development suggests that if the savings rates of the 1980s had stayed at the pre-1980s levels, the nation's potential GDP would have been \$300 billion higher by 1990.³

³Restoring Prosperity: Budget Choices for Economic Growth, Committee for Economic Development (1992).

Changing Federal Policy to Increase National Investment

The federal government influences investment by others—state and local governments and the private sector—and engages directly in investment itself. In both of these fundamental areas, the federal government's impact in the last decade has been increasingly unfavorable. The growing federal budget deficit has absorbed savings that would otherwise be available to finance investment, either public or private, and the share of federal spending devoted to public investment programs has declined.

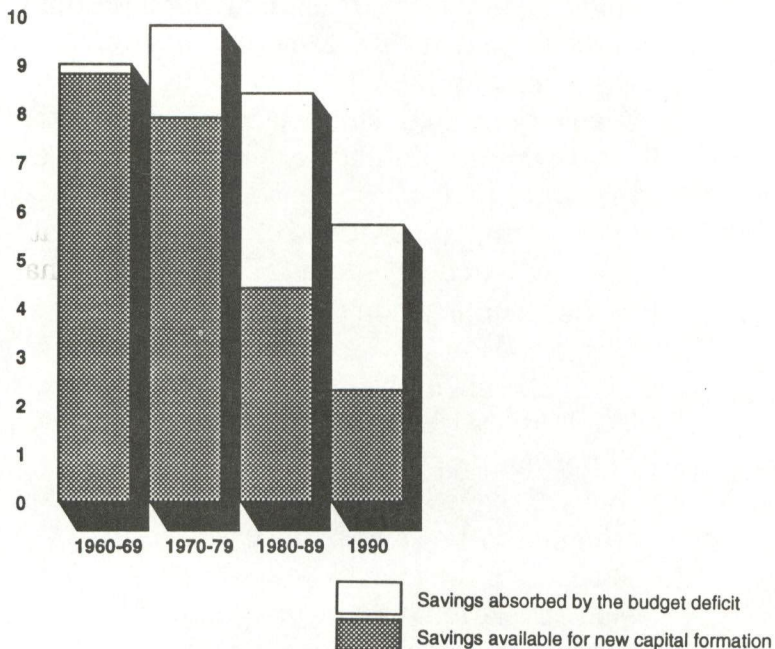
Reducing the Long-Run Deficit Critical to Increasing Investment

The budget deficit exerts the single most important federal influence on investment today. Private investment must be financed from domestic savings or capital from abroad. As the federal deficit has grown, the share of national savings available for private or state and local investment has fallen. Figure 3 shows the combined effect of a declining savings rate and a growing deficit. The share of net national product available for new capital formation declined from about 9 percent in the 1960s to just over 2 percent in 1990.

Changing Federal Policy to Increase National Investment

Figure 3: Effect of the Federal Budget Deficit on Net National Savings (1960-90)

Percent of Net National Product



Source: Economic Report of the President (Feb. 1992).

In the 1980s, inflows of foreign capital kept U.S. investment higher than the available domestic savings would otherwise have permitted, but this foreign investment has some cost—the United States must

ultimately pay dividends or interest to the foreign owners of the assets involved. There is no guarantee that foreign capital can continue to flow in at these levels, especially if we fail to reduce the deficit.

The surest way to increase investment in the United States is to increase national savings. And the surest way to increase national savings is to reduce federal dissaving—that is, to reduce the deficit. We have argued that pursuing a fiscal policy path that achieves a budget surplus by early in the next century offers the most promise for boosting savings and long-term growth. Following such a path could increase real GNP in the year 2020 by almost 10 percent—in contrast to “muddling through” with deficits of 3 percent of Gross National Product (GNP).⁴

Reorienting Federal Policies to Focus on Investment

Long-term deficit reduction is a vital element of a federal investment strategy. It can be complemented, however, by other federal policies and programs that encourage private investment and/or programs that support efficient public infrastructure, an educated work force, and expanded

⁴See *Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy* (GAO/OCG-92-2, June 1992). See also *Budget Issues* (GAO/OCG-93-1TR, Dec. 1992), another transition series report.

technology innovation. In the past, the federal government—through its investments in physical capital, human capital, and research and development; its tax policies;⁵ and its regulations—has played an important role in providing an environment conducive to growth.

However, recent trends raise concerns. The growing portion of the budget absorbed by interest payments and consumption programs, particularly health, has squeezed the discretionary sector of the budget, which funds federal investment programs. Figure 4 shows trends in federal outlays for investment as a share of GNP. Between 1980 and 1984, total federal outlays for investment programs declined as a share of GNP. During the 1980s, the federal share of GNP for public investment was eclipsed both by federal health spending and by net interest payments on the debt.

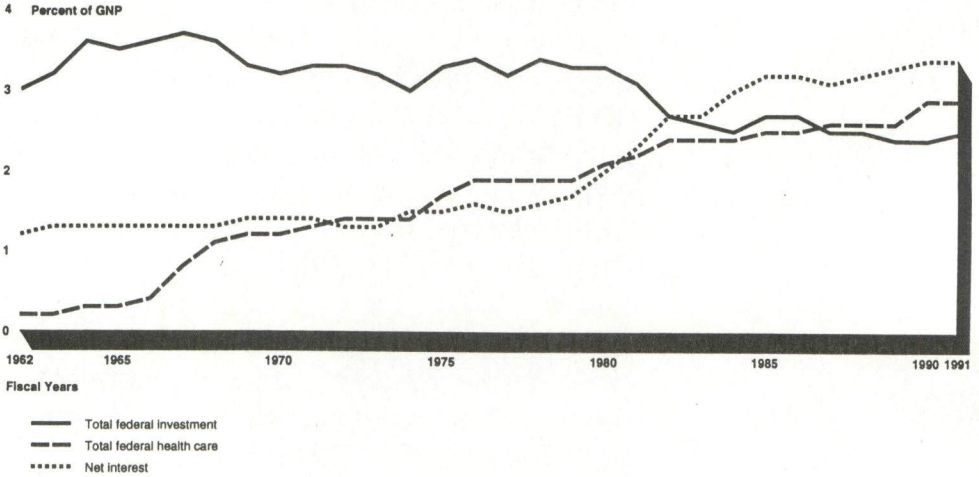
Given the size of the deficit and the need to reduce it, however, decisions on the future levels of the deficit should be made independently of decisions on the amount of

⁵Investment tax credits (ITC) historically have constituted an important dimension of federal economic policy and are under discussion at this writing. Economists generally agree that a time-limited ITC creates incentive to move investment forward and hence should exert a positive short-term (stimulative) effect on the economy's cyclical health. There is less agreement regarding the long-term economic effects of an ITC.

federal spending for investment. It would be unfortunate if, in the process of cutting the deficit to increase private investment, the government reduced effective federal investment programs. Therefore, within an overall fiscal policy emphasizing deficit reduction, priorities should shift toward well-chosen federal investment programs. Although the rates of returns of these programs are often difficult to measure, investment programs are more likely to improve long-term growth than many federal consumption programs. As we point out in our transition series report, Budget Issues (GAO/OCG-93-1TR, Dec. 1992), containing explosive health care costs is an essential part of such a shift.

Changing Federal Policy to Increase National Investment

Figure 4: Outlays for Federal Investment, Health, and Net Interest (1962-91)



Source: Budget of the U.S. Government.

Structuring the Budget to Emphasize Investment

Recent trends in the investment share of the budget are not the result of an explicit strategy or set of national priorities. They represent instead the accumulated results of a large number of individual budget decisions regarding dozens of programs. The budget is currently not structured to facilitate a shift in the composition of spending between investment and consumption.

Because the budget treats all expenditures alike, it obscures the long-term investment character of some federal activities. These activities, unlike spending for current consumption, produce assets that can generate future benefits to the economy as a whole. Differences between investment and consumption activities should be taken into account in allocating federal resources.

Federal tax subsidies and regulations can also promote federal investment goals. Tax expenditures represent a major tool for influencing economic activity and should be considered in concert with investment spending decisions. The present budget process, however, does not encourage decisionmakers to consider these other tools along with spending decisions.

The creation of an investment category within the overall unified budget would provide a framework for developing, displaying, and analyzing the information needed for policymakers to consider the investment effects of budget decisions. It would also create a vehicle that could be used to structure the process of making decisions about the allocation of investment resources. Tax expenditures supporting investment could also be displayed within such an investment category to provide a more complete picture of federal resources devoted to investment.

Establishing "investment" as a budget category will raise definitional issues. Care must be taken to prevent stretching the term to cover a host of programs with only remote effects on long-term economic growth. As noted above, we apply the term investment only to those initiatives, programs, or activities that seem likely to increase the productive capacity of the economy. Innovations in technology, better education and training, and improvements in infrastructure all help to increase workers' productivity, thereby raising the productive capacity of the economy and permitting continued improvement in our standard of living.

**Structuring the Budget to Emphasize
Investment**

This definition of investment differs from those in traditional capital budgets. It includes spending to improve human capital, to support research and development, and to fund some public physical capital. But it excludes spending on noninvestment capital, such as federal office buildings and weapons systems. Such expenditures may improve the efficiency of government agencies' operations and create jobs in the short term in particular regions of the country; but they do not improve the long-term productive capacity of the economy.

Choosing Among Competing Investments

Increasing the visibility of investment programs in the budget is important to attaining the larger objective of promoting investment within limited federal resources. This means choosing among competing investment strategies and programs so that federal resources can be used in ways that will most effectively promote long-term economic growth.

Ideally, policymakers would have access to measures of relative rates of return from federal investment programs as a basis for deciding how to allocate resources. However, such data are scarce. Additional research is needed to develop more and better information for estimating the economic effects of various types of public investment. A program found to have minimal impact on private economic growth can then be either evaluated against other criteria or phased out in favor of other strategies.

Although we know relatively little about the economic impact of different investments, a few well-considered questions may be helpful in roughly assessing competing investments' relative worth.

- First, is it really an investment? In other words, does it seem likely to increase the economy's long-term productive capacity? Does the growth represent an addition to total GDP or is it simply a shift from one geographic region or economic sector to another? What evidence supports this investment's link to economic growth?
- Second, how good an investment is it? How much growth might it generate, and over what period of time? Does it address a recognized national problem? How do the potential benefits compare to the costs, and is this investment the best, most cost-effective approach to solving the problem? Why hasn't the private sector already made this investment? Must other actions be taken—or money spent—for this investment to succeed?
- Third, is the investment program well designed? Does it employ the most effective federal policy tools? What other policy approaches are currently in place, and are they duplicative or even conflicting? That is, would a change in pricing, tax policy, or regulation be more effective than federal outlays? Is the program targeted to produce maximum benefit? Is it designed to support or leverage rather than replace private or

state and local funds for this purpose? Does the program include provisions to assess its effectiveness?

Although considering these questions can help focus decision-making, judgment rather than well-documented data will in most instances guide answers. Information on the effects of specific investments on economic growth is limited. Nonetheless, some data are available to assist decisionmakers in identifying attributes of investments.

Investing in Infrastructure

The potential economic impact of investments in infrastructure—such as highways, bridges, airports, and water systems—varies greatly. Evidence strongly suggests that investment in certain types of these projects produces long-term economic returns as well as creates jobs in the shorter term. However, to the extent that existing infrastructure assets can be used more efficiently, the need for new infrastructure can be reduced.

Investment in transportation infrastructure can create economic benefits by improving mobility for people and goods. Our analysis and that of the Congressional Budget Office

(CBO)⁶ suggest that maintenance work on existing highways provides particularly significant benefits because it postpones the need for expensive highway reconstruction at a relatively modest cost. CBO has estimated that maintenance work can earn a 30- to 40-percent rate of return. Improvement and modernization of the nation's air traffic control system may also have a positive economic impact.

But expanding and improving the nation's supply of transportation infrastructure is not the only way to achieve federal investment goals. Influencing demand can reduce congestion by fostering more efficient use of existing facilities at less cost to the government. For example, a recent Brookings Institution study⁷ observes that congestion pricing for the use of roads and airport runways could create approximately \$15 billion in annual net benefits by reducing travel delays. More detailed information on our nation's transportation infrastructure appears in Transportation Issues (GAO/OCG-93-14TR), another document in this transition series.

⁶How Federal Spending for Infrastructure and Other Public Investments Affects the Economy, CBO (July 1991).

⁷Clifford Winston and Barry Bosworth, "Public Infrastructure," Setting Domestic Priorities: What Can Government Do? ed. Henry J. Aaron and Charles L. Schultze (Washington, D.C.: The Brookings Institution, 1992).

Investing in
Human Capital

An educated and well-trained population is more productive and thereby enhances national economic growth. Investments in the productive capacity of people are accomplished mainly through activities such as education and training. Yet a significant proportion of our population is not receiving the education and training needed for full participation in the economy. According to a joint report of the Departments of Labor, Education, and Commerce,⁸ 66 percent of employers consulted considered the academic preparation of recent high school students for the job market inadequate.

Returns from education and training—for example, the ability to read and write—are economic as well as social. However, the link between federal education and training programs and the nation's economic performance is difficult to quantify, as CBO has noted. First, the relatively small federal investment in human capital programs—as compared with that of state, local, and private entities—makes it hard to isolate the effects of federal programs. Second, it is often difficult to separate the contribution of federal programs from that of important socioeconomic and demographic factors that may also affect participants' behavior.

⁸Building a Quality Workforce, U.S. Departments of Labor, Education, and Commerce (July 1988).

Despite the difficulty of quantifying programs' effects, particular programs have produced some encouraging results. For example, CBO cites a study finding that the Job Corps program appears to have been a good investment.⁹ For an investment of about \$10,000 in the average participant, society obtained a stream of benefits worth almost \$15,000. Recent research has also demonstrated that education and training programs for welfare recipients can increase earnings and reduce dependency. An ongoing study of the effects of the Job Training and Partnership Act provides some evidence that the program has a positive impact on adult earnings.¹⁰

Thus, the technical difficulties of measuring their effects should not exclude human capital programs from a federal investment strategy. Performance measures are currently incorporated into the Job Training Partnership Act (JTPA) programs and are being developed for the Job Opportunities and Basic Skills (JOBS) Training program. Such measures can provide important

⁹Evaluation of the Economic Impact of the Job Corps Program: Third Follow-Up Report, Mathematica Policy Research Inc., (Washington, D.C.: Mathematica, Sept. 1982), cited in How Federal Spending for Infrastructure and Other Public Investments Affects the Economy, CBO (July 1991).

¹⁰The National JTPA Study: Title IIA Impacts on Earnings and Employment at 18 Months, Abt Associates, Inc. (May 1992).

feedback to federal, state, and local policymakers and managers as they endeavor to craft and implement the most cost-effective human capital investment programs possible. Some of these measures are discussed in our transition series report, Labor Issues (GAO/OCG-93-19TR).

Additionally, research on the effects of education and training on participants—such as is currently being conducted in the JOBS program—could provide information for determining the long-term relationship between economic gains for participants and for the nation.

In these ways, we can improve our ability to make the most of current human capital programs and to determine how future education and training policies can best enhance productivity.

Investing in Research and Development

Research and development (R&D) contributes to long-term growth by promoting innovations in technology and work processes. However, as for human capital initiatives, techniques for predicting the economic returns of specific R&D investments are not well developed. Here again, lack of specific data should not

exclude R&D programs from consideration as investment programs.

Unlike many of its trading partners, the United States has generally not invested in R&D to support civilian industrial technology. For example, in 1987, only 0.2 percent of all R&D spending in the United States was for civilian industrial technology, as compared with 15.3 percent in Germany.¹¹ Similarly, federal R&D spending has been oriented towards agencies' specific mission-related goals, primarily in the areas of defense, energy, and health. Consequently, the contributions of federal R&D programs to economic growth have generally not been assessed.

As the nation reduces the share of R&D spending for defense, it may lose some of the civilian spin-off benefits that it realized from these expenditures. This raises the question of whether and how federal spending should be redirected to provide other means of encouraging R&D that promotes economic growth.

¹¹Linda R. Cohen and Roger G. Noll, "Research and Development," *Setting Domestic Priorities: What Can Government Do?* ed. Henry J. Aaron and Charles L. Schultze (Washington, D.C.: The Brookings Institution, 1992).

As federal R&D strategies are developed, however, close attention to their design will be needed. In one study, for example, we found that programs to transfer advanced technology to small manufacturers were not aligned with the needs of the manufacturers. Instead of laboratory-based technology—like the computer-based manufacturing systems provided by the programs—these small manufacturers needed proven technology to solve routine production problems.¹²

In another study, we found that the research and experimentation tax credit, which cost over \$7 billion in foregone revenue, stimulated research and development worth only \$1 billion to \$2.5 billion, in part because a poorly designed incentive structure reduced the subsidy for firms that increased their R&D spending.¹³

¹²Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers (GAO/RCED-92-30, Nov. 22, 1991).

¹³Tax Policy and Administration: The Research Tax Credit Has Stimulated Some Additional Research Spending (GAO/GGD-89-114, Sept. 5, 1989). In 1989, the Congress enacted changes that probably improved the program's effectiveness.

Conclusion

The nation's long-term economic future depends in large part upon decisions made today. The federal government needs to focus on the impact of current decisions on the long-term economic health of the country. Failure to reverse recent trends in investment will doom future generations to a stagnating standard of living and damage U.S. competitiveness and influence in the world. In fact, we are today already paying this price.

Current federal policy not only fails to promote long-term investment but also violates the maxim to "do no harm," as the deficit absorbs private savings needed to improve long-term growth. Therefore, starting to reduce the deficit is essential to future economic growth. Within this overall fiscal policy constraint, well-chosen public investments can also play an important role. Reining in federal consumption spending, particularly for health care, is essential both to reduce the deficit and to shift priorities within the budget toward investment.

New public investment strategies and programs should be scrutinized carefully lest public investment become a new catchword to justify the claims of programs with only tangential long-term economic benefits.

Conclusion

Moreover, policymakers should consider other tools besides spending, such as pricing or regulation, that may achieve federal investment goals more cost-effectively.

In the last decade of the 20th century, the U.S. government must accept accountability for the long-term impact of its decisions. Only if we focus on the future can we provide an ever-improving standard of living for future generations.

Related GAO Products

Budget Policy

Budget Policy: Budgetary Treatment of Investment Programs (GAO/T-AFMD-92-15, July 23, 1992).

Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy (GAO/OCG-92-2, June 5, 1992).

Investment in Infrastructure

Airport Capacity: Synopses of Major Studies (GAO/RCED-92-117FS, Feb. 5, 1992).

Transportation Infrastructure: Preserving the Nation's Investment in the Interstate Highway System (GAO/RCED-91-147, Aug. 2, 1991).

Investment in Human Capital

Welfare to Work: States Begin JOBS, but Fiscal and Other Problems May Impede Their Progress (GAO/HRD-91-106, Sept. 27, 1991).

Transition from School to Work: Linking Education and Worksite Training (GAO/HRD-91-105, Aug. 2, 1991).

Training Strategies: Preparing Noncollege Youth for Employment in the U.S. and Foreign Countries (GAO/HRD-90-88, May 11, 1990).

Job Training Partnership Act: Services and Outcomes for Participants With Differing Needs (GAO/HRD-89-52, June 9, 1989).

Investment in
Technology

High-Technology Competitiveness: Trends in U.S. and Foreign Performance
(GAO/NSIAD-92-236, Sept. 16, 1992).

Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers (GAO/RCED-92-30, Nov. 22, 1991).

Tax Policy and Administration: The Research Tax Credit Has Stimulated Some Additional Research Spending
(GAO/GGD-89-114, Sept. 5, 1989).

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December 1992

Government Management Issues





United States
General Accounting Office
Washington, D.C. 20548

**Comptroller General
of the United States**

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report on government management addresses important policy and management issues facing the Congress and the new administration. This report assesses the incentives and constraints that managers face in their efforts to achieve program results. In that context, it sets the stage for our related transition series reports dealing with financial and information management, program evaluation, and public service issues.

Efforts are under way in state governments, other countries, and some federal agencies to address similar problems. Taken together, these efforts have laid the groundwork for broader action on the part of the federal government. What is needed now is specific action. This report outlines the key elements of a management improvement framework that should be considered at the federal level.

The GAO products upon which this report is based are listed at the end of the report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, the Director-designate of the Office of Management and Budget, and other appropriate officials.

A handwritten signature in black ink that reads 'Charles A. Bowsher'.

Charles A. Bowsher

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The State of Management in the Federal Government

The state of management in the federal government is not good. Too many principles, structures, and processes that may have worked well years ago no longer allow the government to respond quickly and effectively to a rapidly changing world.

For too long, progress in changing the situation has been slow. Incremental improvements have occurred. But time and again over the past decade, our management reviews of large federal agencies and departments have shown that the processes and systems fundamental to a well-run organization are often not present. Most agencies have not created a strategic vision of their futures, most lack good systems to collect and use financial and program information to gauge operational success and accountability, and many do not have the people with the necessary skills to accomplish their missions.

These elements are essential for any organization to succeed. But they usually do not command the attention of senior political officials coming into the government. After all, these elements do not appear to be directly related to the development of an administration's policies or programs and therefore do not seem

important to achieve a political agenda. However, many of our audit reports demonstrate the effects of leaders' inattention to these elements—waste, inefficiency, and even scandal. Political leaders then have to spend too much time and energy reacting to surprises resulting from management failures rather than pursuing the mission of their agencies and their policy agenda. For example, our work has shown that lack of attention to these critical elements has led to the following types of problems:

- In 1989, a series of major, well-publicized problems involving widespread waste, fraud, abuse, and mismanagement began unfolding at the Department of Housing and Urban Development. Poorly designed programs and controls made it relatively easy for developers and lenders to exploit the Department's programs, costing the government billions of dollars.
- The Department of Defense's (DOD) acquisition programs are vulnerable to influence peddling. This was the focus of the "Ill Wind" investigation, which involved more than 250 subpoenas for documents and evidence on the activities of over 50 private consultants and more than a dozen defense

companies and industry executives, as well as DOD officials. Convictions resulted, but the system and controls still need to be improved.

- Defaults in the Guaranteed Student Loan Program skyrocketed to \$3.6 billion in 1991. The program is plagued by inordinately complex and cumbersome practices, lacks sufficient oversight, and places most of the financial risk on the federal government. Even if the program's structure were to be reformed, serious weaknesses in the Department of Education's financial and management systems would make it difficult to manage its multibillion-dollar programs and could overwhelm the effects of any potential reform measures.
- Widespread weaknesses in financial controls at DOD have permitted the expenditure of about \$40 billion for unneeded purchases and have significantly increased the risk of waste, loss, and theft. DOD continues to make unneeded purchases because its information systems are so poor that, in many cases, it does not know what items it already has in stock.
- The \$110 billion Medicare program has lost billions of dollars to waste, fraud, and

abuse in recent years. The Department of Health and Human Services does not properly manage its contractors' efforts to recover improper expenditures. Also, loose controls over who can bill Medicare have made the pursuit of fraudulent providers difficult. In addition, too little money is earmarked by the Congress to do the job right. For example, contractors paid an estimated \$2 billion in claims that should have been paid by other health insurers, but recovering these funds would require additional staff, which in turn would require cutting spending elsewhere.

- The Department of Veterans Affairs has not integrated its currently separate information systems into one that is capable of sharing and accessing data across all program areas. Nor has it reengineered its administrative processes as it has modernized its computer systems. For example, it recently spent \$94 million to modernize its benefit delivery process but shortened the process by only 6 to 12 days out of 151 days, on average. As a result, the Department's planned purchase of additional computer hardware and software may be premature.
- The Resolution Trust Corporation (RTC), which is responsible for managing and

selling assets totaling over \$400 billion for an estimated 725 failed thrifts, has been unable to effectively execute sales strategies for a large portion of the real property it holds because it cannot track the status of many of its assets even though it spent \$27 million on a computerized tracking system. Some properties have been sold for significantly less than their appraised value, and others cannot be sold because RTC and prospective buyers do not know whether the properties have clear titles.

- Federal hiring mechanisms are burdensome and complex, making it difficult to get qualified people. For example, the examination process introduced in 1990 for job applicants for over 90 entry-level positions imposed procedures that effectively broke the link between an agency's recruiting and hiring functions for all but the top academic achievers. As a result, there is no guarantee that agencies can hire many of the candidates they interview on college campuses. Applicants may get job offers from agencies for which they have no desire to work.

Because the government has not addressed many of its fundamental management problems, we are issuing specific transition

reports on financial management, information management, program evaluation, and public service issues.

Financial Management Issues (GAO/OCG-93-4TR, Dec. 1992) discusses widespread financial management weaknesses that are preventing our leaders from running the federal government effectively. At present, the federal government runs the world's largest financial operation without having the reliable information needed for making informed decisions. It spends about \$1.5 trillion annually using unreliable systems and ineffective controls. And it manages hundreds of programs, many of them individually larger than our nation's biggest publicly owned corporations, without adequate knowledge of their financial condition and of the results achieved. This devastating legacy is the product of decades of neglect.

Information Management and Technology Issues (GAO/OCG-93-5TR, Dec. 1992) points out that the federal government spends over \$20 billion annually on new technology—and tens of billions more on running current systems. Yet agency after agency still lacks critical information needed to analyze programmatic issues, manage agency

resources, control expenditures, and demonstrate measurable results. Causes contributing to these problems include (1) the inattention of top federal executives to the strategic role of information technology in reengineering business practices; (2) the lack of authority and resources given to information resource managers to help their agencies modernize and simplify work practices, define information needs, and ensure the most effective use of information resources; and (3) the demand for certainty in the system development process—prescribed by the federal acquisition management and budget process—which leads project managers to downplay risks and problems.

Program Evaluation Issues (GAO/OCG-93-6TR, Dec. 1992) discusses the consequences of the continuing decline in the capacity for effective program evaluation in the executive branch. It shows that agencies lack information on the effectiveness of their programs; lack data on the targeting and outreach of their programs; and need to improve their capacity to make sound decisions on the use of data for policy-making.

The Public Service (GAO/OCG-93-7TR, Dec. 1992) discusses what the government must do to attract and retain high-quality people, meet the public's performance expectations, and regain a positive public image. It must (1) modernize its practices for recruiting, hiring, and structuring benefits; (2) examine complex and restrictive laws, regulations, and processes that have hampered its ability to manage its workforce; (3) fully implement pay reform to make federal salaries ultimately competitive with the private sector's; and (4) rebuild a positive public image by aggressively implementing strong ethics programs.

This report assesses the incentives and constraints that managers face in their efforts to achieve results. Too often, managers face conflicting priorities and constraints that discourage good management. Consequently, they spend too much time responding to these constraints and not enough time delivering quality program results.

Changing the Way the Government Manages

Over the past decade, many private sector organizations recognized that they would have to change their cultures and processes to survive in a rapidly changing world. As a

result, they have decentralized authority, flattened organizational structures, increased employees' involvement in and control over the workplace, and focused more on the needs of their customers. These trends are improving quality and quickening response to customers' needs.

The federal government is obviously not going out of business, but its ability and capacity to serve the public have clearly diminished. We must change the way we manage the government if we are to improve its efficiency and effectiveness and restore public confidence. But making the changes will not be easy because the federal government poses the following unique challenges:

- The federal government is overwhelmingly large. It employs over 3.1 million civilians in 14 executive departments and more than 60 independent agencies and government corporations. It spends about \$1.5 trillion a year—more than the entire Gross Domestic Product of Germany, which has the third largest economy in the world.
- The political environment and the operating cultures in many agencies resist efforts to define clear missions for specific programs.

For many programs, missions are ambiguous—as the slogan “ameliorate poverty” suggests—and for others, multiple objectives, often without priorities, can challenge federal managers.

- The federal government does not directly control many of the services that it delivers. Although its agencies provide many services directly—veteran’s health care and social security checks, for example—it relies more frequently on states, localities, nonprofit agencies, and profit-making contractors to deliver its services. The federal government grants over \$180 billion a year to third parties and contracts for another \$190 billion in goods and services.
- The federal government, unlike a number of other countries’ governments, relies heavily on noncareer executives to manage its programs. About 500 full-time positions in the executive branch are appointed by the President and require confirmation by the Senate, and another 2,600 positions may be appointed by the White House and the heads of departments or agencies.

The unique challenges posed by our government should not, however, be an excuse for inaction. Several countries have

initiated strategies to change their organizational cultures and introduced incentives to create a results-oriented environment and improve the management of their governments. So have some states. Through our analysis of these initiatives and our management reviews of major federal departments and agencies over the past decade, we have identified some fundamental obstacles that cut across agencies and departments and must be overcome if we are to better manage our government. These obstacles include

- diffuse accountability for achieving results,
- incentives that encourage short-term responses to long-term problems, and
- antiquated government machinery.

The remainder of this report (1) presents the approaches that other governments have used to address these same obstacles and (2) offers a framework for action within which the federal government can also begin to manage for results. We must overcome these obstacles if we are to improve the government's efficiency and effectiveness and restore public confidence.

Learning From the Experience of Other Governments

The U.S. government is not alone in attempting to address major management problems. Governments in countries such as Australia, Great Britain, Canada, New Zealand, and Sweden began in the mid-1980s to rethink how their public sectors operated and to create a more results-oriented environment. Furthermore, governments in some states—such as Florida, Minnesota, Oregon, and Texas—have recently begun to do the same. While these governments may not all have succeeded in making sweeping changes, their experience is instructive and applicable to the federal government.

Much like the federal government, a number of these national and state governments were dissatisfied with their public service in the mid-1980s. Some faced economic crises that led to major cuts in public spending, and their leaders were committed to changing the way government worked. They started by assessing their operating environments and came to a variety of conclusions along similar lines:

- Public servants were by and large committed and hard working; the problem was the system in which they had to work.

- Bureaucratic constraints rather than missions drove management behavior.
- Management cultures tolerated few or no mistakes; elaborate check-and-control systems that had been instituted to prevent mistakes stifled innovation.
- Managers lacked control over any savings they generated; hence, they had few incentives to be efficient.
- Large and inefficient bureaucracies adversely affected global competitiveness.

In general, these governments tried to change incentives for individual managers and organizational cultures across their entire public service. All of them emphasized achieving results by introducing quasimarket mechanisms and incentives similar to those used in the private sector, including competition, a focus on the customer, a focus on quality, and clear standards and accountability. The following points demonstrate the range of strategies employed.

To clarify accountability, they

- recast their budget focus from accounting for inputs to emphasizing programs, outputs, and results. Quality results were shaped by program customers' needs.
- separated policy-making functions from program administration within departments.
- used written individual and organizational performance agreements between the department and agency heads responsible for program administration to better define and clarify program missions and intended results.
- made organizational changes between departments to reduce conflicts in program missions and to consolidate similar functions.

To create a longer-term focus in addressing management issues, they

- broke out agencies' operating budgets separately and created a 3-year rolling budget so that agencies would know what their next year's operating budgets would be. Although funds continued to be appropriated annually, their version of the Office of Management and Budget (OMB) was committed to supporting the next year's

funding levels.

- gave top agency managers performance agreements of up to 5 years.

To provide incentives and tools to be more results oriented, they

- changed the roles of their central agencies from controllers to facilitators. To different degrees, program agencies were empowered to take lead responsibility for control in specific areas. These governments' versions of OMB, the Office of Personnel Management (OPM), and the General Services Administration (GSA) transformed their own roles to provide oversight and guidance. As service providers, they became more customer oriented.
- increased managers' control over operating budgets by allowing them to
 - simplify and streamline appropriation accounts and budget execution procedures;
 - hire and fire staff and set their own pay levels and rewards for staff; and

- buy their own equipment and negotiate rents outside of their responsible central agency if they could save money by doing so.

- introduced incentives to manage efficiently by
 - requiring efficiency savings but permitting agencies to retain a share of the savings beyond the agreed-upon targets;
 - introducing the concept of risk management, which weighs the costs and benefits of administrative controls; and
 - increasing the use of internal and external user charges.

The results of these initiatives have not been comprehensively assessed because many of the initiatives are still in early phases. However, in our view, initial results are encouraging. The public service in these countries' governments, as well as in some state governments, has been energized to act, and government operations have changed substantially. Officials from these governments told us there was little likelihood of returning to past practices. And reports from these governments seem to

confirm that point of view, as the following examples show:

- A 1991 review of Great Britain's management improvements concluded, "There are . . . extended opening hours to meet customer needs. New products and services are being introduced. Facilities for clients are being improved and services are generally being delivered faster and more accurately. Waiting times have been reduced." And this was all done while reducing agencies' operating budgets.
- A 1990 review concluded that Australia's improvement efforts had not only achieved financial savings but had also improved public sector management by introducing a more flexible budget framework and creating a management focus on results. Australia is currently assessing the impact of its efforts on service to the public.
- A 1992 study concluded that Minnesota had improved the provision of central services for staffing, purchasing, and information resource management by giving departmental managers the flexibility to design individual strategies to improve service levels or decrease service costs. The strategies incorporated concepts such as

customer focus, employee involvement, strategic planning, and managerial discretion. Satisfaction surveys of the central divisions' customers revealed significant improvements in the timeliness and quality of the services received.

Creating a Framework for Addressing Management Problems

The creation of a results-oriented environment in the governments of some other countries and of some states has been directed primarily from the top by a committed cadre of managers. These managers have focused on changing the culture, incentives, and systems that managers used in their day-to-day work. Similarly, in the federal government, many policymakers and managers have been working hard for long periods to improve the basic systems necessary to overcome the management problems facing federal agencies. But we have not changed our government's culture and incentives enough to create a results-oriented environment.

Nonetheless, some progress has been made. In the past few years, federal agencies have given increasing emphasis to changing their organizational cultures to become more customer and quality oriented. Many components of federal agencies have been using total quality management (TQM) techniques to stimulate cultural change. TQM is an approach aimed at improving the quality of services by focusing on the needs of customers and achieving continuous improvement.

A significant number of federal organizations are voluntarily implementing TQM. About 68 percent of the federal components that we surveyed in mid-1992 reported that they were in various phases of implementing TQM—most in the early phases. Although TQM is being initiated on a fairly wide scale, the depth of employee involvement is still shallow; about 13 percent were involved at the time of our survey. We also found that, as their TQM efforts developed and matured, organizations reported fewer barriers and more employee involvement. More importantly, the level of reported benefits attributed to TQM efforts—improved customer service, timeliness, and reduction in costs—increased substantially for federal installations as their implementation of TQM progressed.

However, the pace and scope of management improvement efforts need to be accelerated and expanded if there is to be any real improvement in the delivery of services to the public. How can this be accomplished? It will not be easy or quick. But progress can be made within a three-part framework that would place greater emphasis on achieving results by (1) clarifying accountability, (2) emphasizing a

long-term focus, and (3) realigning the machinery of government.

**Clarifying
Accountability
and Managing for
Results**

The first step is to clarify accountability and manage for results.

**Developing Strategic
Plans**

Agencies need to develop long-term strategies targeted to achieving programmatic outcomes. Agencies also must develop measures of performance and publicly report results.

OMB has been encouraging agencies to develop programmatic missions, goals, and objectives and link them to performance through its implementation of the Chief Financial Officers (CFO) Act. As part of this effort, it has called on agencies to experiment with and develop program measures and related cost information and report this information in their annual financial statements. An extensive study of users' needs by the Federal Accounting Standards Advisory Board has shown a desire for more information on both the accomplishments and costs of government programs.

However, given the frequent turnover in top management in federal agencies and the long-term nature of creating useful performance measures, it is appropriate to create a legislative framework. For example, using the CFO Act as a foundation, steps could be taken to improve accountability for program results. In establishing the requisite framework, several principles should be kept in mind:

- Agencies need to articulate their missions in the context of statutory objectives and, with regard to services, customers' expectations. These objectives need to be written in terms that can be used to judge progress toward achieving them. Every effort should be made to reach agreement among the Congress, OMB, and the executive agencies on realistic, outcome-oriented goals, recognizing that agreement will not always be possible.
- Agencies need to develop implementation plans for their goals and objectives as well as specific measures of progress toward achieving them. Measurable interim targets should be set for agencies' operations so that assessments of progress can begin.
- Agencies need to report annually on their progress. The Congress must be actively

involved in overseeing agencies' performance in key areas. If the Congress does not take performance results seriously, neither will the agencies.

The Congress recently considered legislation that encompasses this framework for accountability. This legislation would require all agencies to develop strategic plans, set agreed-upon goals and objectives, and measure their progress toward these goals and objectives.¹ It would also allow pilot agencies to test whether increased managerial flexibilities—such as exemptions from restrictions on funding transfers among certain budget object classifications—are appropriate incentives for encouraging managers to focus on programmatic results. Action on this type of legislation should be high on the agenda of the 103rd Congress.

Improving Financial
and Program
Information

Reliable financial and program data need to be available. A central first step toward improving decision-making and accountability is to effectively implement the CFO Act. This act provides an important blueprint for improving financial accountability for results by requiring the

¹S. 20, "Government Performance and Results Act of 1992," 102nd Congress, cosponsored by Senators William V. Roth, John Glenn, and William S. Cohen.

development of needed systems, the hiring of qualified people, and the linking of accounting and budgeting information.

Concerted action is required by both the executive and legislative branches to ensure that good financial management becomes a reality. This will entail

- ensuring strong leadership and commitment to financial management within the agencies and OMB;
- improving the accuracy of data and the soundness of internal controls in agencies;
- expanding financial auditing in agencies;
- strengthening the qualifications of financial management personnel;
- reengineering the government's financial management processes to integrate accounting, budgeting, and program activities and information; and
- developing useful and relevant financial reports that emphasize accountability and operating performance.

Likewise, a commitment by both the executive and legislative branches to improving information technology is crucial. Agencies need to adopt a management philosophy that emphasizes the continuous streamlining of business processes, which should precede the development and acquisition of automated systems. Adoption of this philosophy implies the appointment of top-level executives who are familiar with the uses of information technology in simplifying business practices and who can devote full attention to this issue. Even though agency budgets are tight, the information management function must be supported with adequate staff resources because the potential long-term paybacks for the agency make this a key area for added investments. In addition, given the existing constraints in the budget and acquisition processes, experimentation may be appropriate to develop a broad-based agreement on new management models needed to build an effective information technology infrastructure in federal agencies.

Creating a
Results-Oriented
Environment

Several pilot programs have been established in various federal agencies to

create a more results-oriented environment. For example, OMB and the Railroad Retirement Board agreed on a prototype of a performance agreement with specific measures of results as a tool for increasing the Board's accountability. And the Defense Business Operations Fund is attempting to focus the Defense Department's delivery of support services more effectively on customers and plans to allocate funds on the basis of performance.

Other smaller-scale initiatives are under way to reduce controls in areas such as human resource management, procurement, and budget to create a results-oriented environment in several agencies. As noted earlier, proposed legislation would foster a series of pilot programs through which agencies would obtain waivers from central management agency regulations but not from statutory provisions. If successful after 3 years, agencies would be granted permanent waivers. We believe that this flexible, incremental approach has merit.

Managers must be given the incentives and tools to create a results-oriented work environment. Without incentives and tools to manage for results, managers have little control over their operations. Consequently,

they focus more on complying with the accountability controls placed on them (which often have multiple objectives) than on achieving their agencies' overall missions. These controls affect their hiring, promoting, and rewarding; create a rule-intensive procurement and contracting maze; and rigidly regulate funds. As in the financial and information technology areas, creating a consensus for change will be important. There are no easy answers; therefore, it will be important for all parties involved to have the willingness and flexibility to experiment with different approaches.

Focusing on the Long Term

A fundamental cause for inaction is anchored in the short-term mentality created by the political appointment process, the budget process, and underinvestment in the public service.

Developing Continuity in Leadership

Leadership issues need to move to the forefront, and developing continuity is important. The following actions can create the right environment:

- Ensure that people with the appropriate skills and experience are selected for top management positions.

Governmentwide, these positions would include the deputy director for management and the controller in OMB, the deputy secretaries responsible for overall management of cabinet departments, and the chief financial officers and senior information management officials in government agencies. The Senate, through its confirmation process, has an important role in ensuring the qualifications of nominees for such positions.

- Ensure that these people will make a sustained commitment to addressing long-term management problems in addition to focusing on policy issues. This includes encouraging them to stay in office for longer periods and planning for good succession, when needed.
- Continue improvements that are already under way, such as staffing OMB's management function, implementing the CFO Act in agencies, and developing strategic plans in departments and agencies. To support these efforts, the Congress can ensure that funds are available to carry out these actions.

In general, the accountability of top political appointees has been a concern. In a number of other countries, fewer political appointees are found in the upper levels of government, and individual and organizational performance agreements are being used to clarify accountability and responsibilities. While such agreements may not be directly transferable to the U.S. government, the President and the Director of OMB should consider using written organizational performance agreements between department and agency heads to better define and clarify program missions, intended results, and the facts that will be used to measure continuous improvements.

Currently, the performance management systems in agencies tend, for the most part, to assess the activities of career individuals and are not results oriented. For example, in cases where performance agreements are used as a tool to manage the performance of individuals, the results expected of career senior executives are tied to measures of program performance in only about one-third of the largest agencies. In addition, political appointees are not required to have performance agreements; currently, their relationship with the President and other

senior political appointees is much less formal.

Revising the Budget
Process

The way the federal government manages and the way it budgets are interrelated. The budget process should be reassessed as part of any overall effort to create a longer-term focus on management. The following changes should be part of that assessment:

- Require the use of accrual concepts, where appropriate, to heighten the recognition of the effects of long-term costs. As mentioned earlier, the existing cash-based budget structure fosters a short-term focus. Expanding the use of accrual concepts, where appropriate, would ensure that the full costs of current decisions are recognized. For example, the Federal Credit Reform Act of 1990 recast the budgetary treatment of loan and loan guarantee programs to fully recognize their subsidy costs.
- Create a longer-term framework for budget policy decisions by highlighting the differences between spending that contributes to long-term economic growth and spending for current consumption. The current budget process does not formally

recognize the different long-term economic effects of various programs. Decisionmakers need to be able to see the distinctions between investment programs and current consumption programs when making choices. In addition, more reliable information on the rates of return among alternative types of investment programs is needed.

- The budget needs to focus decisionmakers on the results of their choices among competing objectives. Considerable performance information is currently provided in agency budget justifications, but little is known about how reported performance relates to objectives and spending. Carefully chosen pilot projects may be appropriate to develop these links. For selected programs, budget information could be reported on a program basis along with the program's strategic goals and related performance information.

Strengthening the
Public Service

Human resource issues need to be dealt with seriously if the public service is to provide the leadership necessary to address the management problems facing the government. Both financial investments and

steps such as the following are essential to improve the public service:

- Rebuild a positive public image for the public service to restore the public's confidence in government and to make it an attractive career choice.
- Modernize the government's employment policies, in general, to recognize and accommodate the dramatic demographic changes—primarily the growth in the number of women employees—that have occurred in the nation's workforce.
- Enhance the government's ability to effectively manage its workforce by giving agencies more flexibility to manage the performance of their employees.
- Ensure full implementation of the Federal Employees Pay Comparability (Pay Reform) Act of 1990 to help make the government a more attractive employer and, thereby, enhance agencies' abilities to recruit and retain the quality employees needed to carry out the agencies' responsibilities.

Realigning the
Machinery of
Government

The roles of the central management agencies should be reassessed and the

organizational structures of individual agencies should be reevaluated.

Reorienting the
Central Management
Agencies

In recent years, the central management agencies—OMB, GSA, and OPM—have gradually shifted from controlling agencies to helping them take the lead in a series of areas. This trend needs to be accelerated.

Decreasing central management controls and giving line managers the authority to act within an overall framework of results-oriented objectives have been significant management trends in private corporations and in the governments of some states and other countries during the past decade. Some of these governments consciously set out to devolve certain functions traditionally held by their central management agencies to line agencies. They have, for example, broadened the authority of individual agencies to classify personnel positions, recruit staff, acquire office space, and determine appropriation draw-down rates. Broadening agencies' authority to act within a defined framework seemed, in the other governments we studied, to give managers the incentive to focus on results instead of complying with top-down constraints.

In the last decade, the federal government's central management agencies have begun to serve a support role and to delegate authority to act in certain areas. As noted earlier, credit for this is partly attributable to OMB's creation of a deputy director for management position. OMB's management staff has increased its emphasis on assisting—rather than directing—agencies in resolving their management problems.

The increased willingness to delegate to agencies the authority to act is partly attributable to OMB's support for the TQM movement. The increased willingness also may be attributable to OMB's efforts to promote the development and use of performance measures. Because these two efforts are creating an environment in which central management agencies can focus on results and reduce controls on the use of inputs, it will be critical not to lose the widespread momentum behind TQM and performance measurement as new staff take over the top leadership positions in these agencies in early 1993.

In addition, the Pay Reform Act of 1990 gave agencies a wider range of tools to pay and reward staff. Likewise, GSA has delegated limited authority to agencies to manage their

properties and leases. GSA and OPM should be encouraged to continue these efforts to broaden agencies' authority to act and identify opportunities to expand these efforts. Our transition series report General Services Issues (GAO/OCG-93-28TR, Dec. 1992) provides a context for the directions that GSA might take to focus more on policy and less on delivering direct services.

Reexamining
Agencies'
Organizational
Structures

Agencies' organizational structures influence the environment in which agencies' managers must operate. These structures should be reexamined to determine whether they impede a results orientation. We have traced major management problems in specific agencies—such as the Customs Service and the Departments of Agriculture and Veterans Affairs—to outdated organizational structures.

For example, the Department of Agriculture has an extensive and costly field structure of 11,000 field offices, many of which date from the 1930s—before highways, computers, and universal telephone coverage facilitated communication. In the past 60 years, Agriculture's responsibilities have changed radically, and the number of farmers has decreased significantly. But the

Department's field structure has not changed, in part because of political pressures. As a result, it has many underused field offices that could be consolidated to create annual savings of more than \$100 million.

But the need to address organizational issues does not rest solely with individual agencies. For example, the jurisdictions of some congressional committees overlap and create conflicting priorities within some agencies. A joint congressional study committee has recently been chartered to examine the scope of committee jurisdictions. Likewise, in the executive branch, duplicative organizations in areas such as competitiveness, the drug war, and law enforcement have frequently been targeted for restructuring to be more results oriented. Efforts that go beyond a single agency will take substantial dedication to resolve. Several executive branch reorganization bills, or study commissions, were proposed in the 102nd Congress, but no action was taken. Under the new administration, efforts to restructure the executive branch will need to be rejuvenated in order to better focus the resources of government on accomplishing specific missions.

Related GAO Products

Management Reform

Quality Management: Survey of Federal Organizations (GAO/GGD-93-9BR, Oct. 1, 1992).

Performance Measurement: An Important Tool in Managing for Results (GAO/T-GGD-92-35, May 5, 1992).

Service to the Public: How Effective and Responsive Is the Government? (GAO/T-HRD-91-26, May 8, 1991).

How to Enhance Congressional Oversight (GAO/T-GGD-90-40, May 8, 1990).

Managing the Cost of Government: Proposals for Reforming Federal Budgeting Practices (GAO/AFMD-90-1, Oct. 1989).

Managing the Cost of Government: Building an Effective Financial Management Structure (GAO/AFMD-85-35, Feb. 1985).

Selected Government-wide Management Improvement Efforts—1970 to 1980 (GAO/GGD-83-69, Aug. 8, 1983).

Reviews of Central Management Agencies

Managing the Government: Revised Approach Could Improve OMB's Effectiveness (GAO/GGD-89-65, May 4, 1989).

General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14, Nov. 6, 1989).

General Services Administration: Status of Management Improvement Efforts (GAO/GGD-91-59, Apr. 3, 1991).

Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GAO/GGD-89-19, Jan. 19, 1989).

Procurement: Assessment of the Office of Federal Procurement Policy (GAO/NSIAD-88-35, Nov. 20, 1987).

Assessments of Increased Management Flexibility

Federal Personnel: Special Authorities Under the Demonstration Project at Commerce (GAO/GGD-92-124BR, July 13, 1992).

Federal Workforce: Information on the National Bureau of Standards Personnel Demonstration Project (GAO/GGD-88-59FS, Apr. 5, 1988).

Federal Personnel: Observations on the Navy's Managing To Payroll Program (GAO/GGD-90-47, Mar. 27, 1990).

Related GAO Products

Forest Service: Evaluation of "End-Results"
Budgeting Test (GAO/AFMD-88-45, Mar. 31,
1988).

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Budget Issues (GAO/OCG-93-1TR).

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Government Management Issues
(GAO/OCG-93-3TR).

Financial Management Issues
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Information Management and Technology
Issues (GAO/OCG-93-5TR).

Program Evaluation Issues (GAO/OCG-93-6TR).

The Public Service (GAO/OCG-93-7TR).

Program Areas

Health Care Reform (GAO/OCG-93-8TR).

National Security Issues (GAO/OCG-93-9TR).

Financial Services Industry Issues
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Health and Human Services Issues
(GAO/OCG-93-20TR).

Veterans Affairs Issues (GAO/OCG-93-21TR).

Housing and Community Development
Issues (GAO/OCG-93-22TR).

Justice Issues (GAO/OCG-93-23TR).

Internal Revenue Service Issues
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Financial Management Issues





United States
General Accounting Office
Washington, D.C. 20548

**Comptroller General
of the United States**

December 1992

The Speaker of the House of Representatives
The Majority Leader of the Senate

In response to your request, this transition series report discusses major policy, management, and program issues facing the Congress and the new administration in the area of financial management. The issues include the (1) widespread financial management weaknesses that exist in government today, (2) role of the Chief Financial Officers Act of 1990 in providing a road map for reform, (3) steps needed to fully implement this act and make good financial management a reality, and (4) further actions that need to be taken.

We are also issuing a high-risk series on specific areas in the federal government that are vulnerable to waste, fraud, abuse, and mismanagement. Many of these areas are seriously affected by financial management shortcomings.

The GAO products upon which this transition series report is based are listed at the end of this report.

We are also sending copies of this report to the President-elect, the Republican leadership of the Congress, the appropriate congressional committees, the Secretary-designate of the Department of the Treasury, and the Director-designate of the Office of Management and Budget.

A handwritten signature in black ink that reads 'Charles A. Bowsher'. The signature is written in a cursive, flowing style.

Charles A. Bowsher

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Reaching for Financial Management Reform

Widespread financial management weaknesses are crippling the ability of our leaders to effectively run the federal government. Reducing the federal deficit requires monumentally difficult decisions. If our government is to make these decisions in an informed manner, it must have better financial information. Our citizens must also have access to meaningful information that allows them to judge the performance of their government and that provides fundamental accountability. Because these data are not available today, public confidence in the federal government as a financial steward has been severely undermined.

The problems are pervasive. The 17 high-risk areas in government that we have identified for special attention can trace many of their difficulties to a common source: severe, fundamental weaknesses in financial management. These weaknesses have contributed to such problems as insufficient oversight of hundreds of millions of dollars distributed under the Department of Education's guaranteed student loan programs, the Internal Revenue Service's (IRS) inability to manage billions of dollars in tax receivables, and the Department of

Defense's inadequate control over billions of dollars worth of inventory.

Poor financial management is also evident throughout the almost 100 government high-risk areas identified by the Office of Management and Budget (OMB). The Director of OMB described the federal financial management system as "essentially a primitive cash budgeting system—without satisfactory controls or audits; without accruals; without balance sheets; without a clear picture of assets, liabilities, returns on investment, or risks."

Not only does the government do an abysmal job of rudimentary bookkeeping, but it is also far from having the modern financial systems one would expect of a superpower. At present, the federal government runs the world's largest financial operation without the reliable information needed for making informed decisions. It annually spends about \$1.5 trillion—almost a quarter of the country's gross national product—using unreliable systems and ineffective controls. And it manages hundreds of programs, many of them individually larger than our nation's biggest publicly owned corporations, without adequate knowledge of their

financial condition and the results they achieve.

This devastating legacy is the product of decades of neglect. But the federal government can no longer afford to operate this way. It must address three major areas of weakness.

First, financial data are often inadequate or erroneous. Our financial audits of various agencies regularly identify tens of billions of dollars in accounting errors as well as serious gaps in information. These problems undermine the government's ability to effectively perform basic financial management functions, make informed decisions, and conduct adequate oversight of taxpayers' funds. Examples include the following:

- Our financial audits of the Army and the Air Force identified over \$200 billion in accounting adjustments needed to improve the accuracy of their financial reports. The National Aeronautics and Space Administration's (NASA) year-end financial reports to the Department of the Treasury contained over \$500 million in errors.

- Faulty information prevents the IRS from identifying the most effective strategies for pursuing billions of dollars in unpaid taxes. In addition, even after the Social Security Administration (SSA) attempted to reconcile differences in earnings data reported to it and the IRS for the 1978 to 1986 tax years, an unreconciled balance of about \$65 billion remained as of September 1992.
- Contributing to the billions of dollars in losses in the government's portfolio of over \$850 billion in loans and loan guarantees is the fact that fundamental information on lending programs is all too often lacking or unreliable.

Second, financial systems and controls are unreliable. Breakdowns in financial systems and controls not only waste billions of dollars, but also reinforce the deeply rooted public perception that the government cannot effectively manage the taxpayers' money. Examples include the following:

- Widespread weaknesses in financial controls at the Department of Defense have contributed to unneeded inventories, for which Defense paid about \$40 billion, and have significantly increased the risk of waste, loss, and theft of billions more

dollars—a source of continuing embarrassment to the government.

- The government's accounting control over the almost \$2 billion Indian Trust Fund has been so poor that it has been unable to reconcile accounts for over half a century, and the Fund has incurred millions of dollars in unnecessary losses.
- Reduced funding for Medicare payment safeguards and inadequate program oversight have led to government contractors not recovering an estimated \$2 billion in claims that should have been paid by other insurers, not collecting over \$170 million in overpayments, and allowing complaints of fraud to go uninvestigated.

Third, results-oriented reports on financial condition and operating performance are largely nonexistent. While the government has a flood of cash-based information, it has collected few data to monitor the cost of programs and measure their performance. This makes it extremely difficult to manage effectively, determine results achieved with

public funds, and establish reasonable spending priorities. For example:

- While the Congress is asked to authorize billions of dollars for weapons systems without reliable cost information and performance data, the Department of Defense routinely buys weapons systems that fail to work as intended, cost more than expected, and take years longer than expected to field.
- The State Department, which owns and leases billions of dollars worth of property worldwide, cannot track building costs or determine operating costs in order to manage its programs effectively.
- Because the Department of Veterans Affairs lacks information on the operating costs of its 172 hospitals, program managers cannot determine which facilities are working well and where procedures are or are not cost-effective.

Providing the Road Map to Reform

A growing consensus on the seriousness of the problems outlined above culminated in enactment of the Chief Financial Officers (CFO) Act in November 1990. This landmark law, which we called for in our November 1988 transition report, represents the most far-reaching financial legislation in 40 years and provides an excellent blueprint for reform.

To address the historic lack of priority given to financial management, the act established a much-needed leadership structure consisting of a new Deputy Director for Management and a Controller in OMB and professionally qualified chief financial officers in all major agencies. These CFOs are to report directly to agency heads and are to be given broad authority for financial management. The act also establishes a CFO Council to address common issues.

To improve the reliability of financial information and to overhaul financial systems and controls, the act

- requires the preparation of financial statements for all government revolving and trust funds and commercial operations, and for 10 pilot agencies;

- calls on inspectors general (IG) to perform financial audits to verify information and underlying controls;
- ties the reporting of internal control weaknesses under the Federal Managers' Financial Integrity Act (FMFIA) to reporting by the CFOs;
- mandates that OMB devise a 5-year improvement plan and that each agency provide a comprehensive plan that translates OMB's plan into meaningful change; and
- gives the CFOs responsibility for asset management, covering such things as credit and inventory management.

To ensure that financial reporting focuses on results, the act

- requires that the agencies' CFOs oversee budget execution—how money is spent in carrying out programs and operations;
- requires the systematic measurement of performance and the development of cost information; and
- mandates an annual financial management status report by each CFO that shows where

the agency stands financially, what it has achieved, and what the future holds in financial terms.

Making Good Financial Management a Reality

While many important initiatives are under way and planned, only limited concrete results have been achieved during the 2 years since the act's enactment. Certain good initial steps have been taken, but much more effort will be required if the act's full potential to greatly improve government management and accountability is to be achieved. The next few years will be pivotal in determining whether good financial management becomes a reality or whether the federal government will miss an unprecedented opportunity to make a lasting improvement in management.

Urgent, sustained action is required to accomplish the act's objectives and help solve the government's high-risk problems. These actions include

- establishing strong financial management leadership and commitment within the agencies and OMB;
- improving existing systems and controls by properly following established policies and procedures and making interim enhancements;
- expanding the program of financial statement preparation and auditing to ensure

reliable data and adequate controls;

- attracting and retaining qualified financial management personnel;
- strengthening financial management systems by simplifying and reengineering business processes and developing modern systems that integrate accounting, budgeting, and program information; and
- developing useful and relevant financial reports that emphasize accountability and operating performance.

Establishing
Strong
Leadership

The CFO Act simply will not work without qualified, effective leadership, starting with the Deputy Director for Management and the Controller at OMB. Agency heads must also give high priority to financial reform, and highly qualified CFOs need to be appointed in every major agency. The Congress required in the act that CFOs “possess demonstrated ability in general management of, and knowledge of and extensive practical experience in financial management practices in large governmental or business entities.”

This standard was fully met in the appointment of the first Controller of OMB's Office of Federal Financial Management. This person, who is key to leading the governmentwide financial reform effort, has an extensive financial management background and a strong record of successful leadership in reforming state government finances. This appointment, as well as the selection of an effective Deputy Director for Management who aggressively pushed for the act's implementation, were an important signal of OMB's commitment to making the CFO Act work.

In the year in which the new Controller has served, we have noted effective initial steps. OMB's 5-year improvement plan, for example, provides a good long-term approach for implementing the CFO Act and developing expanded financial reporting objectives and auditing requirements. In addition, the composition and qualifications of OMB's financial management staff in the Office of Federal Financial Management have improved, enabling the office to be better prepared to serve as a catalyst for change.

But OMB still has woefully limited resources committed to this office. When the CFO Act was being considered, we supported locating

financial management leadership in OMB rather than in the Treasury Department, with the caveat that OMB provide sufficient resources to get the job done. While the overall capabilities of OMB's team have improved, the size of the financial management staff has only increased from 26 to 32 people since the CFO Act's passage. To have proper impact, it would seem that OMB needs some multiple of this level of financial management staffing. We believe it will be important that the Office of Federal Financial Management have the necessary resources to adequately tackle the difficult challenges posed by the CFO Act.

At the agency level, we are seeing signs of greater management attention to financial management. For example, our ongoing or recently completed audits at the IRS, the U.S. Customs Service, the Departments of Education and State, and the Army have found top-level support for meaningful change. While this support will not automatically solve existing weaknesses—which are pervasive and severe—these agencies have recognized the extent of their problems and have begun to address them.

We are concerned, however, that a number of the agencies' CFO appointments are not following the example set in selecting the Controller in OMB. For nine major agencies, whose combined budgets this past year exceeded \$700 billion, the CFO designation was added to the position of the assistant secretary for management or administration—positions that have very broad responsibilities. This is basically the way financial management responsibilities were structured before passage of the CFO Act, and that approach did not work. Its continued use, in cases in which the CFO has a large number of responsibilities beyond areas such as budgeting and financial management, could dilute the CFO's role and thereby not foster the needed urgency and undivided attention.

Also, although it is too early to draw conclusions on the effectiveness of individual CFOs, several of them—especially in some of the major agencies—did not have much experience in financial management when selected. In our view, adherence to the act's qualification requirements and OMB's implementing standards is needed. The selection of only highly qualified financial managers to serve in this position will be crucial to successfully achieving the act's

objective. OMB's Deputy Director for Management and Controller need to play an integral role in advising on the selection of the agencies' CFOs, as the CFO Act requires.

The strong commitment of the IGS will also be important to successful implementation of the CFO Act and to achievement of the full benefits possible through audited financial statements. In this regard, the Inspector General Act provides that IGS are to be appointed without regard to political affiliation and solely on the basis of integrity and demonstrated ability. While the President has authority to appoint new IGS, consideration should be given to retaining IGS on the basis of their individual performance records. At the same time, for the 23 agencies covered by the CFO Act, very few of the IGS came to the job with extensive auditing backgrounds. In our view, it will be important in considering future IG appointments to pay particular attention to increasing the number of IGS with strong auditing backgrounds.

Improving
Existing Systems
and Controls

Data accuracy can be improved immediately simply by following existing policies and procedures, such as accurate transaction processing and routine account

reconciliations. Time and time again, we have found that failure to perform such basic, straightforward steps results in tens of billions of dollars in accounting errors, severely undermines any semblance of accountability, and leaves managers woefully short of reliable information. This lack of discipline in accounting for taxpayers' dollars is inexcusable and should not be tolerated. Fixing this part of the problem does not require investment in new systems or studies to determine the most appropriate long-range solutions.

Agencies must also fix a myriad of long-standing control weaknesses that make them extremely vulnerable to criticism and undermine public confidence. Since 1983, agencies have reported under FMFIA over 3,000 weaknesses they consider to be significant problems, and they have made some progress in solving them. Yet, almost a decade later, we continue to see the same kinds of problems emerging on our and OMB's high-risk lists. Moreover, in three recent reports covering the Air Force, NASA, and the Army, we cited a lack of candor in reporting serious control and accounting problems, as required by FMFIA.

Federal managers also have not paid adequate attention to implementing auditors' recommendations. We continue to find that managers do not always ensure that corrective actions have been completed before claiming that the problem is solved. There should be strict accountability for clearing up exceptions raised by auditors.

The Army's initial response to our August 1992 financial audit report is a good example of prompt management action to set the proper tone for addressing problems. The Secretary of the Army's August letter to all major commanders noted that reporting under FMFIA must improve and that everyone must understand that internal controls are an inherent part of the job. He also established a senior-level action group to underscore the need for immediate action and to emphasize that the problems we identified would not be acceptable in the future.

Unfortunately, quick management action to address problems is not always forthcoming. For example, in February 1990, we reported massive accounting and internal control problems in the Air Force. In May 1991, we found that only limited progress had been made in addressing the problems we had

previously reported, and we noted that greater Air Force management action was needed. In February 1992, we again reported pervasive financial management and internal control weaknesses, noting that little effective action had been taken. Today, over 2-1/2 years after we first reported on Air Force financial management deficiencies, we have still not seen a strong commitment by Air Force management to effectively act on the problems.

**Expanding the
Auditing Program**

A sound auditing program is an essential component of ensuring reliable financial information and adequate controls. The IGS have the primary responsibility to conduct annual financial audits under the CFO Act, but they will have to further develop their capability to do such audits and make these audits an integral part of their overall audit strategy. Decisionmakers and CFOs need to know on a continuing basis whether financial information is sound, performance measures are accurate, and controls are operating as intended. Moreover, agency managers can greatly benefit from recommendations for improvement.

The IGS, GAO, and public accounting firms undertook about 68 agency-related financial

audits mandated by the CFO Act for fiscal year 1991. These audits cover 51 trust and revolving funds and commercial functions, 10 government corporations—such as the Federal Housing Administration—that are part of an agency covered by the CFO Act, and 7 pilot agencies—the Army, the Departments of Agriculture, Housing and Urban Development, Labor, and Veterans Affairs, the Social Security Administration, and the General Services Administration. The 7 pilot agencies alone expended about \$500 billion in fiscal year 1991, and the other 61 audits covered expenditures of additional tens of billions of dollars.

The Congress appropriated about \$57 million in funding for the preparation and audit of the fiscal year 1991 financial statements—about two-thirds of the amount requested by the administration. For fiscal year 1992 reporting, about 148 financial audits are planned. Continued congressional funding and strong support for audited financial statements are essential.

To date, such audits have called attention to major financial management problems and resulted in a host of recommendations for improving financial reporting and internal controls. For example, the Secretary of the

Army, in commenting on our recently completed pilot financial audit, stated the following:

"We assess the 'pilot project' financial statements and audit as positive elements in the Army's long-range program for improved financial responsibility. The audit has framed a number of important issues about management of the Army. Some of these issues were well known within the Army; others were not. The financial audit has identified them for appropriate management attention."

The Secretary went on to say that some of the more significant long-range benefits of the CFO Act to the Army are likely to be (1) greater focus on integrating financial and logistical systems, (2) better review of the budget execution process, (3) improved decision-making through use of more accurate financial data, (4) enhanced capability to assess problems in both financial and operational terms, and (5) better ability to assess performance and allocate resources.

These benefits are typical of what we believe can be achieved throughout government. OMB is required under the act to report on the benefits and costs of the financial audits by June 30, 1993, and it is presently analyzing the first-year results. We believe strongly in

the need to expand the requirement for audited financial statements to every agency and to the government as a whole. Audited financial statements are essential to establishing financial accountability and fixing high-risk problems.

Attracting and
Retaining
Qualified
Personnel

CFOS must address immediately the serious problem of attracting and retaining well-qualified financial management personnel. In April 1992, OMB reported that well over half the agencies' CFOS pinpointed a significant need to strengthen staff capabilities in the areas of financial systems, financial operations, and financial policy. If staffing problems are not dealt with effectively, progress in all areas will languish.

In June 1992, the Association of Government Accountants (AGA) made 30 recommendations covering all facets of the financial personnel challenge, from recruiting talented staff to reducing turnover. OMB is considering adoption of these recommendations, and a CFO Council committee is now developing an implementation strategy.

Financial managers must also upgrade their training efforts. In its report accompanying the CFO Act, the House Committee on Government Operations said that investments must be made in training to ensure that financial management personnel increase their professional skills to keep pace with emerging technology and developments in financial management. Among the most important recommendations in the AGA's report is a call for greatly expanding the number of financial management training courses.

To place greater priority on training efforts, we also suggest that financial management personnel be required to participate in a minimum amount of continuing professional education. Government auditors are required to attain 80 hours of continuing professional education every 2 years, and this requirement has helped ensure audit quality and professionalism.

**Strengthening
Financial
Management
Systems**

Interim improvements do not eliminate the crucial, long-term need to overhaul agencies' financial management systems. The current systems are in extremely poor condition. Sixteen of the 23 agencies covered by the

CFO Act have problems related to their financial systems on OMB's high-risk list.

Financial management systems are generally incompatible, costly to operate, and woefully out of date. Because their basic structures were laid out shortly after World War II, present financial systems have little connection to the operating systems used by today's program managers. Billions of dollars have been spent on efforts to upgrade systems, but to little avail. Improvements have been largely uncoordinated and piecemeal, without an adequate governmentwide framework and enough top management attention to make them work.

To be successful, agencies must translate OMB's 5-year plan into first-rate financial management systems. Modern systems are essential to enable agencies to better focus on results through meaningful reporting on financial condition and operating performance.

Reform cannot be viewed as just further automating existing processes. Rather, those processes must be simplified, redirected, and reengineered. Equally important is to break down traditional barriers between

program and financial management. Too often, financial management is thought of as simply bookkeeping. Consequently, program managers rely not on hard financial data but on less formal or less reliable information. Financial management's goal should be to support programs, missions, and business lines. Achieving this goal will require integrating many systems.

The Department of Defense, for example, is reassessing virtually every operation in light of planned reductions in spending and a recognition that more businesslike practices are needed. Defense is focusing on standardizing cost information and systems across the military services and is having teams from program functions, such as logistics and procurement, work together with financial managers to develop new management approaches.

This type of basic reassessment is needed throughout government. In our transition series report Government Management Issues (GAO/OCG-93-3TR, Dec. 1992), we outline the key elements of a framework for government management improvement, of which financial management is an important element. Whether ongoing improvement initiatives work in Defense will depend on a

continuing push from the Secretary of Defense, as well as the commitment of top management and middle managers in the military services, who will have to make substantial changes in the way they have traditionally viewed financial management.

Past efforts to develop new financial systems have repeatedly failed. Until agencies instill management discipline, these expensive and time-consuming failures will continue. The government's chronic failure to develop new information systems, including financial systems, is discussed in detail in our transition series report Information Management and Technology Issues (GAO/OCG-93-5TR, Dec. 1992).

The development of successful financial systems will present enormous challenges. The need to ensure that financial systems can exchange and share data is particularly important. One contributing problem we have identified at several agencies involves instances in which, because of a lack of systems integration, data must be entered separately into different systems or even into different parts of the same system. These situations result in tremendous inefficiency and introduce problems of reconciling erroneous and omitted data. For example,

differences totalling billions of dollars exist between Defense inventory records and general ledger data in the accounting system because information is kept in separate, incompatible systems.

The CFO Act tries to address such problems by requiring the development of integrated systems. For the long term, agencies should look to developing a systems framework that links accounting, budgeting, and program information. We discuss the conceptual framework for such a system in our 1985 report Managing the Cost of Government (GAO/AFMD-85-35 and 35-A, Feb. 1985).

The CFO Act also calls for eliminating unnecessary systems and developing standard ones. Both GAO and OMB strongly support this approach. The government could also benefit from more cross-servicing, in which one agency provides financial services to another agency. Today, for instance, the Department of Agriculture provides payroll services to about 40 other agencies.

**Developing
Useful Financial
Reports**

Although everyone agrees that the federal government owes its citizens an accounting of financial results, reports on financial

condition and program performance are largely unavailable. Where these reports exist, they usually are of dubious reliability and lack cost information. Once a budget has been enacted, the financial focus shifts primarily to the next year's budget. How the money was spent and what results were achieved are secondary.

Since the CFO Act's passage, much has been done to define user needs and to explore new content and presentation to make financial reports more useful and relevant. The Federal Accounting Standards Advisory Board (FASAB) was established in late 1990 to advise the Comptroller General, the Director of OMB, and the Secretary of the Treasury on the proper accounting standards for the federal government. FASAB is developing new accounting standards and financial reporting objectives, and its continuing work is important.

To meet the act's objectives, financial reporting must, at a minimum, address

- the ways in which budgetary resources have been obtained and used;

- the full costs of providing specific goods and services;
- measures of the efficiency and effectiveness of program operations and what the citizenry received for the resources used;
- the ways in which the government's financial condition has improved or deteriorated over a specified period;
- whether future budgetary resources are likely to be sufficient to sustain public services and meet obligations; and
- whether adequate financial systems and internal controls are in place and operating effectively to safeguard assets, reduce error rates, and prevent and detect fraud, waste, and abuse.

Taking Further Actions

Pervasive financial management weaknesses are crippling the government's ability to effectively manage its operations. Fundamental reform is urgently needed. Without decisive action now, efforts to reform financial management and to fix current high-risk areas will falter, and the government will be increasingly vulnerable to new losses.

The framework of the CFO Act offers great hope for achieving better government management, but the government is a long way from achieving the act's objectives and fixing its high-risk problems. While some progress has been made to date, a greater sense of urgency is needed in solving the problems. The tone at the top will be very important in sustaining and building upon current improvement initiatives. Changing a government culture that has not always seen financial management as important is difficult, especially if there is not a continuity of effort or if this change is not perceived as important.

Without concerted action to implement the CFO Act, including attention by the new President and the Cabinet and the strong support of agency program managers, the government will remain devoid of

accountability, lack the public's trust, be hampered in its ability to make informed decisions, and be embarrassingly unable to explain the results achieved with trillions of dollars collected from the nation's citizens. The Congress made its expectations clear when it enacted the landmark CFO legislation as a bipartisan initiative. The Congress' continuing support and oversight will be critical.

The following actions are essential to successfully implementing needed reforms:

The President should

- make financial management reform a high priority in the administration;
- hold agency heads accountable for successfully implementing the CFO Act and for attaining good financial management, effective internal controls, and sound financial reporting that ties together financial and program information;
- sustain the present high level of financial management leadership in OMB and provide adequate resources to the Office of Federal Financial Management; and

- appoint to the agencies' CFO positions only highly qualified individuals who (1) have extensive practical experience and demonstrated ability in financial management, as mandated by the CFO Act, and (2) meet the qualifications established by OMB.

The Director of the Office of Management and Budget should

- closely monitor agencies' adherence to existing accounting policies and procedures in order to improve data accuracy, and promptly take necessary remedial action when agencies are not doing the job;
- expand OMB's ability to oversee and, where needed, direct agencies' actions to correct long-standing internal control weaknesses and high-risk problems, especially in cases in which results have not been forthcoming;
- foster a strong program of financial statement auditing by supporting needed funding for IGS and audit requirements that meet the broad objectives of the CFO Act;
- promote and closely oversee agencies' efforts to build first-class financial

management infrastructures—both personnel and systems;

- provide an appropriate framework for integrating accounting, program, and budget systems and data to (1) develop more useful and relevant information for decision-making and oversight and (2) break down traditional barriers between program and financial management;
- continue to work with GAO and the Department of the Treasury to develop accounting standards and concepts to meet the unique needs of the federal government;
- expand financial reporting to encompass the full range of accountability, which includes operating results, program performance measurement, and cost information; and
- establish minimum levels of continuing professional education requirements for financial management personnel and work with the CFO Council to develop and expand training programs.

The Congress should

- amend the CFO Act to require audited financial statements on an annual basis for

all major agencies and for the government overall;

- focus closely on CFO appointments to ensure the qualifications of these individuals;
- conduct annual oversight hearings using the CFOs' annual reports and audited financial statements; and
- provide the necessary funding support for financial reform efforts through investments in modern systems, personnel development, expanded financial reporting and auditing, and a strengthened Office of Federal Financial Management.

Related GAO Products

Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9, Nov. 13, 1992).

Financial Management: NASA's Financial Reports Are Based on Unreliable Data (GAO/AFMD-93-3, Oct. 29, 1992).

Social Security: Reconciliation Improved SSA Earnings Records, but Efforts Were Incomplete (GAO/HRD-92-81, Sept. 1, 1992).

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