AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

OVERSIGHT OF THE GENERAL ACCOUNTING OFFICE'S HIGH-RISK SERIES

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

FEBRUARY 13, 1997

Serial No. 105–16

Printed for the use of the Committee on Government Reform and Oversight

U.S. GOVERNMENT PRINTING OFFICE

41–799 CC WASHINGTON : 1997

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

DAN BURTON, Indiana, *Chairman*

BENJAMIN A. GILMAN, New York
J. DENNIS HASTERT, Illinois
CONSTANCE A. MORELLA, Maryland
CHRISTOPHER SHAYS, Connecticut
STEVEN H. SCHIFF, New Mexico
CHRISTOPHER COX, California
ILEANA ROS-LEHTINEN, Florida
JOHN M. MCHUGH, New York
STEPHEN HORN, California
JOHN L. MICA, Florida
THOMAS M. DAVIS, Virginia
DAVID M. MCINTOSH, Indiana
MARK E. SOUDER, Indiana
JOE SCARBOROUGH, Florida
JOHN SHADEGG, Arizona
STEVEN C. LATOURETTE, Ohio
MARSHALL "MARK" SANFORD, South Carolina
JOHN E. SUNUNU, New Hampshire
PETE SESSIONS, Texas
MIKE PAPPAS, New Jersey
VINCE SNOWBARGER, Kansas
BOB BARR, Georgia

HENRY A. WAXMAN, California
TOM LANTOS, California
ROBERT E. WISE, JR., West Virginia
MAJOR R. OWENS, New York
EDOLPHUS TOWNS, New York
PAUL E. KANJORSKI, Pennsylvania
GARY A. CONDIT, California
CAROLYN B. MALONEY, New York
THOMAS M. BARRETT, Wisconsin
ELEANOR HOLMES NORTON, Washington, DC
CHAKA FATTAH, Pennsylvania
TIM HOLDEN, Pennsylvania
ELIJAH E. CUMMINGS, Maryland
DENNIS KUCINICH, Ohio
ROD R. BLAGOJEVICH, Illinois
DANNY K. DAVIS, Illinois
JOHN F. TIERNEY, Massachusetts
JIM TURNER, Texas
THOMAS H. ALLEN, Maine

BERNARD SANDERS, Vermont (Independent)

KEVIN BINGER, *Staff Director*
DANIEL R. MOLL, *Deputy Staff Director*
JUDITH MCCOY, *Chief Clerk*
PHIL SCHILIRO, *Minority Staff Director*

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

STEPHEN HORN, California, *Chairman*

PETE SESSIONS, Texas
THOMAS M. DAVIS, Virginia
JOE SCARBOROUGH, Florida
MARSHALL "MARK" SANFORD, South Carolina
JOHN E. SUNUNU, New Hampshire

CAROLYN MALONEY, New York
PAUL E. KANJORSKI, Pennsylvania
MAJOR R. OWENS, New York
ROD R. BLAGOJEVICH, Illinois
DANNY K. DAVIS, Illinois

EX OFFICIO

DAN BURTON, Indiana

HENRY A. WAXMAN, California

J. RUSSELL GEORGE, *Staff Director*
ANNA MILLER, *Professional Staff Member*
ANDREA MILLER, *Clerk*
DAVID MCMILLEN, *Minority Professional Staff Member*
MARK STEPHENSON, *Minority Professional Staff Member*

CONTENTS

	Page
Hearing held on February 13, 1997	1
Statement of:	
Dodaro, Gene L., Assistant Comptroller General, Accounting and Information Management Division, U.S. General Accounting Office, accompanied by Keith O. Fultz, Assistant Comptroller General, Resources, Community, and Economic Development Division, U.S. General Accounting Office; and Henry L. Hinton, Jr., Assistant Comptroller General, National Security and International Affairs Division, U.S. General Accounting Office	9
Letters, statements, etc., submitted for the record by:	
Dodaro, Gene L., Assistant Comptroller General, Accounting and Information Management Division, U.S. General Accounting Office:	
Information concerning exposure to fraud	61
Prepared statement of	16
Hinton, Henry L., Jr., Assistant Comptroller General, National Security and International Affairs Division, U.S. General Accounting Office, information concerning military officers	55
Horn, Hon. Stephen, a Representative in Congress from the State of California:	
Followup questions and responses	88
Letter dated February 13, 1997	80
Prepared statement of	4
Sessions, Hon. Pete, a Representative in Congress from the State of Texas, prepared statement of	8

OVERSIGHT OF THE GENERAL ACCOUNTING OFFICE'S HIGH-RISK SERIES

THURSDAY, FEBRUARY 13, 1997

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 311, Cannon Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Sessions, and Maloney.

Staff present: J. Russell George, staff director; Anna Miller, professional staff member; Andrea Miller, clerk; and David McMillen, and Mark Stephenson, minority professional staff members.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order. Today's hearing is on the Oversight of the General Accounting Office's High-Risk Series.

We are going to take a look at what I have called the catalog of horrors, the areas of Federal agency mismanagement that the General Accounting Office monitors, and brings to our attention at the beginning of every Congress, that makes up this series. The GAO has done an outstanding job in going into the agencies, following a series of misadventures, and warning both executives and members of the oversight committees and the legislative branch as to some of the problems that exist.

They have been compiling this list since 1990. And 7 years later, 10 of the original 14 areas are still listed as at high-risk for fiscal mismanagement. Seven years is a long time. Long enough, one would imagine, for an agency that really wanted to improve its management of the funds entrusted to it to make the changes that would have tangible results.

Not so, apparently, for those agencies that were characterized in 1990 as lacking the controls needed to ensure that Federal funds were not being wasted, stolen, or otherwise spent inappropriately.

In many cases, the General Accounting Office noted that these agencies were aware of the problems, aware that they were not in compliance with the requirements of the Federal Managers' Financial Integrity Act, yet did nothing to correct the problems. And 7 years later in 10 cases, they still have done very little or nothing about it.

As many of you know, the Federal Managers' Financial Integrity Act of 1982 required agencies to establish systems of internal control that would ensure that funds, property, and other assets were

safeguarded against waste, loss, unauthorized use, or misappropriation.

I think that something needs to be done to ensure that the Federal agencies make at least some sort of effort to comply with the laws that the Congress has passed. If they do not, then the executive branch is really out of control.

The 10 cases that were on the initial high-risk list and have made so little improvement that they remain on that list year after year and Congress after Congress, include the Internal Revenue Services' receivables, farm loans, student financial aid, defense inventory management, defense acquisition system, asset forfeiture programs, Medicare fraudulent claims, and contract management in the Department of Energy, the National Aeronautics and Space Administration, and the Superfund.

The Internal Revenue Service is what I have called repeatedly a basket case agency. Its collections rate is extremely poor, and the entire agency seems to have this mind-set that makes them hunker down, think of excuses, and resist change, rather than try to improve.

The debt collection legislation, which I offered and Mrs. Maloney, the ranking Democrat, co-authored, will improve debt collection throughout much of the Federal Government, but it has not yet applied to the Internal Revenue Service. But we are told that the Committee on Ways and Means will report a bill almost similar to our own. And yet a year has gone by.

The IRS claims that it is hampered by privacy considerations. So we need to do more to encourage them to adapt and to make the attempt to collect from the deadbeat taxpayers what is owed to the other taxpayers. Because when they cannot collect what is owed, it means that the rest of us are paying the bills of the Federal Government. Agencies need to work together on this, to share information on the deadbeats before they hand out more money.

And that is what got me into this thing, when I read about a farmer in northern California, who had a farm loan, and was defaulting on that. And then he gets a loan to get an apartment building in Santa Barbara, even though he was in arrears on the first loan.

If we could root out this waste of Federal funds, we could go a long way toward balancing the budget. There are actions that the agencies can take that would immediately stop this hemorrhaging of funds. A foolproof ID card would certainly eliminate fraudulent claims. That has been done in Los Angeles County, and thousands of people suddenly quit claiming welfare. Because they knew that the 5 or 10 claims that they had filed under different names at different offices, that they would then have some criminal action taken against them.

Checking on people's eligibility status would send a message that we are serious enough about paying benefits only to those who deserve them, and many of the disabled are not adequately paid. And if we could get rid of the people that are bogus disabled, we could help those that are really in need.

It would cut down on improper claims if we had the proper identifications, and it would let more money go out to those who truly need it.

It is possible to get off the General Accounting Office's high-risk list. Four programs from the 1990 series have gotten off. They were the Resolution Trust Corporation, the Pension Benefit Guaranty Corporation, the Federal Transit Administration Grant Management, and the State Department Overseas Property Program. The Bank Insurance Fund was on for only about a year.

So it is possible to improve. The question is: why do the other areas not show similar rates of improvement? I hope that the General Accounting Office in its testimony today will shed some light on this.

Today, we will also spend time discussing the five new areas added to the list in 1997, as new challenges for this Congress and this administration. Two of the new areas that were added are Information Security and the year 2000 computer problem. This subcommittee has been conducting active oversight in both of these areas, and will be doing more in this Congress.

Also added are fraud in the Supplemental Security Income Program, the Defense infrastructure, and the Decennial Census for the year 2000. We will hear more about these areas from the representatives of the General Accounting Office.

Mr. Gene Dodaro, the Assistant Comptroller General in GAO's Accounting and Information Management Division, will give an overview of the areas in the 1997 series. He will be accompanied by Henry Hinton, the Assistant Comptroller General, National Security and International Affairs Division, and Keith Fultz, Assistant Comptroller General, Resources, Community, and Economic Development Division. They will all be available, as will additional staff in the room, to answer questions in specific areas. And we look forward to your testimony.

We will give the oath after the ranking member gives her opening statement. And I would ask the leadership of GAO that is here to decide who is going to testify besides you. And we will have one mass swearing in of whoever you suggest, Mr. Dodaro, rather than have to go through giving the oath every time somebody comes up to the table.

So I am now delighted to call on the distinguished ranking member from New York, Mrs. Maloney.

[The prepared statement of Hon. Stephen Horn follows:]

DAN BURTON, INDIANA
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED FIFTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143
(202) 225–5074

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY
"Oversight of the GAO's High-Risk Series"
February 13, 1997

OPENING STATEMENT
Representative Steve Horn (R-CA)

Today we are going to take a look at what I have called the catalogue of horrors: the areas of Federal agency mismanagement that the General Accounting Office (GAO) monitors, and brings to our attention at the beginning of every Congress. The GAO has been compiling this list since 1990, and seven years later, ten of the original fourteen areas are still listed as at high-risk for fiscal mismanagement. Seven years is a long time, long enough, one would imagine, for an agency that really wanted to improve its management of the funds entrusted to it to make changes that would have tangible results. Not so, apparently, for those agencies that were characterized in 1990 as lacking the controls needed to ensure that Federal funds were not being wasted, stolen, or otherwise spent inappropriately.

In many cases, the GAO noted that these agencies were aware of the problems, aware that they were not in compliance with the requirements of the Federal Managers' Financial Integrity Act, yet, did nothing to correct the problems, and seven years later, in ten cases, still have done little or nothing about it.

The Federal Managers' Financial Integrity Act of 1982 required agencies to establish systems of internal control that would ensure that funds, property, and other assets were safeguarded against Waste, loss, unauthorized use, or misappropriation.

I think something needs to be done to ensure that Federal agencies make at least some sort of effort to comply with laws the Congress passes. If they do not, then the Executive Branch is really out of control.

The ten cases that were on the initial high-risk list, and have made so little improvement that they remain on, year after year, are:. IRS Receivables, Farm Loans, Student Financial Aid,

Defense Inventory Management, and Defense Weapons System Acquisition, Asset Forfeiture Programs, Medicare Fraudulent Claims, and Contract Management in the Department of Energy, NASA, and the Superfund.

The IRS is a basket-case agency. Its collections rate is extremely poor, and the entire agency seems to have this mind set that makes them hunker down, think of excuses, and resist change, rather than trying to improve. My debt collection bill will improve debt collection throughout much of the Federal Government, but the IRS claims that it is hampered by privacy considerations, so we need to do more to encourage them to adapt and to make the attempt to collect from deadbeat taxpayers what is owed the Federal Government. Agencies need to work together on this, to share information on deadbeats before they hand out more money.

If we could root out this waste of Federal funds, we could go a long way to balancing the budget. There are actions the agencies can take that would immediately stop this hemorrhaging of funds. A foolproof ID card would eliminate fraudulent claims. Checking on people's eligibility status would send a message that we are serious about paying benefits only to those who deserve them. It would cut down on improper claims, and let more money go to those who truly need it.

It is possible to get off the GAO's high-risk list. Four programs from the 1990 series did. They were the Resolution Trust Corporation, the Pension Benefit Guaranty Corporation, the Federal Transit Administration Grant Management, and State Department Overseas Real Property. The Bank Insurance Fund was on for only about a year. So it is possible to improve. The question is, why do the other areas not show similar rates of improvement? I hope that the GAO, in its testimony today, will shed some light on this.

Today we will also spend time discussing the five new areas added to the list in 1997 as new challenges for this Congress and this Administration. Two new areas were added: Information Security and the Year 2000 problem. This subcommittee has been conducting active oversight in both of these areas. Also added are fraud in the Supplemental Security Income program, Defense Infrastructure, and the 2000 Decennial Census. We will hear more about these areas from the representatives of the General Accounting Office.

Mr. Gene Dodaro, Assistant Comptroller General in GAO's Accounting and Information Management Division, who will give an overview of the areas in the 1997 series. He will be accompanied by Henry Hinton, Assistant Comptroller General, National Security and International Affairs Division, and Keith Fultz, Assistant Comptroller General, Resources, Community and Economic Development Division, who will be available to answer questions on specific areas. We look forward to your testimony.

Does the Ranking Member have an opening statement? Do other Members have opening statements?

Mrs. MALONEY. Thank you very much, Mr. Chairman. And I welcome Mr. Dodaro to the hearing.

As you know, I am a big fan of the high-risk series. I have always found the series to be a valuable tool for focusing our efforts in this committee, and in my own personal legislative agenda. So I thank you for this series. It is tremendously helpful.

It is a sad commentary that so little progress has been made in these programs over the last 2 years. Most of the problems on the high-risk list have been there since the list began in 1990. But as you said to me yesterday, Mr. Dodaro, these programs are the culmination of years of neglect, and they cannot be fixed overnight.

Let me turn first to the items added to the list this year. Information issue dominate the list of the new items. This reflects a belief that I brought to Congress from my experience in New York City, that good management practices begin with good information.

I congratulate the GAO for adding the 2000 census to this list. I was dismayed by the report passed by this committee last year, which would prohibit the Census Bureau from using techniques that would make the census more accurate, more fair, and less expensive. I plan to work during this Congress to make sure that the 2000 census is as accurate as possible, and fair to all Americans.

But problems with the census may just be the tip of the iceberg of problems with the Federal statistical system. Federal Reserve Chairman Greenspan has focused attention on problems with the Consumer Price Index, and we have seen how that affects our measures of productivity and the Gross Domestic Product.

I hope that the chairman will work with me to pass the Statistical Confidentiality bill that we introduced last year, which will provide some of the tools necessary to prepare our statistical system for the 21st century.

I would also like to draw attention to the issues that are important to this subcommittee: the year 2000 computer problem, and information security. The former was brought to public attention by this subcommittee. The latter is one that I have been concerned about, and look forward to working with Chairman Horn to see that Government agencies protect the information entrusted to them.

I am dismayed to see that there is so little improvement at the Department of Defense. In fact, a new trouble spot has been identified, the inability of the Department to shrink the infrastructure to be parallel with the reduction in forces over the past 6 years. Meanwhile, problems with financial management, contract managements, and inventory management continue.

Also, it is distressing to see so little progress at the Internal Revenue Service. While the GAO makes the point that HUD is the only agency where the entire agency is at risk, the IRS is not far behind.

I am reminded of a prediction by my colleague, Senator Daniel Patrick Moynihan, that the United States would have a flat tax by the year 2000. Not that he supports a flat tax, but he said that it would be the only system that the IRS will be able to administer.

There are a number of issues here, like Medicare, that highlight the importance of Congress and the administration working together. For too long, Congress has pressed the administration to

speed up payments, and then turned around and beat them up over errors resulting from that haste.

We need to work together to craft a system that does not delay payments to doctors and insurance companies, and at the same time, prevents fraud and abuse.

I look forward to working with Chairman Horn on these issues on this committee. With GAO's help and cooperation from the administration, I am sure that we can make progress on many of these risky projects.

I would like to end by saying that I appreciate the chairman's comments on the Debt Collection bill. That was a very exciting bill for me, to have worked together on it, and to have passed it, and to have a prediction from Treasury that it will bring in $10 billion over 5 years.

I would also like to mention the work that we did on royalty collection, which I believe will bring in $2 billion, but it needs a lot more work. And I would just like to thank the chairman for his help in the past, and hope that he will schedule hearings on the royalty issue, and particularly the global settlements. Because it is very timely and important.

Thank you very much.

Mr. HORN. Well, we thank you.

And now, ladies and gentlemen, if you have decided, Mr. Dodaro, who will testify with you, just have them stand, and we will swear them in.

[Witnesses sworn.]

Mr. HORN. I take it that there is affirmation from everybody, and the reporter will note that. Please be seated.

Mr. Dodaro, may I say I guess before we start that we have an additional member, the vice chairman of the committee, Mr. Sessions, who has spent a lot of work on this.

Would you like to make an opening statement at all?

Mr. SESSIONS. Mr. Chairman, I am glad to be here today.

[The prepared statement of Hon. Pete Sessions follows:]

Statement of the Honorable Pete Sessions
Congressman, 5th District of Texas

House Subcommittee on Government Management,
Information, and Technology Hearing
Thursday, February 13, 1997

Thank you, Mr. Chairman.

Mr. Chairman, let me first say what an honor and a privilege it is to be serving under you on this subcommittee. As you know from our conversations in the past few months, I am dedicated to the pursuit of a leaner and more efficient federal government. We're not there yet, but your work on cleaning up waste, fraud, and abuse in Washington is an example of the public service I hope to emulate while here in Washington.

Speaking of waste in government, I can't think of a better way to start fixing the government than hearing about a comprehensive examination of problems of mismanagement throughout the entire federal government. The high risk series really gives this country's leaders insight on where the problems are. A systematic examination of the government, program by program, by an independent agency like the GAO is good information for those of us who want to make a difference. It's up to us to have the courage to use the information provided by GAO and fix the problems they describe.

Mr. Chairman, I've only been here a little over a month. But, it appears I have friends in high places. I have been so impressed by the work done by the General Accounting Office. And especially with the work of Gene Dodaro, in the Accounting and Information Management Division, Keith Fultz, in the Community and Economic Development Division, and Butch Hinton, in the National Security and International Affairs Division. I've had the honor of meeting with each of these gentlemen in my brief time in Washington, and I must say that if the problems of the federal government can be cured, these are the men to do it.

I look forward to asking you some questions, particularly in relation to the longstanding problems that have remained in the high risk series for some time. I thank each of you for being here. And I expect that you will be able to give us some hope that these problems will be solved soon.

Thank you, Mr. Chairman. I yield back.

Mr. HORN. I agree with you on that approach to opening statements.

Mr. Dodaro.

STATEMENTS OF GENE L. DODARO, ASSISTANT COMPTROLLER GENERAL, ACCOUNTING AND INFORMATION MANAGEMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY KEITH O. FULTZ, ASSISTANT COMPTROLLER GENERAL, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; AND HENRY L. HINTON, JR., ASSISTANT COMPTROLLER GENERAL, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. DODARO. Good morning, Mr. Chairman, Congresswoman Maloney, and Congressman Sessions.

We are pleased to be here today to testify on GAO's 1997 high-risk series. As you pointed out, many of these areas we have been tracking for the last 7 years. We have made hundreds of recommendations aimed at correcting the fundamental core problems of accountability underlying many of these high-risk areas.

We have seen in the last few years progress being made by the agencies, as well as greater attention by the Congress in passing some specific legislative proposals and broad management reforms.

However, none of these actions have yet come to fruition. And as a result, the 20 areas that we have been tracking since the 1995 series remain on the list, and we have not yet removed their high-risk designation. And as you pointed out in your opening statement, we are adding five new areas to the list.

I thought I would focus my opening remarks on taking a quick tour through the 20 areas that are still on the list, and then discuss the new ones quickly. And then we can enter into some questions.

As you pointed out, many of the areas focus on the Defense Department. Our focus there is focusing in on accountability for a large percentage of the Federal Government's budget, as well as making sure that Defense has a cost effective means of carrying on its mission.

Many of these problems have been entrenched, serious ones for a number of years. Department officials to their credit have recognized the seriousness of the problems, in many cases for the first time, and are beginning to take some action.

We have seen in the contracting area some effort to streamline the process. In the inventory area, there has been some attention to limited parts of the inventory, especially medical supplies and foodstuffs. The Department is trying to get on top of its billions of dollars in problem disbursements. And there are some efforts to reform the acquisition process by buying more commercially available goods, as well as the Congress implementing the new Federal Acquisition Streamlining Act.

So we have seen some progress, but nowhere near what is needed to really correct these programs. And as a result of these problems not being corrected, we are at risk of continuing to make millions of dollars of overpayments to contractors. We are at risk of spending over several billion dollars of inventory that is not need-

ed. As of 1995, about half of the $70 billion in defense inventory, or about $35 billion, was not needed.

We are also at risk of not properly accounting for the Department's funds. No major component of the Defense Department has yet to receive a positive audit opinion. And the prospects of any part of DOD receiving a clean opinion are extremely dim at this time. We are also at risk for continuing to have inefficiencies in our weapon systems procurement process.

And as a result of all of these activities, basically you have a department that accounts for over $1 trillion in assets, and accounts for $250 billion or about half of the total discretionary spending of the Federal Government, not able to have an accurate accounting for its activities and programs.

And you are also at risk for billions of dollars of money being drained away from being productively invested in enhancing our military readiness, and also from being able to support properly the activities weapon systems that really need to be acquired and fielded in the Department to make sure that it is best able to enhance its mission.

Now in the next area, we highlight problems not only in how the Federal Government accounts for money that it spends for its activities, but how it has difficulties in accounting for money that it takes in from the American taxpayers.

Over the past 4 years we have been unable to render an audit opinion at the Internal Revenue Service, because of its ability to not substantiate balances of total amounts collected for $1.4 trillion in revenues with the account balances of individual taxpayers. They also have been unable to substantiate balances by type of tax.

And we have been unable to verify the accuracy of accounts receivable, both the valid amounts for delinquent taxes, as well as how much is actually collectable and could be dealt with appropriately.

The IRS has responded to some of these changes. We have seen some improvements. We now have a statistical sampling method with them to estimate accounts receivable. Unfortunately, it has not been carried out properly. So we still have problems there.

IRS is making some efforts in better accounting for its $7 billion in appropriated funds. They have about reconciled their fund balance with Treasury, and we are verifying all of these activities as we complete our 1996 financial audit of IRS, which will be out in the next few months.

The problems remain, though. We are still a long way in the revenue accounting system from having full compliance with the Chief Financial Officers' Act. There are some interim measures that we have suggested that IRS is pursuing, but it is going to be some time before they get on top of these issues and have proper accounting for tax revenues.

Also in the receivables area, we give IRS a bit of credit for accelerating collections, to try to get to these things faster in the process. Collections are up a bit, however, we still have serious problems related to the lack of good information to accurately measure the receivable balances, and actually go after effectively and collect these large amounts of money that are owed the Federal Government. So that problem remains a serious one.

Also, filing fraud grew dramatically from 1991, where we had about 11,000 filing fraud returns to 77,000 in 1994. In 1995, it came down to 62,000. IRS put in some better up front filters to screen out people, for example, who are eligible to do electronic filing. But the fact remains that we still have a serious filing fraud problem at IRS that needs continuing attention.

There were still 60,000 returns filed in 1995 with estimated values of over $100 million; this is still a serious problem in need of attention.

I would turn your attention to another one of the Federal Government's major activities, which is granting loans. We have about $1 trillion in loans and loan guarantees. The Federal Government is the largest lender in the United States.

In the three areas that we have been tracking, we have seen important progress in the past few years, particularly in the farm loan area, with the passage of the Agricultural Improvement Act. The student loan area has had some success implementing previous congressional reforms, but it still remains at risk, because of the inability to have accurate information to measure the amounts of money that the Federal Government is liable for, and to effectively manage the collections process, and keep defaults at a minimum.

HUD, which was the original impetus for the high-risk list back with the scandals in the late 1980's, remains a problem. They have made some progress in correcting some of their fundamental problems, which revolve around poor controls and systems. They have also had problems with clear organizational accountability between headquarters and the regions, as well as difficulties in having the appropriate number of skilled staff necessary to carry out their activities.

They made some progress in each of those areas, but many of their actions are not yet complete. And we think that it is a good opportunity at this point to look at HUD and its mission, and possibly the need to consolidate some of its programs, moving forward.

In addition, in that area, we think, as mentioned in your opening statements, that the Debt Collection Act that was passed is an important tool. And we are monitoring it as it unfolds over the next few years. And we supported the passage of that legislation, and think that will make a difference in these programs and other lending programs across the Government.

In 1995, we added a major new category of information technologies projects. We added four multi-billion dollar activities on the part of the Federal Government, which have a great deal of importance.

The IRS tax system modernization effort, which affects IRS' dealings with individual taxpayers and has a broad effect on the citizens; the air traffic control modernization effort, obviously of great import to national safety in carrying out the air traffic system; the National Weather Service, which gathers important data for weather forecasting purposes, particularly for severe activities; and, the Defense Department's multi-billion effort to revamp its information technology projects and information systems.

We have seen a litany of problems in these areas. And there are some common problems that have been identified, and I will not go

through each one right now. But some of the common problems are the failure to have the modernization activities governed by a well-defined plan and a business strategy: What exactly do we want to accomplish? This was at the heart of the IRS' problems, for example.

No. 2, we have seen a lack of an overall systems blueprint, or technical architecture, for carrying out those activities.

No. 3, we have seen Federal agencies, as they go through and develop software on their own, do it in a rather haphazard fashion. We have rated many aspects of the Federal Government according to the Software Engineering Institute criteria, and we found them to be at the bottom level, initial level, which means that the software development is ad hoc and chaotic. And that is the reason why you do not get quality systems developed on time and within cost and performance goals.

The fourth area is that we found that Federal agencies are not much better at managing contractors developing software systems, either. This was true at the FAA, of defining requirements and monitoring the contractors. We found similar problems at IRS with their cyber-file effort that has been abandoned in the past year.

Part of what we have done over the last few years is to work with the Congress and the administration to go out to the private sector and look at how organizations in the private sector successfully put in place information technology projects to increase their effectiveness, as well as to reduce their costs.

And the Congress in the last couple of years has reauthorized the Paperwork Reduction Act, and passed the Clinger-Cohen Act. For the first time in over a decade now, we have modern management practices that take lessons learned in the private sector and apply them to Government.

We have got a requirement now for chief information officers to lead these efforts, and to support chief executives in carrying out their missions. We now have got better information investment processes to focus on, are we really going to get a return on this investment.

We encourage the development of modular procurements, not multi-year efforts that you cannot track whether you are getting activities or not. There is also a requirement now for architectures to be put in place.

So a lot of the management tools that have been successfully applied in the private sector are now requirements for Federal agencies. We are encouraged by this, but we are also cautious about the fact that we have seen reforms put in place before, and it takes a long time for them to get implemented.

So we would encourage this subcommittee and other committees of the Congress to really monitor how well this legislation is being put in place especially the quality of the chief information officers, and whether we are going to get the Federal Government into the information technology age.

This is a pivotal point and one of the greatest risk categories that we have, because unless the Federal Government can manage technology better, we are not going to have good service delivery to our citizens, and we are going to continue to waste billions of dollars that could be better productively invested.

The next area has to do with benefit programs. We have had Medicare on the list from the beginning. This is a program that continues to be ripe for exploitation. Fraud estimates in the Medicare programs range from 3 to 10 percent, which means about $6 to $20 billion a year we are losing out of that program because of fraudulent activities.

Again the Congress has responded in the past year in passing legislation to put back some program safeguards and screens into the process, as well as providing some additional money for the Inspector General's Operation Restore Trust Program, which is to track down people who are taking undue advantage of the system.

But some of the best tools that need to be applied here are more up front better software with commercially acceptable screening packages to prevent fraudulent payments from going out in the first place, rather than the pay and chase mentality. And HCFA is putting together some reforms. They are also moving toward a new Medicare Transaction System, which is intended to put some of these benefits in place. We have identified some risks with planning for that system, and HCFA has responded. And they are retooling that program now, and we are continuing to evaluate it. But that will be an important factor.

In the last category, a number of critical Government functions have been carried out historically by private contractors. In these three areas, Energy, NASA, and Superfund, we have seen some improvement over the past few years with contract management reforms under way. However, in all of the cases, there are still remaining problems. And we are a bit reticent to take any of them off the list until we actually see some of the practices put in place.

For example, in the Energy area, the notion of having more competition for the contracts has yet to become the rule rather than the exception. And we are also concerned that the contractors' priorities mesh with the Department's priorities as well.

In the Superfund area, there continues to be a problem with prioritizing what best areas for clean-up, as well as monitoring contractors; recovering all of the costs that are due to the Government, particularly in the indirect cost area; and making sure that we are not overpaying the contractors.

Now in addition to these 20 areas, we are adding 5 new areas in 1997. Defense infrastructure. About two-thirds of the Defense budget right now is spent for operations and support activities. We have had a reduction in the force structure, but we have not had a commensurate and concomitant reduction in the support structure.

And, as a result, you have excess capacity in laboratories, health care areas, transportation, and in old facilities that are being maintained at an extraordinary cost.

We advocate a structured approach to get on top of this issue similar to the base closure activities that have been carried out in the past, and maybe looking toward whether or not we need to start another process like that again.

Information security in the year 2000. This is the first time in the high-risk series that we are adding government-wide issues. We have been very concerned in the information security area. For

example, we issued a report last year that talked about hackers getting into DOD systems.

But in 1995 alone, about 250,000 intrusions were reported, 64 percent were successful, and many speculate that this is just the tip of the iceberg, and not all activities are being reported. Over the last 2 years, we have issued thirty reports on information security problems across the spectrum of Federal agencies with some very serious problems.

We have also issued a report to OMB to encourage them to take more government-wide leadership in this area. This is just a very serious problem. Our information systems right now are porous, and we need to get on top of this issue, particularly as we move more in a network environment.

The year 2000 problem is one that this committee needs no spelling out of the problems. Indeed, the committee has taken a leadership role in this area over the past year. We agree with the subcommittee that this is a serious problem, and could have disastrous consequences on how the Federal Government delivers benefit services and carries out its operations.

We are currently looking at the readiness of the Department of Defense, the IRS, the Social Security Administration, and the Health Care Financing Administration. We are developing a best practices guide based upon lessons learned in dealing with this problem in the private sector. And we are going to use that guide to evaluate Federal agencies' readiness and report their progress.

The SSI program is another new area we are adding. It is a fast-growing program. Currently, it is over $22 billion a year. We estimate about 5 percent, or $1 billion, in overpayments. There are difficulties here controlling the eligibility, both the initial determination and the ongoing eligibility for the SSI program.

We have issued reports in the past about people who are not currently eligible continuing to receive benefits, including prisoners that are receiving checks.

The welfare reform legislation last year put in place some eligibility determinations to tighten this for immigrants, for example. But determining eligibility in this case has been a concern from the beginning, and we think that with the growing potential work load in this area, that it is time for us to raise the visibility of the problem.

The last area is the 2000 census. Now this is an area that does not necessarily fit neatly into the categories in the high-risk areas that we have been tracking, but it would be very late as we do our next update in 1999, to alert the Congress to the growing problem here.

The problem with the census has been that in the last few censuses the cost has grown dramatically. The response rate for the questionnaire has gone down, which requires enumerators to go from door to door. For almost one-third of the households in the 1990 census, the Bureau had to send a person to the door. And the quality of the count has gone down.

The Census Bureau has developed a plan to do statistical sampling. We think that merits looking at, although the quality of the sampling plan is important, and we are looking at that. By no

means is that an easy task, and it needs to be carried out successfully.

But we think that the Congress and the administration need to agree on the methodology for conducting this census. We are running out of time. In about another year, the census will conduct their dress rehearsal. And if we are going to make any major changes, we need to focus attention on this in the next year. And that is the reason that is on the list.

In closing, Mr. Chairman, all of these high-risk areas present huge opportunities for savings to the taxpayer. They also present opportunities to improve service to the public. They really have at their core fundamental accountability problems. And we need to get on top of this, and make sure that we can give the American people the accountability that they deserve for how we use their tax dollars.

We are not there yet. The Congress has put in place some important management reforms with the Chief Financial Officers Act, the Government Performance and Results Act, the technology reforms, Debt Collection, and the Federal Acquisition Streamlining Act.

But we need to make these reforms work. They cannot just be hollow echoings and exhortations. They need to be actually put in place. And they will address many of the underlying problems in these high-risk areas. So we would encourage the Congress to continue oversight of how the agencies implement these broad reforms.

That completes my statement. My colleagues and I would be glad to answer any questions.

[The prepared statement of Mr. Dodaro follows:]

Statement of Gene L. Dodaro
Assistant Comptroller General
Accounting and Information Management Division

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss major government programs and operations we have identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. In 1990, we began a special effort to review and report on such activities, and yesterday we issued a series of reports providing the current status of the 20 high-risk areas we have been monitoring since our last major progress report 2 years ago.

Over the past 7 years, we have called attention to critical government operations that are high risk. To help improve this situation, we have made hundreds of recommendations to get at the heart of these problem areas, which have at their core a lack of fundamental accountability.

Today, we will highlight the legislative and agency actions that have resulted in progress toward fixing these problems. Such actions have established a solid foundation to help ensure greater progress, but much remains to be done to fully implement the corrective actions needed to remove the high-risk designation from these areas.

In addition, we will discuss five new areas that we have just designated as high risk. These new areas have been added because they are serious, growing problems and provide opportunities to achieve significant savings and better service to the public.

Without additional attention to resolve problems in the 25 areas that are the current focus of our high-risk initiative, the government will continue to miss huge opportunities to save billions of dollars, make better investments to reap the benefits of information technology, improve performance and provide better service, and more effectively manage the cost of government programs. Effective and sustained follow-through by agency managers is essential to make further headway and achieve greater benefits. Continued oversight by the Congress, such as this hearing by the Subcommittee, will add essential impetus to ensuring progress as well.

Landmark legislation passed by the Congress in the 1990s has established broad management reforms, which, with successful implementation, will help resolve high-risk problems and provide greater accountability in many government programs and operations:

-- The expanded Chief Financial Officers (CFO) Act of 1990 requires agencies to prepare financial statements that can pass the test of an independent audit and provide decisionmakers reliable financial information.

-- The 1993 Government Performance and Results Act requires agencies to measure performance and focus on results.

-- The 1995 Paperwork Reduction Act and the 1996 Clinger-Cohen Act provide a basis for agencies to make wiser investments in information technology.

-- The Debt Collection Improvement Act of 1996 strengthens federal agencies' debt collection practices and authorities.

PROGRESS IN RESOLVING
HIGH-RISK PROGRAM AREAS

Overall, agencies are taking high-risk problems seriously, trying to correct them, and making progress in many areas. The Congress has also acted to address several problems affecting these high-risk areas through oversight hearings and specific legislative initiatives. Full and effective implementation of legislative mandates, our suggestions, and corrective measures by agencies, however, has not yet been achieved because the high-risk areas involve long-standing problems that are difficult to correct.

The following discussion provides a quick synopsis of progress and remaining challenges related to many high-risk areas. Detailed information on the current status of all 25 high-risk areas, which are listed in appendix I, is available in our overview report, quick reference guide, and individual reports included in our set of 1997 high-risk reports. Reports included in this series are listed at the end of this testimony.

Providing for Accountability and Cost-Effective
Management of Defense Programs

Our high-risk initiative has monitored five areas that affect accountability and cost-effective management of Department of Defense (DOD) programs: financial management, contract management, inventory management, weapon systems acquisition, and the Corporate Information Management (CIM) initiative. These areas are key to effectively managing DOD's vast resources, including a budget of over $250 billion in fiscal year 1996 and over $1 trillion in assets worldwide. While improvement activities have been started, DOD's high-risk problems are especially serious and much remains to be done to resolve them.

First, DOD's lingering financial management problems are among the most severe in government. For example, the Department has acknowledged over 30 material weaknesses that cross the spectrum of its financial operations, including continuing problems in accurately accounting for billions of dollars in problem disbursements. Also, DOD has reported that of its nearly 250 financial systems only 5 conform fully with governmentwide

financial systems standards. Further, financial audits have highlighted significant deficiencies in every aspect of DOD's financial management and reporting, resulting in the failure of any major DOD component to receive a positive audit opinion. Since 1990, auditors have made over 400 recommendations aimed at helping to correct these weaknesses.

Deficiencies such as these prevent DOD managers from obtaining the reliable financial information needed to make sound decisions on alternate uses for both current and future resources. DOD's financial management leaders have recognized the importance of tackling these problems and have many initiatives under way to address widespread financial management problems. Fixing DOD's financial management problems is also critical to the resolution of the Department's other high-risk areas.

In addition, as DOD seeks to streamline its contracting and acquisition processes--including contract administration and audit--to adjust to reduced staffing levels, new business process techniques will be key to accomplishing effective and efficient oversight in the future. DOD contracts now cost about $110 billion annually. Without an improved and simplified contract payment system, DOD continues to risk overpaying contractors millions of dollars. DOD is aware of the seriousness of its payment problems and is taking steps to address them. Also, DOD needs to further strengthen its oversight of contractor cost-estimating systems, which are critical to ensuring sound price proposals and reducing the risk that the government will pay excessive prices. While DOD has improved its oversight of contractors' cost-estimating systems, poor cost-estimating systems remain an area of concern at some contractor locations.

Further, about half of DOD's centrally managed inventory of spare parts, clothing, medical supplies, and other secondary inventory items, which totaled about $70 billion in September 1995, does not need to be on hand to support war reserves or current operating requirements. DOD has had some success in addressing its inventory management problems and is in the midst of changing a culture that believed it was better to overbuy items than to manage with just the amount of stock needed. Also, with reduced force levels and the implementation of some of our recommendations, DOD has reduced its centrally managed inventory by about $20 billion. DOD has implemented certain commercial best practices, but only in a very limited manner and has made little progress in developing the management tools needed to help solve its long-term inventory management problems. Consequently, inventory managers continue to have difficulty managing DOD's multibillion dollar inventory supply systems efficiently and effectively.

Also, despite DOD's past and current efforts to reform its acquisition system, wasteful practices still add billions of dollars to defense weapon systems acquisition costs, which are about $79 billion annually. DOD continues to (1) generate and support acquisition of new weapon systems that will not satisfy the most critical weapon requirements at minimal cost and (2) commit more procurement funds to programs than can reasonably be expected to be available in future defense budgets. Many new weapon systems cost more and do less than anticipated, and schedules are often delayed. Moreover, the need for some of these costly weapons, particularly since the collapse of the Soviet Union, is questionable.

Finally, DOD started the CIM initiative in 1989 with the expectation of saving billions of dollars by streamlining operations and implementing standard information systems supporting such important business areas as supply distribution, material management, personnel, finance, and transportation. However, 8 years after beginning CIM, and after spending a reported $20 billion, DOD's savings goal has not been met because the Department has not yet implemented sound management practices. Not surprising, the results of DOD's major technology investments have been meager and some investments are likely to result in a negative return on investment.

The Department estimates that it will spend more than an additional $11 billion on system modernization projects between now and the year 2000. As part of its Clinger-Cohen Act implementation efforts, the Department is establishing a framework to use its planning, programming, and budgeting system to better manage this investment. While this framework is a step in the right direction, these corrective actions are just the beginning.

Improving Internal Revenue Service Management and Operations

At the Internal Revenue Service (IRS) we have monitored four high-risk areas that affect IRS' ability to ensure that all revenues are collected and accounted for: financial management, accounts receivable, filing fraud, and tax systems modernization (TSM). In 1995, IRS reported collecting $1.4 trillion from taxpayers, disbursing $122 billion in tax refunds, and managing an estimated accounts receivable inventory of $113 billion in delinquent taxes.

The reliability of IRS' financial information is critical to effectively manage the collection of revenue to fund the government's operations. However, our audits of IRS' financial statements have identified many significant weaknesses in accurately accounting for revenue and accounts receivable, as well as for funds provided to carry out IRS' operations. IRS has made progress in improving payroll processing and accounting for

administrative operations and is working on solutions to revenue and accounts receivable accounting problems. However, much remains to be done, and effective management follow-through is essential to achieving fully the goals of the CFO Act.

In addition, IRS is hampered in efficiently and effectively managing its huge inventory of accounts receivable due to inadequate management information. The root cause here is IRS' antiquated information systems and outdated business processes, which handle over a billion tax returns and related documents annually. IRS has undertaken many initiatives to deal with its accounts receivable problems, including correcting errors in its tax receivable masterfile and attempting to speed up aspects of the collection process. Efforts such as these appear to have had some impact on collections and the tax debt inventory, but many of the efforts are long-term in nature and demonstrable results may not be available for several years.

Further, IRS' efforts to reduce filing fraud have resulted in some success, especially through more rigid screening in the electronic filing program, but this continues to be a high-risk area. IRS' goal is to increase electronic filings, which would strengthen its fraud detection capabilities. But to achieve its electronic filing goal, IRS must (1) identify those groups of taxpayers who offer the greatest opportunity for filing electronically and (2) develop strategies focused on eliminating or alleviating impediments that have inhibited those groups from participating in the program.

In attempting to overhaul its timeworn, paper-intensive approach to tax return processing, IRS has spent or obligated over $3 billion on its TSM efforts. This program has encountered severe difficulties. Currently, funding for the initiative has been curtailed, and IRS and the Department of the Treasury are taking several steps to address modernization problems and implement our recommendations. However, much more progress is needed to fully resolve serious underlying management and technical weaknesses.

Controlling Fraud, Waste, and Abuse in Medicare Claims

Also, Medicare--the nation's second largest social program--is inherently vulnerable to and a perpetually attractive target for exploitation. The Congress and the President have been seeking to introduce changes to Medicare to help control program costs, which were $197 billion in fiscal year 1996. At the same time, they are concerned that the Medicare program loses significant amounts due to persistent fraudulent and wasteful claims and abusive billings. The Congress has passed the Health Insurance Portability and Accountability Act of 1996 to protect Medicare from exploitation

by adding funding to bolster program safeguard efforts and making the penalties for Medicare fraud more severe. Effective implementation of this legislation and other agency actions is key to mitigating many of Medicare's vulnerabilities to fraud and abuse.

Also, the Health Care Financing Administration (HCFA), which runs the Medicare program, has begun to acquire a new claims processing system, the Medicare Transaction System (MTS), to provide, among other things, better protection from fraud and abuse. In the past, we have reported on risks associated with this project, including HCFA's plan to implement the system in a single stage rather than incrementally, difficulty in defining requirements, inadequate investment analysis, and significant schedule problems. HCFA has responded to these concerns by (1) changing its single-stage approach to one under which the system will be implemented incrementally and (2) working to resolve other reported problems.

Minimizing Loan Program Losses

Since our high-risk program began 7 years ago, we have called attention to difficulties major lending agencies--the Departments of Housing and Urban Development (HUD), Education, and Agriculture--have experienced in managing federal credit programs and the government's resulting exposure to large losses. As of September 30, 1995, total federal credit assistance outstanding was reported to be over $941 billion, consisting of (1) $204 billion in loans receivables held by federal agencies, including $160 billion in direct loans and $44 billion in defaulted guaranteed loans that are now receivables of the federal government, and (2) $737 billion in loans guaranteed by the federal government.

HUD is responsible for managing more than $400 billion in insured loans; $435 billion in outstanding securities; and, in fiscal year 1995, over $31.8 billion in discretionary budget outlays. However, effectively carrying out these responsibilities is hampered by HUD's weak internal controls, inadequate information and financial management systems, an ineffective organization structure, and an insufficient mix of staff with the proper skills. These problems are not new--we reported them in 1995 and they were a major factor contributing to the incidents of fraud, waste, abuse, and mismanagement reported in the late 1980s.

HUD has undertaken some improvement efforts to correct these problems through such means as implementing a new management planning and control program. However, HUD's improvement efforts are far from fruition, and long-standing, fundamental problems remain. HUD's program will remain high risk until the agency completes more of its planned corrective actions and the administration and the Congress reach closure on a restructuring

that (1) focuses HUD's mission and (2) consolidates, reengineers, and/or reduces HUD's programs. What is needed is for the administration and the Congress to agree on the future direction of federal housing and community development policy and put in place the organizational and program delivery structures that are best suited to carry out that policy.

Actions by the Department of Education, combined with legislative changes, have achieved some results in addressing many of the underlying problems with the student financial aid programs' structure and management. In fiscal year 1995, the federal government paid out over $2.5 billion to make good its guarantee on defaulted student loans--an amount that represents an improvement over the last several years. The Department has taken many administrative actions to correct problems and improve program controls, but it must overcome management and oversight problems that have contributed to abuses by some participating schools.

Since our last high-risk report series in 1995, the Congress has enacted legislation--Title VI of the Federal Agriculture Improvement and Reform Act of 1996--to make fundamental changes in the farm loan programs' loan-making, loan-servicing, and property management policies. The Department of Agriculture is in the process of implementing the new legislative mandates and other administrative reforms to resolve farm loan program risks. The impact of these actions on the $17 billion farm loan portfolio's financial condition will not be known for some time.

The Debt Collection Improvement Act of 1996 also was enacted to expand and strengthen agencies' debt collection practices and authorities. This important new legislation can provide a much needed new impetus to improve lending program performance, but it will take time to implement the act. Additional agency attention to improve lending management and actions by the Congress are necessary as well.

Improving Management of Federal Contracts at Civilian Agencies

With government downsizing, civilian agencies will continue to rely heavily on contractors to operate programs. While this approach can help to achieve program goals with a reduced workforce, it can also result in increased vulnerability to risks, such as schedule slippages, cost growth, and contractor overpayments. Our high-risk program has followed efforts to resolve contract management weaknesses undertaken by several of the government's largest civilian contracting agencies--the Department of Energy (DOE), the National Aeronautics and Space Administration (NASA), and the Environmental Protection Agency (EPA) for the Superfund.

Most of DOE's $17.5 billion in 1995 contract obligations was for its management and operating contracts. DOE has made headway in overcoming its history of weak contractor management through a major contract reform effort that has included developing an extensive array of policies and procedures. Although the Department recently adopted a policy favoring competition in the award of these contracts, in actual practice most contracts continue to be made noncompetitively.

NASA has made considerable progress in better managing and overseeing contracts, for which it spends about $13 billion a year. The improvements have included establishing a process for collecting better information for managing contractor performance and placing greater emphasis on contract cost control and contractor performance. Our most recent work, however, identified additional problems in contract management and opportunities for improving procurement oversight.

For the past several years, EPA has focused attention on strengthening its management and oversight of Superfund contractors. Nonetheless, EPA remains vulnerable to contractor overpayments. At the same time, the magnitude of the nation's hazardous waste problem, estimated to cost hundreds of billions of dollars, calls for the efficient use of available funds to protect public health and the environment.

NEW HIGH-RISK AREAS HAVE EMERGED

In addition to the 20 areas we previously designated high risk, we are adding 5 new ones. We are alerting the Congress to these new areas because they involve serious problems: fraud and abuse in benefit claims, widespread computer security weaknesses, inefficient Department of Defense operation and support activities, the possibility of disastrous computer disruptions in service to the public, and the potential for a costly, unsatisfactory 2000 Decennial Census.

The first newly designated high-risk area involves overpayments in the Supplemental Security Income (SSI) program, which provided about $22 billion in federal benefits to recipients between January 1, 1996, and October 31, 1996. One root cause of SSI overpayments, which have grown to over $1 billion annually, is the difficulty the Social Security Administration has in corroborating financial eligibility information that program beneficiaries self report and that affects their benefit levels. Determining whether a claimant's impairment qualifies an individual for disability benefits can often be difficult as well, especially in cases involving applicants with mental impairments and other hard-to-diagnose conditions.

Second, information systems security weaknesses across government have now been designated high risk. These weaknesses pose high risk of unauthorized access and disclosure or malicious use of sensitive data. Many federal operations that rely on computer networks are attractive targets for individuals or organizations with malicious intention. Examples of such operations include law enforcement, import entry processing and various financial transactions. Most notably, DOD's systems may have experienced as many as 250,000 attacks from hackers during 1995 alone, with about 64 percent of them being successful and most going undetected. Since June 1993, we have issued over 30 reports describing serious information security weaknesses at major federal agencies. In September 1996, we reported that during the previous 2 years, serious information security control weaknesses had been reported for 10 of the 15 largest federal agencies. We have made dozens of recommendations to individual agencies and the Office of Management and Budget for improvement, and they have started acting on many of them.

Third, DOD's efforts to reduce its infrastructure will now be monitored as part of our high-risk efforts. Over the last 7 to 10 years, DOD has reduced operations and support costs, which will amount to about $146 billion this year. However, billions of dollars are wasted annually on inefficient and unneeded DOD activities. DOD has, in recent years, undergone substantial downsizing in force structure. However, commensurate reductions in operations and support costs have not been achieved. Reducing the cost of excess infrastructure activities is critical to maintaining high levels of military capacities. Expenditures on wasteful or inefficient activities divert limited defense funds from pressing defense needs, such as the modernization of weapon systems.

Fourth, we have designated another serious governmentwide computer information systems issue, the Year 2000 Problem, as a new high-risk area. This problem poses the high risk that computer systems throughout government will fail to run or malfunction because computer equipment and software were not designed to accommodate the change of date at the new millennium. For example, IRS' tax systems could be unable to process returns, which in turn could jeopardize the collection of revenue and the entire tax processing system. Federal systems used to track student education loans could produce erroneous information on their status, such as indicating that an unpaid loan has been satisfied. Or the Social Security Administration's disability insurance process could experience major disruptions because the interface with various state systems fails, thereby causing delays and interruptions in disability payments to citizens.

The fifth new high-risk area involves the need for agreement between the administration and the Congress on an approach that

will both minimize the risk of an unsatisfactory 2000 Decennial Census and keep the cost of doing it within reasonable bounds. The longer the delay in securing agreement over design and funding, the more difficult it will be to execute an effective census, and the more likely it will be that the government will have spent billions of dollars and still have demonstrably inaccurate results. The country can ill afford an unsatisfactory census at the turn of the century, especially if it comes at a substantially higher cost than previous censuses. The census results are critical to apportioning seats in the House of Representatives; they are also used to allocate billions of dollars in federal funds for numerous programs and to guide the plans for decisions of government, business, education, and health institutions in the multibillion dollar investments they make.

FOCUSING ATTENTION ON HIGH-RISK AREAS

Shifting to the future, the government can gain major benefits by focusing on the resolution of high-risk problems and fully and effectively implementing the legislative foundation established for broader management reforms. As countless studies we have performed have long noted and our high-risk series of reports demonstrates, federal agencies often fail to appropriately manage their finances, identify clearly what they intend to accomplish, or do the job effectively with a minimum of waste. Left unresolved, persistent and long-standing high-risk areas will result in the government continuing to needlessly lose billions of dollars and missing huge opportunities to achieve its objectives at less cost and with better service delivery.

Achieving Substantial Savings and Other Monetary Benefits

The 25 areas that are the focus of our high-risk program cover almost all of the government's annual $1.4-trillion revenue collection efforts and hundreds of billions of dollars in annual federal expenditures. Consequently, further progress to fully and effectively implement actions to resolve high-risk problems can result in substantial savings, for example, by

-- reducing Medicare losses due to fraudulent and abusive claims, which could be from $6 billion to as much as $20 billion based on 1996 outlays;

-- decreasing SSI overpayments, which have grown to over $1 billion a year;

-- cutting back further on unneeded centrally managed defense inventories, which DOD succeeded in reducing by $23 billion during the 6-year period from 1989 to 1995;

-- implementing better practices for acquiring weapon systems and reducing defense infrastructure, which are two areas that each experience billions of dollars in unneeded costs annually; and

-- adopting improved contract management practices, as NASA is doing with considerable progress. For instance, NASA lowered the value of contract changes for which prices had not yet been negotiated from $6.6 billion in December 1991 to less than $500 million in September 1996.

In addition, overcoming several high-risk problems has great potential for increased collections or other monetary gains to the government. For instance, these benefits are possible by

-- further preventing or deterring tax filing fraud, which involved over 62,000 fraudulent returns with refunds of almost $132 million in 1995;

-- reducing the growing inventory of tax assessments, which was $216 billion at the end of fiscal year 1996;

-- ensuring that duties, taxes, and fees on importations are properly assessed and collected by the Customs Service and that refunds of such amounts are valid; and

-- continuing to implement improved credit management practices. For example, the Department of Education has increased collections on defaulted loans from $1 billion in fiscal year 1992 to $2 billion in fiscal year 1995.

Making Better Investments to Reap Potential Benefits From Information Technology

Information technology is now integral to nearly every aspect of federal government operations and thus, is pivotal to the government's interaction with the public and critical to public health and safety issues. In the past 6 years, federal agencies have spent about $145 billion on information systems. Yet, despite years of experience in developing and acquiring systems, agencies across government continue to have chronic problems harnessing the full potential of information technology to improve performance, cut costs, and/or enhance responsiveness to the public.

We have already discussed in this testimony the high risks associated with two multibillion dollar information systems modernizations--IRS' tax systems modernization and DOD's corporate information management initiative. In addition, the information systems modernization efforts of other agencies are at risk of being late, running over cost, and falling short of promised benefits. Our high-risk initiative includes two of these

modernizations--those at the Federal Aviation Administration (FAA) and the National Weather Service (NWS).

FAA's $34-billion air traffic control (ATC) modernization has historically experienced cost overruns, schedule delays, and performance shortfalls. While FAA has had success on a recent small, well defined effort to replace one aging system, the underlying causes of its past problems in modernizing larger, more complex ATC systems remain and must be addressed for the modernization to succeed. We recently identified and made recommendations to correct several of these root causes, including (1) strengthening project cost estimating and accounting practices and (2) defining and enforcing an ATC-wide system architecture, and we have work under way to identify other improvements that could help to resolve the modernization's long-standing problems.

The success of NWS' $4.5 billion modernization effort hinges on how quickly the Service addresses problems with the existing system's operational effectiveness and efficient maintenance and on how well it develops and deploys the remaining system. NWS has acknowledged that a technical blueprint is needed and is currently developing one.

To improve situations such as these and stop bad information technology investments, we have worked closely with the Congress to fundamentally revamp and modernize federal information management practices. Our study of leading public and private sector organizations showed how they applied an integrated set of management practices to create the information technology infrastructure they needed to dramatically improve their performance and achieve mission goals.[1] These practices provide federal agencies with essential lessons in how to overcome the root causes of their chronic information management problems.

The 104th Congress used these lessons to create the first significant reform in information technology management in over a decade: the 1995 Paperwork Reduction Act and the Clinger-Cohen Act of 1996. These laws require agencies to implement a framework of modern technology management--one that is based on practices followed by leading public and private sector organizations that have successfully used technology to dramatically improve performance and meet strategic goals.

These laws emphasize involving senior executives in information management decisions, establishing senior-level Chief Information Officers, tightening controls over technology spending,

---

[1]Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning from Leading Organizations (GAO/AIMD-94-115, May 1994).

redesigning inefficient work processes, and using performance measures to assess technology's contribution to achieving mission results. These management practices provide a proven, practical means of addressing the federal government's information problems, maximizing benefits from technology spending, and controlling the risks of systems development efforts. The challenge now is for agencies to apply this framework to their own technology efforts, particularly those at high risk of failure.

Improving Performance and
Providing Better Service

Traditionally, federal agencies have used either the amount of money directed toward their programs, the level of staff deployed, or even the number of tasks completed as some of the measures of their performance. But at a time when the value of many federal programs is undergoing intense public scrutiny, an agency that reports only these measures has not answered the defining question of whether these programs have produced real results.

For high-risk areas, measuring performance and focusing on results is key to pinpointing opportunities for improved performance and increased accountability. For instance, performance measures would be useful for

-- guiding management of defense inventory levels to prevent the procurement of billions of dollars of centrally managed inventory items that may not be needed;

-- reaching agreement with the Congress on and monitoring acceptable levels of errors in benefit programs, which may never be totally eliminated but can be much better controlled;

-- monitoring loan loss levels and delinquency rates for the government's direct loan and loan guarantee programs--multibillion dollar operations in which loses for a variety of programs involving farmers, students, and home buyers are expected but can be minimized with greater oversight; and

-- assessing the results of tax enforcement initiatives, delinquent tax collection activities, and filing fraud reduction efforts.

Yesterday, we testified before the Committee on using the Government Performance and Results Act of 1993 (GPRA) to assist congressional and executive branch decisionmaking. Under GPRA, every major federal agency must now ask itself basic questions about performance to be measured and how performance information can be used to make improvements.

GPRA requires agencies to set goals, measure performance, and report on their accomplishments. This will not be an easy transition, nor will it be quick. GPRA will be more difficult for some agencies to apply than for others. But GPRA has the potential for adding greatly to government performance--a particularly vital goal at a time when resources are limited and public demand is high. To help the Congress and federal managers put GPRA into effect, we have identified key steps that agencies need to take toward its implementation, along with a set of practices that can help make that implementation a success.[2]

Managing the Cost of Government Programs More Effectively

Reliable financial information is key to better managing government programs, providing accountability, and addressing high-risk problems. The government's financial systems are all too often unable to perform the most rudimentary bookkeeping for organizations, many of which are oftentimes much larger than many of the nation's largest private corporations. Federal financial management suffers from decades of neglect and failed attempts to improve financial management and modernize outdated financial systems. This situation is illustrated in a number of high-risk areas, including

-- the weaknesses that permeate critical DOD financial management areas,

-- the substantial improvements that are needed in IRS' accounting and financial reporting,

-- the significant problems that continue to be identified during audits of the Customs Service's financial statements, and

-- the fundamental control weaknesses that resulted in the HUD Inspector General being unable to give an opinion on the Department's fiscal year 1995 financial statements.

As a result of situations such as these, financial information has not been reliable enough to use in federal decision-making or to provide the requisite public accountability. Good information on the full costs of federal operations is frequently absent or extremely difficult to reconstruct, and complete, useful financial reporting is not yet in place.

The landmark Chief Financial Officers (CFO) Act spelled out a long overdue and ambitious agenda to help resolve these types of

---

[2]Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1995).

financial management deficiencies. Important and steady progress is being made under the act to bring about sweeping reforms and rectify the devastating legacy from inattention to financial management. Moreover, the regular preparation of financial statements and independent audit opinions required by the 1990 act, as expanded by the Government Management Reform Act of 1994, are bringing greater clarity and understanding to the scope and depth of problems and needed solutions.

Under the expanded CFO Act, the 24 largest agencies are required to prepare and have audited financial statements for their entire operations, beginning with those for fiscal year 1996. Together, these agencies account for virtually the entire federal budget. Also, the 1994 expansion of the act requires the preparation and audit of consolidated governmentwide financial statements, beginning with those for fiscal year 1997.

Making CFO Act reforms a reality in the federal government remains a challenge and a great deal more perseverance will be required to sustain the current momentum and successfully overcome decades of serious neglect in fundamental financial management operations and reporting methods. But fully and effectively implementing the CFO Act is a very important effort because it is a key to achieving better accountability; implementing broader management reforms, such as GPRA; and providing the nation's leaders and the public with a wealth of relevant information on the government's true financial status.

- - - - -

We will continue to identify ways for agencies to more effectively manage and control high-risk areas and to make recommendations for improvements that can be implemented to overcome the root causes of these problems. Also, we have long supported annual congressional hearings that focus on agencies' accountability for correcting high-risk problems and implementing broad management reforms.

Mr. Chairman, this concludes my statement. I would be happy to now respond to any questions.

AREAS DESIGNATED HIGH RISK

PROVIDING FOR ACCOUNTABILITY AND COST-EFFECTIVE MANAGEMENT OF DEFENSE PROGRAMS

Financial management
Contract management
Inventory management
Weapon systems acquisition
Defense infrastructure (added in 1997)

ENSURING ALL REVENUES ARE COLLECTED AND ACCOUNTED FOR

IRS financial management
IRS receivables
Filing fraud
Tax Systems Modernization
Customs Service financial management
Asset forfeiture programs

OBTAINING AN ADEQUATE RETURN ON MULTIBILLION DOLLAR INVESTMENTS IN INFORMATION TECHNOLOGY

Tax Systems Modernization
Air traffic control modernization
Defense's Corporate Information Management initiative
National Weather Service modernization
Information security (added in 1997)
The Year 2000 Problem (added in 1997)

CONTROLLING FRAUD, WASTE, AND ABUSE IN BENEFIT PROGRAMS

Medicare
Supplemental Security Income (added in 1997)

MINIMIZING LOAN PROGRAM LOSSES

HUD
Farm loan programs
Student financial aid programs

IMPROVING MANAGEMENT OF FEDERAL CONTRACTS AT CIVILIAN AGENCIES

Department of Energy
NASA
Superfund

Also, planning for the 2000 Decennial Census was designated high risk in February 1997.

1997 HIGH-RISK SERIES

An Overview (GAO/HR-97-1)

Quick Reference Guide (GAO/HR-97-2)

Defense Financial Management (GAO/HR-97-3)

Defense Contract Management (GAO/HR-97-4)

Defense Inventory Management (GAO/HR-97-5)

Defense Weapon Systems Acquisition (GAO/HR-97-6)

Defense Infrastructure (GAO/HR-97-7)

IRS Management (GAO/HR-97-8)

Information Management and Technology (GAO/HR-97-9)

Medicare (GAO/HR-97-10)

Student Financial Aid (GAO/HR-97-11)

Department of Housing and Urban Development (GAO/HR-97-12)

Department of Energy Contract Management (GAO/HR-97-13)

Superfund Program Management (GAO/HR-97-14)

The entire series of 14 high-risk reports is numbered GAO/HR-97-20SET.

(918898)

Mr. HORN. That is very helpful, and we thank you on that very good summary.

Do either of your colleagues want to add something at this point?

Mr. DODARO. We thought that we would get right into questions.

Mr. HORN. All right. What we are going to do is have 10 minutes to a person, so they can thoroughly get through, since some of these areas are a little complicated. Mr. Sessions will be asking most of the complicated questions for the majority. I am just going to get into some of my pets in my 10 minutes. Let's start with the census.

Has GAO had an opportunity to check the statistical reliability, credibility, and validity of what the census did in 1970, 1980, and 1990 in terms of statistical analysis?

I was on the Civil Rights Commission for 13 years as vice chairman and a member, and we did two studies in the 1970 and 1980 census. Our conclusion was that there was a large minority undercount. And that is one of the questions I think that concerns everyone from urban America.

As you suggested, this is not just to apportion. What I read in the study, it is not just to apportion the House of Representatives anymore. Although as most of us are concerned, the only reason the fathers put it in here is they had no concept of benefit payments that would be adjusted based on census track and everything else.

So what has GAO found out about the statistical approach versus the let's knock on all doors approach, which as a kid I recall doing in our end of the county?

Mr. DODARO. Basically, we have been tracking the census over a number of years, and we have looked at the quality of the count. And we found continuing problems that have occurred, and the under-count has grown I believe in a number of areas. The cost definitely has gone up.

There have been problems. The basic problem here is the reluctance of the American citizen to fill out the questionnaire. The questionnaire response rates have gone down from the 1980 census of around 70 percent or 72 percent or so down to 65 percent.

The Census Bureau has not shortened the form, as we have suggested in the past, to improve the response rate. And they are still carrying it out basically the same way they had. The census activities have become more complex.

I have asked Bernie Ungar, who is our expert in this area, to come to the table and elaborate a little bit further on our research here. Bernie.

Mr. UNGAR. Yes, Mr. Chairman. We have looked at the error rates, as you suggested, and came to the same conclusion that you came to, that the error rates have gotten worse. We have looked at the results of the 1990 census, as well as the cost, and came to the conclusion that something would have to change in a very significant way in 2000, in order to avoid the errors.

And we did suggest in that time, which was in 1992, after we made a thorough assessment of the results of 1990, that the Bureau ought to explore the use of sampling techniques over and above or further than they had used them then. Subsequently, the National Academy of Sciences had come out with a study, which

concluded the same thing. Over the last several years, we have supported or promoted the Bureau's exploration of the sampling alternative, and we still support that.

We were a little concerned last year because we had hoped that the Bureau would come out with additional data that would demonstrate that the concept would produce less error. It was fairly clear that it would be less costly, but it was not entirely clear how much of a difference the error rate would be.

Fortunately, the Bureau in late December or early January did provide those data, which would suggest very clearly that sampling, if properly implemented, could reduce the error rates, as well as reduce the cost.

Mr. HORN. One of the concerns that we have in the southwest and the southeast is the illegal alien count problem. Now that is great to add seats to Florida, and to add seats to Texas, and New Mexico, and Arizona, and California.

And as I have told my eastern colleagues one-on-one, many of them, that if you do not want to help us on some of these problems, you are just going to lose one or two seats, as Pennsylvania did, another one seat as Kentucky did, and New York will lose, and so forth.

So I would think that would be a concern to those Members of Congress. And I am glad to say that they are finally waking up to the impact of the census. And the fact that when you go to some houses in southern California, that there are 26 people living in the house.

Now how do you handle that on the statistical side? And on the count side, do you have a better chance of handling it? And I will say now what I would say later. One of the great tools that the census has not been using is the postal worker. The postal worker in my end of urban Long Beach, she knows everybody. She has been walking that route for years.

And I do not understand why the census does not say, "Let's pay the postal workers a little something extra to walk their route." They would know more, and it would be more accurate. They know if 10 or 20 people live in a house. And it is very hard for anybody else to know that. Because they see the mail, and they see 20 different names getting mail there.

Sometimes three or four I have found are the same name, because that is way that some of the South Asian families are named. Just like some of ours, with junior, and senior, and so forth.

So what do you think on some of those thoughts?

Mr. UNGAR. Mr. Chairman, I definitely agree that the Census Bureau ought to rely more on the Postal Service. In fact, we made that suggestion back in the early 1990's. And the Census Bureau has responded in a positive way. It has been working with the Postal Service, and is going to rely substantially more on the Postal Service, to make sure that it has as good an address list as it could possibly have.

I do not believe that the Bureau has gone as far as you are suggesting, at this point anyway, as to having the postal workers actually help with the census. I think that is something that we could look at and see what discussions have taken place, and what the advantages and disadvantages of that are. I know that the Bureau

is going to have a substantial problem in recruiting and hiring the large number of enumerators that it is going to need.

Mr. HORN. Well, yes. You are not going to find the people who are going to want to go into some of urban America, and that is what leads to the under-count in part. The postal workers do go into urban America. In some areas, they have got difficulty accessing, but generally they do it.

Mr. UNGAR. That is correct.

Mr. DODARO. Mr. Chairman, just to add on to that. The Postal Service has been a little reluctant in the past to get involved in the way that you are talking about. So I would encourage you as part of the dialog to get them involved.

They have often argued that the new way that they deliver mail in some cases to large apartment buildings and to cluster boxes in neighborhoods, that a lot of their activity now has shifted away from door to door.

But that is an avenue worth exploring. And I would just say that engaging them early in the debate would be an important part of it as well.

Mr. HORN. When you talk to politicians here, you can realize that we walk door to door many times in precincts. And the gated community without question is a major problem, unless you have got a friend inside who lets you through the door. And that is obviously resented in some communities. So you weigh, are you going to alienate them, or are you going to gain some friends?

But that is also a problem with the census count, because we gate America one street after the other. Well, I am concerned about that, and I am sure that all of us are. And we would just like to see a fair count. I do not want to deprive States of their benefit, and I do not want to give extra points to other States, just simply because we have no way to—well, we are over-counting in some areas. I guess I would say that too.

Now let me move to the FAA/IRS technological innovations. I sat on the Aviation Committee in the 103d Congress. And Mr. Oberstar took Mr. Mica and I out to look at the mess. And you could tell right away that it was not being managed. And now we read about IRS, and you are suggesting also lack of management.

Why do we not learn something, and in what area of the Federal Government should that learning take place? I would think that it is OMB.

Does OMB get on top of these management issues in a major procurement like that?

Somewhere we have got to have the sort of inventory on management practices that we used to have in the old Bureau of the Budget.

Mr. DODARO. I think clearly or particularly in the information technology arena that OMB needs to play a more active role in screening the investments to make sure we are going to get what everybody expects to get out of the investments. They have not played that role in the past. I have reported and testified on the fact that in the tax system modernization effort that we have encouraged them to become more involved.

I am concerned though, however, and we have recommended that OMB go to some outside resources to bring in the technical exper-

tise that they need. They do not have enough of the right type of resources to do this. And it cannot be centrally managed, but somebody has to screen these investments carefully.

OMB has set up councils and boards, but it is all people within the Federal Government. And we need to bring additional expertise in to bear.

So we are clearly on record that OMB needs to augment its resources. We have made similar recommendations to OMB in the security area as well. They have complained that they do not have enough resources to deal with that. Our point is if you do not have it, you need to go out and get it, and put it in a central location. The world is changing, and the technology issues you need to be on top of.

This is an area that I really have been concerned about for a period of time. The whole issue of technical expertise, it is not there in enough numbers that the Government needs.

Mr. HORN. On that point, Mr. Dodaro, have any of the nominees of the President in any administration—I have forgotten how long you have been at GAO.

Mr. DODARO. Twenty-four years.

Mr. HORN. Twenty-four years. We can cover quite a few administrations.

Have any of them ever come over to GAO and sat down and said, "Look, you ladies and gentlemen are examining the Federal Government, what could you tell me as a new cabinet officer or a new assistant secretary for whatever, or a deputy secretary." That is the first thing I would do, if the President was ever dumb enough to appointment me to something.

I would walk over and I would see your people, and I would see the budget examiners in OMB. And I would say OK, you guys have been here, you have been looking over this apparatus that I am going into, this system of human beings, most of whom are very good, they just need leadership.

Has anybody ever done that?

Mr. FULTZ. I can speak to the Air Traffic Control Modernization System, and I think you are raising a very good point. We have seen in FAA a revolving door quite frankly in the leadership of that agency over a number of years. And we believe that is one of the reasons why it has taken so long to get this new modernization program up and running.

As you know, it is very long overdue, and way over cost. In fact, I believe they have had something like eight different administrators over a 5-year period; over a very key and integral part of the development of this process.

Mr. HORN. Did they ever come over and sit down with your people?

Mr. FULTZ. They have not asked specifically. But I have to assure you and other members of this committee that we make an effort to talk with the agency officials. In fact, I am waiting for the name of the new FAA administrator. As soon as he or she is named, I plan to set up a meeting with that individual, and talk about the problems with the Air Traffic Control Modernization Program, as well as the safety and security of the air traffic system that we have in the United States.

And I will be taking with me Mr. Robert Levin, who is sitting to my right, who has been monitoring the Air Traffic Modernization Program for about 7 years.

Mr. HORN. Well, has any Director of OMB ever come over to GAO and said gee, you know, I am getting into this job now, and it is the second most powerful job in the United States. Well, you have got Mr. Greenspan that we have got to think about. When he coughs, things happens. I do not know how much the Director has to cough to have things happen.

Mr. DODARO. Our policy has been to outreach to all new cabinet agencies, as they come in. But typically, the outreach is on our part, and not people soliciting advice from us. The one exception probably has been in the IRS. Each new commissioner has contacted us early in the process. That is the only one I could say that there has been a pattern over time.

Mr. HORN. Where they have sat down with you?

Mr. DODARO. Yes.

Mr. HORN. And you have told them the facts of life?

Mr. DODARO. Right.

Mr. HORN. And we still have them on the agency list?

Mr. DODARO. Right.

Mr. HORN. The high-risk list?

Mr. DODARO. Mr. Chairman, in the time I have been at GAO, the problem has not been necessarily us communicating the problems. We have done that very effectively, and people have listened. The problem is lack of management follow-through and attention to these issues.

Mr. HORN. I agree with that. But the start is to find out what the problem is. And if you are a new manager, all of you people ought to be sitting around the table. And I hope you are issuing an invitation to any new cabinet appointee, assistant secretary, deputy under secretary, or secretary, and say we are available. That is all you can do.

Mr. DODARO. Right. And we do do that.

Mr. HORN. If they have any common sense, they will take you up on it.

Mr. DODARO. We do that.

Mr. HORN. And if they do not, maybe we ought to find out before the confirmation in the other body as to whether they have common sense. And one thing would be heading in your direction.

I now yield 10 minutes to the ranking minority member.

Mrs. MALONEY. Thank you, Mr. Chairman.

I was particularly interested in your statement on the census, because I am likewise concerned about the census. And I would like to begin my questioning with that. In 1995, the GAO testified that sampling should be part of the design for the 2000 census.

Is that still your recommendation?

Mr. DODARO. Yes. We think that it is a viable option that should be explored. I would ask Mr. Ungar to expand upon that. Bernie.

Mr. UNGAR. Yes, Mrs. Maloney. We certainly do support it at this point in time, at least conceptually. As you may know, the Census Bureau has not worked out all of the details yet of its plan. And we are certainly waiting to see what those are before we feel more comfortable. But at least at this point——

Mrs. MALONEY. When are they supposed to be through with their plan?

Mr. UNGAR. Well, that is a good question. Unfortunately, to our knowledge, there is no overall project plan that the Bureau has completed yet that lays out the specific dates, which of course is a concern to us. And we would have hoped or at least felt more comfortable if the Bureau were done earlier. But I would suspect that as the next several months unfold, the Bureau will unroll more and more details of its plan.

Particularly because of the dress rehearsal that is scheduled for 1998, we think that it is critical that the Bureau lay out these plans hopefully by summertime, so we, as well as the Congress, can look at these and weigh in on them, and hopefully put the Bureau in a position that it would be testing what it is actually hoping to implement in 2000.

Mrs. MALONEY. I intend to write the Secretary of Commerce, and ask for the plan, and exactly where they are going with it.

You say in the report that the Census Bureau has not effectively communicated with Congress the importance of sampling.

What would you recommend to improve that communication?

Mr. UNGAR. Mrs. Maloney, I think that what we would like to see and what we have not seen is for the Bureau to provide to you when it provides its proposals the data that would support the concept or the contention that No. 1, that costs will be reduced; and No. 2, that quality will be improved, as well as comparing what their proposal is to the alternative or alternatives that exist.

And, of course, one of those alternatives is the approach that was used in 1990. We have been asking the Census Bureau for the last year for that data. And as I mentioned, starting at the end of December and the first part of January it has provided that to us, at least part of that data. And I think that the Bureau should be providing that to you.

Mrs. MALONEY. And when you get this data, what are you going to do with it? Are you going to analyze it, or what are you going to do with it?

Mr. UNGAR. Yes, we are going to analyze it. And actually, we are scheduled to issue a report to the Senate in the next 60 days hopefully, and that data will be contained in that report.

Mrs. MALONEY. OK, great.

If the Congress continues in the direction that it is currently heading, the result could be a census without sampling and an overall budget of only about $3 billion, instead of the $4 billion that is needed.

What would the level of error be in a $3 billion census without sampling?

Mr. UNGAR. Mrs. Maloney, I am not quite sure what it would be. I think that it would be substantially higher than it was in 1990, not only the gross error or the net error the differential undercount as well. And my guess would be that unless the Bureau or somebody else can come up with an alternative that has not been put on the table yet, the results could be very unsatisfactory to the point where the Congress would not be comfortable, nor would anybody else be comfortable with, using or relying on the results.

Mrs. MALONEY. Could it be the worse census of the century?

Mr. UNGAR. Well, it could be.

Mr. DODARO. I think you run a high risk, and that is why we are advocating an early decision and agreement on the methodology, and then the proper funding to carry it out. If you have to switch courses and go back to the old enumeration approach that they have used without proper funding, you run a significant risk.

Mrs. MALONEY. I would like to touch on Medicare. I am getting complaints from my constituents. They complain to me that they are being billed by Medicare for services which they have not received.

Is this a problem that you have documented in your work on Medicare, and what can be done to address this problem?

Mr. DODARO. It is a very significant problem. Our reports have shown and those of others that the fraud rate is extremely prevalent and high, and we are losing billions of dollars. Bill Scanlon is our expert in the Medicare area, and I am going to ask him to elaborate on that a bit.

And then I want to link back part of the solution in this area to implementation of some of the management reforms that I talked about earlier. Bill.

Mrs. MALONEY. I just want to state that I will walk into senior centers, and the seniors will literally run up with pieces of paper on which they are mentioned as being billed for all kinds of thousands of dollars worth of services that they claim they have not gotten. We just mail it in to the IG. But I would like more information. As I said, it happens quite frequently, which is scary.

Mr. SCANLON. As Mr. Dodaro indicated, we believe that the amount of fraudulent billing is a significant problem. And in fact, beneficiaries are one of the first lines of defense. Over the years, many of the fraudulent schemes that have been uncovered have been uncovered because there have been tips from beneficiaries and their families about services that were not received, or services that were billed at excessive rates.

We reported about some of the services, that beneficiaries are never given notice that the services have been billed to Medicare on their behalf. There are services that require no co-payments, such as laboratory services and home health.

And in the Health Insurance Portability Act enacted last summer, there was a provision that beneficiaries will now receive an explanation of benefits for every service regardless of whether they have any co-insurance obligation.

We think this is a positive step. It is something that we recommended, because it alerts the beneficiary that a provider may be billing fraudulently for a service that they never received.

Mrs. MALONEY. When did that go into effect, that the person receiving it has to get it?

Mr. SCANLON. It was enacted in August, and it is being implemented at the beginning of this year.

Mrs. MALONEY. So it has not even gone into effect yet?

Mr. SCANLON. It has not even gone into effect. So if you are seeing some of these explanation of benefits that the beneficiaries say are services that they have not received in the past, those are some of the areas where there is a problem as well, but we are also going to be uncovering problems in new areas.

Some of our work identified that in the areas of home health and laboratory services, there was fraudulent billing, that beneficiaries never were aware of.

This is a very important way for the program to identify fraud. However, many services that are identified this way turn out to be legitimate. Because of the complexity of medical care, someone may not understand about the lab tests that they received.

And therefore, some of these investigations turn out to show that there is no fraud involved. That is why we do need more systematic ways to try and identify the potential for a fraudulent scheme, and to use the limited resources we have for safeguards to the maximum extent to uncover the fraud.

Mrs. MALONEY. Are you tracking in any way if this is widespread, say a firm moves in and bills a lot in my district, and then moves to Congressman Horn's and bills a lot in his district, and just keeps moving around the country?

Mr. SCANLON. We have noted instances where a firm or individuals will operate in different areas and that once there is a discovery of their activities in one area, that they will relocate to another area. One of the difficulties though, of tracing those kinds of actions is that they may change their identity.

It is very easy to become a certified provider in the Medicare program. You have to have very little experience in providing the services that you are going to offer, and you can become a certified provider.

So an entity can open up, bill the program for a period of time, and be discovered to be billing fraudulent services, close down, and move to another area and reopen, and start the process over again.

Mrs. MALONEY. How much do you estimate that we are losing because of this activity?

Mr. SCANLON. As Mr. Dodaro indicated, there are estimates that have been made of between 3 and 10 percent of program spending, which translates to between $6 and $20 billion.

It is harder to get a very precise estimate of these losses. Because frankly, just like the hackers who break into the Defense Department computers, people who are interested in defrauding the program are very clever, and they are numerous. And it is often difficult to uncover the scams and schemes that they have to defraud the program.

Mr. DODARO. Two of the systemic improvements that we are trying to put in place as a result of congressional mandates. Fiscal year 1996 was the first year that we are doing a financial audit of the Medicare program. GAO is doing it jointly with the HHS IG. We have been spending $200 billion a year without financial accountability. We are taking a Nation-wide sample of claims, and looking at their validity. The other issue is we have encouraged HCFA to look at——

Mrs. MALONEY. You are going to begin this financial audit when?

Mr. DODARO. It has been underway. We are almost finished with the claims review. It is for the financial statements and reports for fiscal 1996. It should be available this summer. That is when we are targeting to have all of the claims work done. But we are actually getting the data from the providers, and checking the error

rates, and whether or not the services were not only valid, but also whether they were medically necessary. It is a statistical sample.

We have also advocated that HCFA look at using automated systems and software that are widely available for commercial purposes that other insurance carriers use, and adapt that to screen and provide more sophisticated screening of the applications as they come in. And they are now finally testing that. But we had difficulty originally in getting them to look at some of this commercially available technology.

And as Bill indicated, as part of the financial audit, we are also looking at the computer controls that HCFA has available to guard against unauthorized access to their computer systems, both at the carrier level as well as at the computer facility in Baltimore.

Mrs. MALONEY. Could a solution be something as simple as a person receiving the service, having them contact and make sure that they got the service?

Mr. DODARO. I think that the volume is really the big dilemma here. I do not know, Bill, what the volume of claims are. But it is enormous and growing.

Mr. SCANLON. Today it exceeds 800 million. We have been growing at more than 10 percent a year in terms of the number of claims. So we will soon be at a billion claims. And many of those claims are for very small amounts. And so we have often been very concerned about the amount of resources that we can devote to the review of a single claim. Today it is less than $1.

Mrs. MALONEY. If you reviewed say claims of over $1,000, would that be cost effective?

Mr. DODARO. That is one of the issues that we had a problem with. HCFA had a claims review function in place, which they diminished funding over the years. And that is part of this new legislation that passed last year, to restore some of that medical review at the end.

But my personal view on this is that you need to rely on the beneficiaries as one level of safeguard. But you also need to have proper technology in place to handle the volume of these claims. And it is going to grow with the aging of our population, and the expected enrollment in Medicare by the year 2010. We are going to have an enormous problem. And unless we avail ourselves to modern technology, we are not going to have a handle on it.

Mrs. MALONEY. How many individuals in America would you say are in Medicare now?

Mr. SCANLON. There are approximately 38 million.

Mrs. MALONEY. There are 38 million.

Thank you. My time is up.

Mr. HORN. I will just add a question at the end to round it out on the Medicare. GAO has said for several years that you suspected an estimated 10 percent fraud, waste, and abuse in Medicare. Your testimony today now was 3 to 10 percent.

Where did the three come in?

Mr. DODARO. Bill.

Mr. SCANLON. There have been some other studies that other organizations have done that have reported fraud estimates as low as 3 percent. Because of the difficulty of being precise in this area, we felt that it was fair to report the range, recognizing that at ei-

ther end of that range that this is a serious problem. It is a problem that we think that HCFA needs to devote the limited resources that it has available to it in a better way to try to reduce that volume of fraud.

Mr. HORN. I might add, and I do not know to what degree GAO is involved, you ought to be I would think, but the Ways and Means Subcommittee dealing with Medicare, one of the intents of that in saving Medicare from bankruptcy is that you reward the senior citizen to read that bill. And if they send it in, hopefully there will be something to alert them, and money helps.

And I think that is exactly what is needed here. Because like the gentlewoman from New York, when I get these cases, we refer them to the Inspector General. And the Inspector General who is, as you know, a very able person, having dealt with the Pentagon, she can certainly deal with this.

She told me, I guess a year ago, that the preceding year she collected $6 or $7 billion. I do not know what the current figure is, in fraud, waste, and abuse from various recipients. But there is no question that the commercial equipment you are talking about that every insurance company and every HMO uses, which you can screen that bill, and if certain things are not related to what the operation was about, the flags come.

One woman in one case that I am aware of said she read her bill very carefully, and she turned it over, because she went into the hospital for a hip operation, and was also charged for a mastectomy. Now she recalled having that 10 years before, and did not see how she could have another one.

Some of the people are not very bright in their fraud. But when we are talking about a $300 billion program here in a few years, and we are almost there, you are talking about $30 billion in waste, fraud, and abuse a year based on your percentage.

I am delighted now to yield to the vice chairman of the subcommittee, who has immersed himself in this subject, and who will ask you all of the hard technical questions, instead of the softballs that I have been giving you.

Mr. SESSIONS. Mr. Chairman, thank you. I appreciate the introduction also.

I am interested in this. And as I sat back and listened to the testimony here today, I really believe that in another life that I would like to grow up and be in the GAO, and be a wannabe for what you do. But that did not befall me in this life. So I take what I get.

My parents still introduce me as the son who simply had no bearing in life, so I became a Congressman. I am certainly the least successful of the siblings.

I would like to, if I could, for just a minute, before I get into a more esoteric discussion about the things that you have, I want to go back directly to what has been discussed here today.

Part of what you touched on was the IRS. And certainly, the $4 billion worth of the spending from the computer project. But you also, I believe, at some point talked about some sort of a random sample audit. You went in and tried to look at how much money the IRS actually takes in.

My question would be this, in any of your samples dealing specifically with the IRS, is there any indication that there is fraud

involved, not waste, not abuse, not mismanagement, but fraud that was uncovered where more digging needs to be done?

Mr. DODARO. Well, we have been looking at several different aspects of the IRS. The sampling that I referred to is doing sampling of their accounts receivable inventory to get a figure as to how much is actually in that inventory. They put a lot of things for collectability purposes in there that are not valid receivables. And then we try to estimate how much is collectable.

For example, when we started this in 1992, IRS was showing $110 billion on their books for receivables. Once we completed a sample, it was more like $65 billion. And of that, only $19 billion was actually deemed to be collectable. Since then, we have had problems. We did 100 percent verification of that sample that year. We turned over to IRS the responsibility for doing the sample. And then we take a sample of their sample, and verify whether they have done it properly.

The problems we run into is that some of the records have been unavailable, missing, or destroyed. And that IRS has been unable to successfully complete that sample.

In that case, we run into what we call error situations and problems. I do not think that we have encountered through that sampling process any systemic fraud problems.

Separately, however, we have had a high-risk area for a number of years looking at filing fraud problems. And the filing fraud problems have grown. In 1991, it was about 11,000 returns. And 77,000 is what it rose to in 1994. In 1995, it has come down to about 62,000 returns. The filing fraud is a problem.

Those are the amounts that IRS detects. And so part of this problem, for example, was if you wanted to be a person that could file electronically and take returns in, it was sort of like the Medicare providers that Bill talked about, it was very easy to get the ability to do the electronic filing.

IRS now does fingerprinting and checking. Before that in 1995, they screened out about 350 people who wanted to do that that they eliminated. They also are now checking Social Security numbers at the time that they are processing the initial returns. And I believe that the number of Social Security numbers that have popped up for them as a result of their checking rose from 1 million to 4 million in 1995 returns, indicating that there was a problem.

Ultimately, they let go about 2 million of the returns, because they did not have enough time to check it, and let the refunds go and check it later.

But that screening up front is real important, and they have not had that in the past. So that is the explanation of the fraud versus the sampling.

Mr. SESSIONS. Good.

Did any of your work also get into looking at the IRS and the accessibility of employees to individual filings; did you address this at all, and can you please give me any information that you have, or that you have uncovered in that regard?

Mr. DODARO. Sure. I am going to ask Lynda Willis who is our expert in the IRS tax area to come up.

We noted, and in fact it was part of our first financial audit in 1992 that we uncovered some internal IRS reports that talked

about the browsing problems within the IRS of IRS employees looking at an ex-spouse's return or a return of a celebrity. That was a significant problem at that time, and it continues to be a problem.

Lynda, do you want to add to that?

Ms. WILLIS. What I would add is that it continues to be a problem, and we expect to issue a report later this spring addressing our most recent work. We have found problems with the systems that IRS has put in place to identify browsing incidents, in part because they do not allow an efficient way for IRS managers to get in and track through where they have a real problem or potentially a perceived problem. IRS is continuing to work on this, but there is more work that needs to be done.

Mr. SESSIONS. So at this point, you have no quantification, you simply are aware that it is a problem?

Ms. WILLIS. Right.

Mr. SESSIONS. You believe that the IRS is aware of that, and is trying to take steps to alleviate this?

Ms. WILLIS. Yes.

Mr. DODARO. There are numbers on the number of browsing cases that have been reported, and what the disciplinary action has been. That will be in our report.

Mr. SESSIONS. And that is what I was going to ask, is there disciplinary action?

Mr. DODARO. Right.

Mr. SESSIONS. Did you look at their what I would call a "code of conduct" that is required, and does that fit the circumstance?

Mr. DODARO. Right. There is a penalty set that they use for various methods. But IRS' own internal studies point at some problems with inconsistency, and how that penalty code, if you will, is enforced from one part of the country to another. And we made some recommendations that they develop better information for tracking and browsing, and tracking how the consistency of the penalties are put in place.

And that report will be available soon. We are doing that at the request of Senator Glenn, who has had us tracking this problem for a number of years now.

Mr. SESSIONS. My earlier question to you, I believe you answered carefully, but I would like to go a little bit further in relationship to your audit of the IRS, specifically related to the money that comes in as revenue to the Government, not related to the filing or whether one was done fraudulently or not, and not related to how many people file and do not file, but specifically as some national columnists say the money.

Mr. DODARO. Right.

Mr. SESSIONS. The money that comes in, is there any evidence or any evaluation that you have made, and did you look at the trail from the check to the bank to the correct place it is supposed to be, or the account?

Mr. DODARO. Right.

Mr. SESSIONS. Can you elaborate on that?

Mr. DODARO. Sure. I will ask Greg Holloway, who is on my far left here, who has been leading our financial audits for the past 4 years. I will ask Greg to answer that.

Mr. SESSIONS. Good. Thank you, Greg.

Mr. HOLLOWAY. I would answer your——

Mr. SESSIONS. Have you been sworn?

Mr. HOLLOWAY. Yes.

Mr. SESSIONS. OK. Thank you.

Mr. HOLLOWAY. I was in the third row.

Mr. SESSIONS. Thank you. I am sure you have been sworn at. We all join in that.

Mr. HOLLOWAY. That is exactly right.

Mr. SESSIONS. Yes, sir.

Mr. HOLLOWAY. I would answer your fraud question a couple of ways. As a result of some of the detailed testing we have done—you have to keep in mind that IRS has a lot of what they call under reporter programs, where they effectively check for under reporting by individuals as well as entities to ensure that people report the revenue and the related tax associated with what they owe.

And part of what comes out of our testing is looking at those cases to identify what IRS has called its matching program, where they seek to identify that.

The difficulty of the word fraud is that it becomes a very legalistic term in terms of levels of evidence, part of which suggests intent. And our work certainly does not try to determine intent. But in terms of the equity, I guess that would probably be a more accurate question.

Certainly, our testing has shown in quantitative ways to some extent where IRS has identified in some cases, and in other places where we have seen cases, I do not know that I would call it fraud, but I have certainly seen cases where it appears that the taxpayer probably paid more than they owed, and cases where they did not pay enough based on third party evidence.

One particular case comes to mind in terms of the reverse of that where the taxpayer probably paid more than they owed was a case where an individual had a company, and he filed as a Subchapter S. Somewhere along the line, his filing got lost. As part of that, IRS then assessed a tax on to the individual's company saying that they have incorrectly, and so then assessed a greater amount of tax.

Over the course of the process, as they went into their files and looked at it, and this was a case that came out in our testing, what they discovered was that there was evidence in their case file that showed that the individual had communicated with them inquiring about where IRS stood in responding to their filing request to be Subchapter S.

And through their own internal documentation, they concluded on something that they called hazards of litigation, which in English means if this thing goes to court that we may not win, let's settle. And the person ended up settling and paying probably at 50 percent for something that they did not owe anything.

Now is that fraud? I do not know that I would call it fraud, but it certainly looked inequitable. So we see a lot of those kind of cases. And we certainly see cases that have surfaced out of IRS' under reported efforts, where people appear to be paying less than what they owe based on the way that they filed their return.

Mr. DODARO. You might want to also explain how we do the testing of the revenue stream.

Mr. HOLLOWAY. Right. Basically, what we have done, IRS had a detailed what they call master file record of everybody that files taxes. So they have a record on this country, and effectively what we do is pull down that whole file of transactions, and we use statistical sampling to test that sample.

I do not want to get into all of the technical boring parts of auditing, but the thrust of it is that we use what they call Dollar Unit Sampling, which puts the focus on the higher dollar cases, for us to then go look at what is the make-up and the nature of the transactions of the higher dollar cases.

And we then go in and look at the detailed tax returns and case files to determine whether or not what is reflected in IRS' records is consistent with the source documentation, which would be the tax return, which would be the FTD coupon, or other manner of payment that the recipient made, going back to your question, and trying to track it from the point of payment throughout IRS' process into the taxpayer's record.

And that is what we test for. So when we find these kinds of things, it is the result of trying to determine whether or not IRS's records on individual taxpayers accurately reflects what the supporting documents suggest that it should.

Mr. SESSIONS. Do you believe, as you have looked at these, that you have given adequate, proper feedback for adequate control back to the IRS?

Mr. HOLLOWAY. I do not think that there is any question. We have endless lines of reports. And we continue to work with them looking for ways to improve it. But part of the problem is that many of the financial systems that IRS uses—IRS is basically a return processing factory. And many of their systems were set up to process tax returns, and get them out. They were not set up necessarily and always to focus on trying to financially report, and accurately summarize and report out what they have done and collected.

It is a challenge for them to try to take something that was designed to do one thing to make it do something else.

But yes, we have reported out over the last 5 years numerous reports, and testified many times before Chairman Horn and this subcommittee, and subcommittees before that.

Mr. DODARO. We have made approximately 60 recommendations to IRS as a result of these audits. Greg, and I, and Lynda meet monthly with the Chief Financial Officer and the Deputy Commissioner in IRS to try to get on top of this issue. We have worked out a specific action plan with them. The Appropriations Committee last year mandated that that action plan be provided to the Congress by March 1st. We have looked at IRS' draft plan.

So, we are working hard and trying to help them come up with some short-term solutions to these problems, as well as some longer term system fixes.

Mr. SESSIONS. And you believe that you have not only their attention, but that they are addressing these issues?

Mr. DODARO. They are working on it. It is just a difficult problem, and is going to take awhile. Particularly the receivables area.

And the receivables area is one that I think that we need to go further. We are going to issue a specific report on the tax receivables this year with some additional recommendations of what needs to be done. And we are learning more too, as we go through the process.

Mr. SESSIONS. I am sure they are also.

Mr. Chairman, do you mind if I take a few more minutes?

Mr. HORN. I have a question before you leave.

Mr. SESSIONS. I want to go to the military. So, Mr. Chairman, why don't you go ahead.

Mr. HORN. Let me just ask you about the systems that IRS has, if they know that a file has been penetrated in terms of the browsing bit, is there any way that they can trace back which computer in IRS was celebrity searching, or browsing, or spouse searching, whatever you want to call it, how do they deal with that?

Mr. DODARO. They have an automated system that they put in place to track one major system for accessing taxpayer files called the IDRS system. One of the recommendations that we have made, however, is that their method of tracking that system with the automated processes is cumbersome, and it kicks out too many things to followup on.

And second, they do not have in place systems to detect access through other systems that you can get into them. And we have to continually make recommendations.

Mr. HORN. Are you telling me that every IRS employee with a computer could get into that system, and not leave a trail?

Mr. DODARO. It depends on what system that they use. Let me ask Dr. Rona Stillman to come to the table. She is our chief scientist for computers and telecommunications. Rona has been leading our work in the IRS tax system modernization effort. She could address that question.

Ms. STILLMAN. There are numbers of systems that IRS employees can use to access taxpayer data. One of those systems is called IDRS. That is the primary system that tax assistors use to access data. That system is monitored by a system called EARL. And what EARL does is it profiles. It has got a profile of what it assumes would be legitimate activity of a tax assistor. And if his pattern of accesses differs substantially from that, it will report it.

There are two problems with EARL. EARL only works with IDRS, and not with six or seven other systems that employees can use to access taxpayer data. And second, the problem with EARL is that it does not distinguish very well between legitimate activity and illegitimate accesses to which an employee has no right as part of his job.

So it reports tremendous numbers of potential violations, most of which are not violations at all. And it takes a tremendous amount of effort on IRS' part to distinguish one from the other.

Mr. HORN. Now as a scientist in this area, are you aware of systems that they could use that say private industry uses, and banks use, whatever?

Ms. STILLMAN. We have not evaluated what is used in private industry, but clearly IRS could do a whole lot better in detecting and preventing browsing on its own.

Mr. HORN. Let's take the Department of Defense, and NSA, and whatever; have they various systems that can track access to some of their files, or CIA, that would be useful if IRS had it to solve the problem?

Ms. STILLMAN. Actually, we have not done work to evaluate those specific systems. The problem itself for IRS is a difficult problem, in that these are authorized users. These are not hackers. These are authorized users.

Mr. HORN. Right. I understand that. And we are going to be holding a number of hearings this year on the whole problem of security. I notice that the Science and Technology Committee the other day had a topic, I did not have a chance to watch it on C–SPAN, but a topic on computer security.

But I think that it is a very real problem when you have confidential Government files, and I know that the IRS is very sensitive on that point. But the fact that they do not have a system that really deals with their other systems that employees could use, is sort of the fox guarding the chicken coop.

There is somebody whose curiosity is getting the better of them, and how do you know? You might know that it happens. It might be leaked to the Enquirer or something. And maybe somebody is getting some money even for it. That is a pretty sad state of affairs, if we have not in GAO, and IRS, and DOD shared whatever knowledge, we have to get the best confidentiality system possible.

And in that $4 trillion boondoggle so far down there, was one part of it trying to deal with the confidentiality thing, or do we know yet where they went wrong?

You see, I do not understand how you can spend $4 trillion, let alone $1 million, let alone $1 billion. And I guess that I just do not understand Government.

Ms. STILLMAN. A critical shortcoming of the TSM effort was the fact that it did not have what we call an integrated systems architecture, and part of that is a security architecture. IRS did not have a complete analytical approach defining how they would provide security in the system. It did not exist, and it does not exist at this moment.

Mr. HORN. And this report of yours is going to come out when?

Ms. STILLMAN. We have issued reports at least since 1995 specifically citing the absence of a security architecture as a major problem, and recommending that they complete one.

Mr. HORN. Can you bundle up three sets of those, one for the Democratic side, one for the Republican side, and one for me?

Ms. STILLMAN. Absolutely.

Mr. HORN. And mark it personal, or I will never see it.

Ms. STILLMAN. Absolutely.

Mr. DODARO. I might add to that.

Mr. HORN. They will check it for bombs, but that is OK.

Mr. DODARO. I might add, Mr. Chairman, that the IRS by the appropriation bill last year was required by February, this month, to provide the Congress a plan for implementing all of our recommendations that we made in the tax system modernization effort. The Treasury Department has also been directed to provide quarterly reports.

So there will be a number of activities occurring over the next few months on this timetable that would, I think, provide opportunities to review where they are in implementing our recommendations. And we will be happy to share that information as it comes available to us as well.

Mr. HORN. Now one of the things that I have discussed with the Commissioner over the last 2 years is the system that they have to collect the receivables.

Now what have you found out this year on how they are doing it? As I remember, there are a few pilot projects under way.

Mr. DODARO. Right.

Mr. HORN. Did you look at those projects, were they fairly awarded? Because they are sure fighting us on using private collectors, which everybody else uses in the country, but IRS. And I get this static about oh, well, the tax records are confidential. I said what is confidential, you give them $5,000, if that is what they owe, give them the address, and let them make a deal. Because right now, you are writing off over $100 billion, which I regard as a scandal.

We are sitting around here grappling with every $10 million in trying to balance a budget. And $100 billion goes uncollected. So that bothers me. And I just wonder: what are they doing in your judgment? You are a fair neutral in this thing.

Mr. DODARO. That is a very good question, and I will give you two answers on that. Lynda will answer from the private debt collection standpoint. And then I would like Greg to elaborate on the quality of the information in the data base that is available either to IRS employees or private debt collectors. Lynda.

Ms. WILLIS. Let me answer a little more than just the private debt collection question, because I think that there are some things that IRS has done in terms of improving their collection efforts, partially in response to our recommendations, and partially in response to some of their own work.

For the last year, one of the things that they have done that we believe has increased collections is they have improved their ability to access taxpayers by telephone. And accessing them earlier in the system, so that the debts are not so old by the time that IRS goes out and attempts to find the taxpayer.

They have also improved some of their notices, reduced the number of notices, and get the notices out there quicker, and more money is coming in from there as well.

And Greg will speak to this after I talk about private debt collection. But one of the issues that remains is that how effective these programs are on the margin. They are not solving the underlying problems with accounts receivable, which gets back to the quality of the information that is in the files, the accessibility of the information, and basically overall what we know about not only accounts receivable in the aggregate, but individual cases in terms of how to best target our compliance programs.

So going to the private debt collection initiative, GAO has supported for some time testing the use of private debt collectors. And IRS does have an ongoing program right now with contractors, five different companies, that are looking at collecting selected types of cases and accounts.

We are in the early stages of reviewing that for the Ways and Means Committee. We continue to have some of the same concerns that we had when the pilot was set up. And that is that these private collectors are going to face the same problems that IRS collectors face, i.e., the accounts are old.

Mr. HORN. How "old" is old in your definition?

Ms. WILLIS. Well, some of the accounts may be 5 or 6 years old before they ever hit this point.

Mr. HORN. Well, I agree with your point. And I have told the Commissioner that. I would not mind Government employees, the first 30 or 60 days. But you are absolutely right, that you need to be phoned, so people say gee, I have a debt to pay.

You see this with students. And that is why we had a better record when we started counseling students that this guaranteed Government loan is not a grant, and you are going to have to pay it back. And that helps when you educate the person that a debt has been ensued here, and you need to do something about it.

You are telling me that they are doing better on the telephoning at least from the beginning?

Ms. WILLIS. They are telephoning people earlier. They have moved more resources into earlier contact with the taxpayer.

The thing that we hope to get out of the private debt collection project is feedback from the private debt collectors in terms of better practices for collecting these types of debts, insurmountable problems with the cases in terms of either age, identifying or locating the taxpayers, et cetera.

So I think that in terms of best practices that there are still things out there that IRS can learn from private debt collectors.

Mr. HOLLOWAY. I would just want to add on the quality aspect of this, that I think that are two core problems. I mean having worked in the private sector and in a financial institution where collecting debts is a key part of it, two very important things are missing at IRS.

The first one, and when we talk about improved telephone and other things, the rudimentary problem is the untimeliness of even identifying who owes the money. One of the fundamental things that they have, and until it is corrected, I do not care if you bring in the Army, Navy, Air Force, and Marines; if you do not identify who owes you the money sooner, collecting it is always going to be tough.

I mean IRS' matching program, for example, which is probably its best program of identifying people who owe money that are noncompliant, what we found in our testing typically does not identify to the point where they can then notify and begin the telephone and all of that until anywhere from 18 months to 3 years after the fact.

If anybody in the private sector took that long to figure out that somebody owed them money, I do not care who you brought in to try to collect it, it would be a challenge.

The second myth of IRS is a lot of the accounts receivables by design are not even collectable. One of the things that we found, and we looked at several cases of what we call over $10 million cases, many of those, for example, are cases where they set up receivables to close tax loopholes.

Back when several banks were failing, a lot of acquiring institutions were making money on NOL carry-backs by buying failed institutions using the benefit of those losses and carry them back over prior taxes that they paid.

One of the loopholes that IRS closed was assessing taxes against those failed institutions, so as to preclude any NOL carry-back to be recovered.

Now those sit in IRS' tax files. As a matter of fact, a large portion of what is deemed uncollectable are cases that nobody could collect. They are people who have died. They are defunct corporations.

Part of the problem of bad information and the lack of quality information is you do not cut to the bone to figure out what is the real population here.

So I think what they have got to do is get a much more precise analysis of what the content is of what is really owed. Because I suspect what you will find is that there is a big bucket of things that you could just throw away, whether it was private or IRS, it would not even matter.

And then when you got to that, when you look at how long it took to identify the ones that are left, even if the private sector went after it, you run into the problem of being unable to locate people. And then they have the basic fundamental problem that they cannot pick their borrowers.

Mr. HORN. That is very well said. But I am concerned about the ones who have taken bankruptcy to avoid the taxes, and pop up somewhere again.

Does IRS have any way to really know when that individual is playing the bankruptcy game to avoid taxes, and popping up in another State, or with another small business, or whatever?

Mr. HOLLOWAY. Yes, they do, unless the person designs a new alias and pops up under a different name and Social Security number. But effectively, what IRS does in many cases, and this is where the statute that has been extended to the 10 years comes into play, they typically will have on file what they call debit modules, which means an indicator that somebody owes them money based on that taxpayer identification number.

So if that person were ever to file to get a refund or anything like that, it should kick in. And that is one of the things that we test for.

Mr. HORN. Taking refund for the previous tax debt?

Mr. HOLLOWAY. That is right. They would go back and check to see if that person owed any moneys and any other tax modules that are sitting in that file.

So they do have some of those kinds of things. But the untimeliness of identification, and continuing to report on amounts that nobody could collect.

Mr. HORN. In the testimony, one of you mentioned that IRS does fingerprinting, and checking the Social Security number. Well, that is great. That should have been done, of course, years ago. But the fingerprinting intrigued me.

How are they getting them to get fingerprints?

Mr. DODARO. Lynda can answer. This is on the electronic filing.

Ms. WILLIS. These are fingerprints that they are getting on people who are involved in the business of electronic filing returns with IRS. These are not fingerprints vis-a-vis individual taxpayers. If someone wants to be certified as an official, or have the ability to file electronically other people's returns with IRS, they do now have to have fingerprint records as well as background checks.

Mr. HORN. Now where do they go, the local police, to have that done for them, or the sheriff's office or what, how do we get this done?

Ms. WILLIS. I am not positive, but I believe they go through the FBI to have those done.

Mr. HORN. OK. Well, it is just a matter of people out in the countryside can electronically file, but might not have the agency that they are designating be able to get the prints. But I think that is a great idea, and let us get some information on that. I think that we would all feel a little better. And, of course, we would feel a lot better if the welfare organizations of the Government did the same thing.

I think that I cited the other day to some of you, L.A. County, when they went to a photo and fingerprinting, thousands of people voluntarily got off the rolls. This was on general relief. Because they knew they would be caught in the five different names they had used and all of the rest, when they knew Government was asleep. And so L.A. County moved in that area.

And to IRS' credit, a good example of that is when they started requiring Social Security numbers on dependents. Quite a few people lost a lot of dependents after that happened. Right.

Mr. HOLLOWAY. The family shrunk.

Mr. HORN. That is right. We did not know family planning was at work.

Mr. HOLLOWAY. That is right.

Ms. WILLIS. Family planning through the tax code.

Mr. HORN. I thank the gentleman from Texas for letting me round out some of my concerns on IRS. Please go ahead.

Mr. SESSIONS. Thank you, Mr. Chairman.

I would now like to redirect some of my questions probably to other panel members. I would like to talk about the Pentagon and the Defense Department for just a minute, if I could.

And I try to put things into a simple form. When you are from Texas, you try to boil it down to something that you can talk about and think about.

I kind of think about the entire Federal Government as being like 10, or 12, or 13 Exxons, the size of that. And if you break down the Government, you can put the Pentagon as probably two or three Exxons, I guess, and the rest of the Government as the rest of that. So I know it is big.

And you have talked about a lot of the problems, the waste, the fraud, the abuse, and the mismanagement that goes on there.

In many companies, and certainly within Exxon, they are concerned about continuation training for their people who are the managers of the business, and leading edge issues related to their business. And I know that the Pentagon and the Defense Department is not any different.

A good number of the officers as they rise in rank are required to get masters degrees, and are required to get these sorts of training.

Can you discuss with me going back to the military academies forward through the process of the masters programs, of a continuation in learning, has the military through the Secretary of Defense instructed or given instructions down through the Secretary of the Air Force and the other Secretaries that listen, this is a problem, include this as part of our training about identifying waste, fraud, and abuse, and about looking at and knowing generally accepted standards of accounting practices, so they can spot these things?

Can you give me just some sort of a feeling, have you looked at this, do you know it exists, what would be your thought process on the Defense Department's recognition of the problem. Have they made sure that it is in its training program and in its educational programs, such that it is an identified problem?

Mr. HINTON. Mr. Sessions, I think the answer to that is yes, they are starting to get their arms around that. It is a problem for them right now, having all the skills that they need to keep the records in the Department.

On the other side of the fence, if I could use the acquisition side, they have a very good plan for training people who work the acquisition work force. And I am going to ask Lisa Jacobson to tell you about on the accounting side of things.

Mr. SESSIONS. And please, as much as possible, give methodology a feeling about how broad this is.

Are we dealing with personnel only in those areas? I am interested also in a broad overview to where the military understands that this is a problem. Just as the security of our country is a mission statement for them, so should be effective use of resources.

Ms. JACOBSON. In the financial management area, we have been doing a lot of work on this very issue. We are undergoing some work dealing with companies like Exxon, and asking them to provide us with some basic data on what kind of people they would expect to be in the types of positions running their companies, and performing the financial management activities in their organizations.

So we will have some base line data very soon to compare with the Department of Defense. The Department of Defense under the CFO Act that you were a party to is required, as the other agencies, to look at their personnel, and assess where they stand, and whether or not they have qualifications. They have not done that to date.

And they are participating with us in a review to assess their personnel in the financial management area, and see where they stand.

Most of these employees in financial management are civilian, as opposed to military. And we have done some preliminary work in DFAS, the Defense Finance Accounting Service, which does the vast majority of their accounting, and found that they have very few CPAs in the top ranks. They have very limited accounting. About half of the people have less than they are required, the num-

ber of hours of accounting for an accountant in the Federal Government.

So we questioned whether or not they are adequately educated. And then training beyond that, there is no training curriculum or requirements within the Department.

Mr. DODARO. I would say overall on the business side in the financial management arena that the emphasis on training is nowhere near as great as it has been on the military side, obviously. And that is true not just in the Defense Department, in the financial management area, but across the Government.

In my view, I have often characterized financial management and the accounting function of the Government as sort of an administrative backwater for the last 40 years. There needs to be, and we have urged, continuing professional education requirements. We have put out some core competencies, GAO, OMB, and Treasury together, to get this material to the agencies.

This is an area that I think your instincts are correct, that there is not enough emphasis going into it. And this is one area that we are trying to give more visibility to by comparing the gap. We know that there is a big gap in the qualifications, and we are trying to provide more impetus to improve training.

Part of the problem is that at the same time we are trying to elevate the importance of training, and upgrading the quality of the financial management work force across the Government, it is the same time that personnel reductions and the down sizing in a lot of agencies are taking place, and training money is becoming tight because of greater competition.

But that needs to be worked through. But you are on the right track in terms of your assessment in that area, and it needs a lot more attention.

Mr. SESSIONS. In other words, your statement as to whether there is training specifically at the military academies, you really do not know at this point. That is a requirement for all graduates to understand some basic techniques in identifying waste, fraud, and abuse, and identifying that we really do count things in this organization, that you have resources and assets that the taxpayer expects to be utilized efficiently.

That here is generally if you did come into an audit, here is what they are looking for and asking for, and a basic understanding of a filing system to where if you have 88 raincoats and you normally use 4 in a year, do not order until you get to a specific level. Just these basic things that are Accounting 101.

Mr. HINTON. Some of that through the military side does occur, Mr. Sessions. And it will be dependent on their military occupation specialty that they will sign up to.

Mr. SESSIONS. That is what I heard you say. But not a general across the board management.

Mr. HINTON. It would depend on the specialty that you are going into. But I think that I can provide for the record some more details around this, if you would let me do that.

Mr. SESSIONS. I would ask that you do that.

And I would also like to have you render a conclusion right now, am I still on the right track for asking for those things?

[The information referred to follows:]

INSERT FOR THE RECORD ON QUESTIONS FROM MR. SESSIONS REGARDING THE EXTENT OF FINANCIAL MANAGEMENT TRAINING FOR MILITARY OFFICERS

We are aware of no general requirement for military officers to receive financial management training, either in precommissioning programs or after entering active duty. In addition, we are aware of no data base that could provide information regarding the extent to which military officers have received such training. Each of the services maintains data bases on their officer corps, but it is limited to major educational and training achievements and to career experience. Therefore, accurate and complete information on the extent to which military officers received any specific type of training, including financial management training, is difficult to obtain.

Each of the services has several programs leading toward commissioning as an officer. These programs include the service academies, the Reserve Officers Training Corps, and Officer Candidate Schools. There is no requirement for officer accessions to have received any financial management training in their undergraduate programs. The core curriculum at each of the service academies does not include specific required course work in accounting/financial management. The extent to which graduates from any commissioning source received training in financial management depends on the particular academic program in which they majored.

Each of the military services has developed a guide describing the prescribed training and development for active duty military personnel in each career field. Included are occupation-specific training requirements as well as more general development such as professional military education and graduate study in civilian institutions. We found no global requirement that military managers receive training in financial management issues. Only those officers in the financial management and other closely related fields have a requirement for such training.

While we have not done a recent in-depth review of the curriculum at the various intermediate and senior service schools that comprise the professional military education program for officers, our past work found no systematic treatment of financial management issues integrated into the ongoing curriculum.

Many military officers receive graduate education, either on their own or supported by the service. Some of those programs, particularly degree programs in business and public administration include courses in financial management.[1]

---

[1]In addition to the financial management training that the general population of military officers may receive, we are currently performing work focused on the qualifications, including training, of military officers filling key financial management positions in the military services. For example, we currently have a review underway looking at the financial management training of Navy military officers serving in key comptrollership positions. We will provide the subcommittee a copy of our report when it is completed.

Management Controls

Defense's process for implementing the requirements of the Federal Managers' Financial Integrity Act as one of his key initiatives to improve the Department's overall financial management. Under this initiative, senior managers are to play a more active role in identifying, reporting, and correcting management control weaknesses . The Department has reported that educating commanders and mangers at all levels on the principals and practices of effective management controls is central to achieving the objectives of the Act.

The Department also has a number of initiatives under way that are intended to "embed" management control principals throughout applicable education and training curriculums, particularly in its training curriculums. For example:

- Army reported that during fiscal year 1996, approximately 14,400 commanders and managers received training on the Army's management control process.
- Navy reported that many military and civilian accountants, budget analysts, and other financial personnel annually receive training on the Navy's management control program as part of its Navy Practical Comptrollership course.
- Air Force reported that training on the principles of management control and its importance to mission operations is part of virtually every training exercise, and that Air Force-wide business and financial courses include segments on the Air Force's management control program.

Mr. HINTON. Yes, yes. And I think that you will see, as we get into all of the areas here, that we are talking about business practices. That permeates across acquisition, inventory management, financial management, and there are deficiencies in all of those.

Mr. SESSIONS. Good.

Mr. HINTON. And a lot of it depends on the skills of the people, and their ability to deal with the problems.

Mr. SESSIONS. Without going back into too much of my history about myself, I served as a scout master for quite a long period of time. And even a scout master has to understand waste, fraud, and abuse when he sees it. So I think that certainly a military officer could receive this training, understand it, and apply that theory and training to what needs to be done.

Mr. DODARO. As part of training under the Federal Managers Financial Integrity Act, I know that the Department does some training in raising the visibility about the need for internal controls and systems. And we can include it as part of our discussion for the record on that issue.

I think that your questions go a couple of levels. One is the general training for everybody as sort of a core training. And what we are also talking about is specialized training for people who are in these different occupational series, particularly the accounting and finance people. And we will provide the information on both levels for you.

Mr. HINTON. Let me ask Mr. Warren, Dave Warren, who is Director of our Defense Management area to comment.

Mr. WARREN. I would just like to add that a lot of that training is included in the fundamental type courses that you are talking about, particularly for military officers and for civilian employees, but particularly for the military officers. However, when they get into the operational environment, and this is an issue that we stress particularly in the high-risk inventory report, is that you are dealing with a cultural issue in terms of them in fact in an operational environment focusing on economy and efficiency.

When the officers move into the operational environment, their first duty and highest priority, they feel, from a cultural mind set, and again I will go to inventory, is to make sure that they have those items there when they need them. And then costs become secondary.

And what we are trying to stress in our reports, and just as you are saying, is that there needs to be a better balance here. We need to accomplish both missions, and have effective stewardship over the Defense dollar.

So the training, I have seen a lot of it introduced, and people are aware of it. But when you get into the operational environment, what priority in fact is placed on that is an issue. So I think that is a critical part of the answer.

Mr. SESSIONS. The answer would always be reasonableness. And you do not know where that is. I mean, we cannot predict these kinds of things always. But I know that is a problem. But if we cannot have them to be managers of the business, then we are all in trouble.

Mr. HINTON. You are clearly on the right track.

Mr. SESSIONS. Yes.

Mr. HORN. Would the gentleman yield for a minute?

Mr. SESSIONS. Mr. Chairman, I was just going to say that I am now leaving this area. If you would like to join in, please.

Mr. HORN. Yes. I will tell you that I think you have asked an excellent series of questions on this. Because what we are talking about is basic accountability of what one does when you are in a large organization, be it military or not. I think that the military does a superb job of post-collegiate education for its officer class.

I can recall in General Powell's memoirs that he recalls going to George Washington University for his masters degree in computing. I do not know if he felt it helped him that much to be a leader. But the military has been very good at this, way ahead as you said of the civilian side of most agencies.

That leads me to the obvious, what is OPM doing in this area? And when we have a bill like the Clinger-Cohen bill and these other bills, are there workshops being systematically developed by OPM that Departments can have access to? Has this been decentralized, or as we call it here devolved to the Departments, and OK, you are on your own, where are we on that basic training of new skills that we all need to know?

Mr. DODARO. Basically, OPM still provides some training functions. It has been awhile since I have looked at that, and I will confine my remarks to the financial management area for right now. But OPM has not been as active as I believe they could be in this area. And basically, it devolved, the responsibility to the Chief Financial Officers Council, and to the agencies to develop a lot of training.

There are schools, for example, the graduate school at the Agriculture Department, that offers training courses. When the Chief Financial Officer Act passed, and we said we have a problem across Government, let's do something about it. And part of the goal and objective was to improve the qualifications of financial management personnel.

But, OPM has not been actively engaged in addressing those issues. That is just my sense of dealing with the players on these issues. It is not based on any analytical studies.

We did do a review of OPM, a management review, years ago, that we were responsible for in the late 1980's, and concluded that not only from a training standpoint, but from strategic planning, human resource planning; OPM was not providing enough governmentwide leadership.

Mr. HORN. And when was that study done?

Mr. DODARO. That was in 1988.

Mr. HORN. 1988.

Mr. DODARO. I can provide that.

Mr. HORN. I would like to see it. So we are 9 years from that. Is it not time that GAO goes back and takes a look at the broader aspect?

They should be the creator group or the facilitator group that is ahead of the curve, when all of these new practices start commonly in the civil service. And it just seems to methodology that there ought to be some leadership there to do this. And maybe there is, and I just do not know about it.

But I would think that Mr. Mica in his subcommittee would be very interested in that. And certainly, we would, just on the economy and efficiency grounds that we are interested in.

Mr. DODARO. OK.

Mr. HORN. Because you cannot be very efficient if you have not trained people correctly.

Mr. DODARO. This is a very true statement, and it is something that needs a lot of attention.

Mr. HORN. I yield to the gentleman to pursue his next area.

Mr. SESSIONS. Thank you, Mr. Chairman.

I have neared the end of my time here today. And I know that you have been here for a long time also. I want to really thank each and every one of you from the GAO, who has not only participated and been here, but I want to applaud you and pat you on the back and urge you to continue the work that you are doing.

I am somewhat amazed in the marketplace, as I was in private industry. We used to look across and find out where who was leading edge, who was developing things that we felt like would aid and abet our cause. So I would be interested some day in finding out how many of you were actually hired by these competing interests in the Government, because you represent I think a good thought process.

And I wish that they would reach out and take you within their agencies, but perhaps that goes on every day. I just do not know. But if I had a word to say to each cabinet officer, I would say go and hire one of these people within your own area.

So I applaud you for the work that you are doing, and want you to know that throughout this 105th session, that I am very interested, and I want to be involved in what you do. And most of all, I want to say to you please go do it, because you represent the essence of what good Government is all about.

Mr. Chairman, thank you for allowing me to serve with you. I have got to skip out for a little while. But it has been a pleasure for me to be with you. Thank you.

Mr. HORN. I am delighted to have you here. You have asked some excellent questions. And we will see that those are pursued.

Let me just go through a few things I marked down as you were talking. And the staff will send you some other questions, which if you do not mind filing the answers for the record, we can do that.

But as I listen to you on the electronic filing, that is of great interest to me. And we see some of the groups that represent senior citizens. They are not keen on electronic filing. And yet, those are the people being exploited, people living in the low income slum areas of our cities. The crooks, and the robbers, and the thieves, and the exploiters know exactly when that Social Security check or that welfare check is coming.

And you have this tremendous number of reports of missing checks, in brief stolen out of the person's postal box and so forth.

Where are we on electronic filing throughout the Government in terms of what the Government does if they are writing checks to go directly to the bank, and in terms of filing reports?

In one of my hearings, and I forget which committee it was now, it might have been Transportation and Infrastructure, we had very good testimony from the California Environmental Protection

Agency that they had worked out with business, because it was mostly business filings, the filing of both their reports, and their original applications, and all of the rest of it. And it saved warehouses filled with trees that we call paper.

And so I wonder what your estimate is of what is going on in the Federal Government, and what could we do to stimulate some of that? Well, we have passed some laws in this area.

Mr. DODARO. Right.

Mr. HORN. Is there anything else that needs to be done?

Mr. DODARO. Offhand, I would say that we are making some good progress in that area. I know that in the Federal Government, Treasury is encouraging people, all Federal employees, to receive their checks and do business electronically.

The Government is moving toward electronic benefit transfers for programs. That is being tested, and as Keith knows for many of his agencies, for benefit programs, and food stamps, et cetera is being tested as well.

IRS has put up a new system in Treasury to get electronic fund transfers for the revenues coming in. It is an area that I would like to give a little more thought to your question, Mr. Chairman, as to what additional things could be done.

But I think that there are a number of initiatives under way that I am generally encouraged about. The problem is making sure that everybody has appropriate access and that the appropriate protections are taking place. But it is definitely the way that we need to move as a Government.

Mr. HORN. Do you have any estimates from your surveys as to the degree of fraud or robbery that might be occurring, because we have not used electronic filing, and we are still doing it the old-fashioned way of sending the check to the person's house. Do we have any data on that from agencies, or postal inspectors?

Mr. DODARO. I do not think that there is any systematic data available on that. We know that there are high error rates in many things, because of the manual transactions and processes. And that is a big part of the Defense Department's accounting problems and other accounting problems. I am not aware of anything.

Mr. HORN. Well, furnish us with that. I would like to go through that.

[The information referred to follows:]

GAO

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

General Government Division

B-265769

March 25, 1996

The Honorable John Glenn
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Dear Senator Glenn:

This letter responds to your request that we review the status and results of efforts by the Internal Revenue Service (IRS) to reduce its exposure to fraud in 1995. Controls over persons filing fraudulent returns and receiving fraudulent refunds can be implemented either before the return is filed, where the focus is on deterring fraud, or after the return is filed, where the focus shifts to identifying returns involving possible noncompliance. In 1995, after being urged to take immediate action by us, Congress, and a Department of the Treasury task force on fraud, IRS introduced new controls and expanded existing controls in both of those areas. Several of the steps IRS took in 1995 are ones that we think are necessary to help deter persons from filing fraudulent returns, and there is evidence that those steps had a positive deterrent effect. Other steps IRS took to identify questionable returns after they were filed seemed reasonable in concept but encountered several problems in implementation. For example, many of the cases involving missing or invalid Social Security Numbers (SSNs) that IRS selected for review were unproductive and resulted in an inefficient use of resources and undue taxpayer burden.[1]

DETERRING FRAUD

It is to IRS' advantage to keep persons from filing fraudulent returns. By doing so, IRS can avoid the cost it might otherwise incur in identifying and investigating the fraudulent returns and can avoid the risk of either not catching the fraud or catching it too late to prevent issuing the refund. To improve its controls in this area in 1995, IRS (1) expanded the number of controls in its electronic filing system, (2) revised its process for checking the suitability

[1]As used in this letter, an invalid SSN is one that does not match Social Security Administration records.

of persons applying to participate in the electronic filing program, and (3) eliminated the direct deposit indicator (DDI). As discussed in the section on identifying noncompliance, publicity about various actions IRS intended to take in validating SSNs also appeared to have had a deterrent effect.

Electronic Filing Filters

One of the advantages of electronic filing is that it enables IRS to implement up-front controls (filters) designed to (1) screen the electronic submission for such things as missing, invalid, or duplicate SSNs and (2) prevent returns with those problems from being filed electronically. If a problem is identified, the submission is rejected, and the problem has to be corrected before IRS will accept the electronic return. We believe that up-front filters can provide an effective control not just against fraud but against simple errors that, if not corrected up front, would require additional time and effort by IRS and the taxpayer to resolve later. Before 1995, IRS had filters that checked for some SSN problems. In 1995, IRS expanded those filters to check for all missing, invalid, or duplicate SSNs on the electronic submissions.

In 1995, the electronic filing filters identified 4.1 million SSN problems.[2] There is no way of knowing how many of those problems involved intentional noncompliance, as opposed to honest mistakes, and neither we nor IRS know how the problems were eventually resolved, if at all. However, there is evidence that some taxpayers who had their electronic submissions rejected because of an SSN problem were able to avoid the problem by filing on paper. IRS reviewed 395 submissions that were rejected because of duplicate SSNs and found that in 29 percent of the cases the taxpayers subsequently filed returns on paper, using the same problem SSNs, and received their refunds. The complete results of IRS' test, which are not projectable, are in enclosure I.

Suitability Checks

A second control that can help prevent persons from filing fraudulent returns is IRS' process for checking the suitability of persons applying to participate in the electronic filing program as tax return preparers and/or transmitters. IRS expanded the suitability process to include fingerprint and credit checks for new applicants who wanted to participate in the

---

[2]Because an electronic submission can be rejected for more than one reason, the number of problems identified does not equal the number of submissions rejected.

1995 electronic filing program. Before then, suitability checks were limited to a review of IRS' internal records to determine, for example, if the applicant owed any back taxes or was the subject of a criminal tax investigation. The decision to do fingerprint checks is consistent with a recommendation we made in December 1992 that IRS expand its suitability checks to include a review of an applicant's criminal history.[3]

We believe that suitability checks are a critical component of IRS' controls against electronic filing fraud because they help keep unscrupulous persons from entering the electronic filing program and filing fraudulent returns. In that regard, IRS' Internal Audit Division concluded in an October 1995 report that suitability checks "were effective as a means to screen out questionable applicants from the [electronic filing] program." Enclosure II includes statistics on the results of IRS' suitability checks in 1995. However, those statistics are only a partial indicator of the effectiveness of IRS' suitability process. What cannot be measured is (1) how many unscrupulous persons were deterred from applying to participate in the electronic filing program because they knew that IRS would be checking their suitability or (2) how many fraudulent electronic returns might have been filed by rejected applicants and by those who were deterred from applying.

Elimination of the DDI

In conjunction with the electronic filing program, the private sector offers what is commonly referred to as "Refund Anticipation Loans (RAL)." Through those loans, taxpayers, for a fee, can get their money quicker than if they wait for IRS to issue their refunds. A taxpayer repays the loan by arranging to have the refund deposited directly to an account that has been specified for repayment of the loan. Although RALs are contracts between the financial institution and the borrower, IRS facilitated the process in the past by providing an indicator (the DDI) to the electronic return transmitter after the return was received, acknowledging that the taxpayer's direct deposit request would be honored. IRS would not honor a direct deposit request if the taxpayer had a debt, such as unpaid child support or unpaid federal taxes, that would be offset against the taxpayer's refund.

Because the opportunity to get money quickly through RALs was seen as encouraging electronic filing fraud, IRS eliminated the DDI in 1995. It is impossible to determine how effective this

---

[3]Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27, Dec. 30, 1992).

action was in deterring fraud. However, the Director of IRS' Office of Refund Fraud said that, in his opinion, eliminating the DDI was one of the most effective actions IRS took in 1995 to control fraud.

IDENTIFYING NONCOMPLIANCE[4]

IRS took several steps in 1995 in an attempt to better identify noncompliance, including fraud, on filed returns. Most significantly, IRS (1) placed an increased emphasis on validating SSNs on paper returns and delayed refunds to give it time to do those validations and to check for possible fraud and (2) upgraded the Questionable Refund Program. As a result of these efforts, IRS prevented issuing millions of dollars in questionable refunds. However, IRS also (1) identified many more SSN problems than it was able to deal with (see enclosure III) and ended up releasing the refunds without resolving the problems; (2) delayed millions of refunds with valid SSNs to check for the duplicate use of SSNs but ended up releasing those refunds after several weeks without doing the checks; and (3) in the early part of the year, delayed refunds that should not have been delayed and issued others that should have been delayed.

SSN Validation and Refund Delays

For paper returns, unlike electronic returns, IRS cannot validate SSNs until it has received the returns and has begun processing them. For many years, IRS has validated taxpayers' SSNs on paper returns.[5] In 1994, because of the growing concern about

---

[4]We use the word "noncompliance" instead of "fraud" in many places in this section because not every problem identified as a result of the efforts discussed in this section was treated as fraud by IRS. Some of the noncompliance could have been the result of honest errors or negligence. Other noncompliance, although the result of fraudulent activity, might not have been significant enough for IRS to undertake the kind of investigation necessary to prove fraud and thus was handled as a nonfraudulent error. The only noncompliance that IRS identified as fraud is summarized in enclosure V.

[5]Although IRS verified taxpayers' SSNs before 1995, it revised its procedures that year to require that taxpayers with a missing or invalid SSN provide documentation to verify their identities before any refund was released. Before 1995, IRS did not require proof of identity before releasing the refund. IRS' procedural change is discussed more fully in our August 1995 report entitled Tax Administration: IRS Could Do More to Verify Taxpayer Identities (GAO/GGD-95-148, Aug. 30, 1995).

noncompliance related to the Earned Income Credit (EIC), IRS began verifying EIC eligibility.[6] If taxpayers' returns did not include valid SSNs for EIC-qualifying children, IRS was to contact the taxpayers and require that they validate EIC eligibility. In 1995, IRS further expanded its validation efforts to include the SSNs of dependents claimed by taxpayers on paper returns. That year, IRS identified 3.3 million paper returns with one or more missing or invalid SSNs for EIC-qualifying children and/or dependents.[7] About 3 million of those returns involved requests for refunds.

Because it is more difficult for IRS to get an erroneous refund back once it has been issued, IRS also decided, in 1995, to delay issuing refunds on certain returns to allow time for it to validate SSNs and check for possible fraud. IRS delayed all or part[8] of the refunds on over 7 million returns. Those returns included the 3 million paper returns with missing or invalid SSNs discussed in the prior paragraph and 4.1 million electronic and paper returns that had no SSN problem. Although the 4.1 million returns had no SSN problem, IRS delayed the refunds because the returns included EIC claims and were above a certain dollar threshold and because past data indicated a correlation between the presence of an EIC claim and the possibility of fraud. IRS delayed those refunds to give it time to check for fraud and to see whether subsequent returns were filed using the same SSNs. IRS eventually released almost all of those refunds, after holding them for several weeks, without checking for fraud or duplicate SSNs.

Not unexpectedly, IRS did not have sufficient resources to investigate every return that it identified with missing or invalid SSNs for EIC-qualifying children and dependents. Thus, IRS only referred about one-third of the 3.3 million identified returns to its Examination function for follow-up. According to IRS, to provide additional resources for this effort would have

---

[6]The EIC is a refundable tax credit available to low-income working families with children and certain taxpayers without children.

[7]Because IRS only identified returns that met certain dollar criteria, neither we nor IRS knows how many paper returns, in total, were filed in 1995 with missing or invalid SSNs for EIC-qualifying children and dependents.

[8]Because IRS' primary concern on many of the returns that it targeted for extra attention centered around the validity of the EIC claim, IRS often delayed only that part of the refund that was attributable to the EIC and released the rest.

adversely affected other IRS programs. In the absence of unlimited resources, it is important that IRS be able to identify for follow-up those cases that most warrant its attention. However, according to IRS' Internal Audit Division, IRS' procedures for selecting cases for follow-up did not adequately ensure selection of the most productive cases and thus resulted in an inefficient use of Examination resources and an undue burden on thousands of taxpayers. In that regard, of the 800,000 missing or invalid SSN cases closed as of December 31, 1995, 59 percent were closed with no change to the taxpayers' reported tax liability or refund because the taxpayers were able to prove that they were entitled to claim the dependent or the EIC. The remaining cases were closed with changes amounting to about $530 million. According to IRS, the high no change rate demonstrates the difficulty in separating cases involving intentional noncompliance from those involving honest mistakes.

In the 2.3 million cases that IRS did not investigate, it still delayed the refund for several weeks. The affected taxpayers were not told about the SSN problems that IRS had identified and thus were not given the opportunity to correct them. As a result, future returns filed by those taxpayers could continue to have invalid SSNs that could cause problems for IRS and the taxpayers at some future time. Enclosure IV has additional information on the 3.3 million returns and the results of IRS' follow-up.

According to Internal Audit, IRS also encountered some initial problems in implementing its SSN validation/refund delay procedures that were caused by faulty computer programs. As a result, thousands of returns that should have been identified for review and millions of dollars in refunds that should have been delayed were not, and some refunds that should not have been delayed were. A major contributor to the programming problems, according to Internal Audit, was the lack of sufficient time to design and test some major programs and corrections. The programming problems were corrected during the year after Internal Audit brought them to management's attention.

IRS has taken several actions in 1996 to address the problems encountered in 1995. Officials told us, for example, that changes have been made to help IRS better target its resources to the most egregious cases and minimize the impact on honest taxpayers. In that regard, IRS has said that it expects to delay fewer refunds in 1996 than in 1995. We intend to monitor IRS' efforts in 1996, including the effects of its various changes.

Although there were several problems with IRS' efforts to validate SSNs and delay refunds on filed returns in 1995, evidence that we reviewed indicated that taxpayer knowledge of

those efforts had a significant deterrent effect. In that regard,

-- preliminary data from an analysis of returns filed in 1995 by the Statistics of Income Division indicated that about 1.9 million fewer dependents were claimed in 1995 than in 1994 and

-- IRS data show that persons with qualifying children made about 100,000 fewer EIC claims in 1995 than in 1994 and about 2.2 million fewer than had been expected in 1995.

Changes to the Questionable Refund Program

The Questionable Refund Program, established in the 1970s, is IRS' primary effort to identify returns involving fraudulent refund claims. As part of that program, IRS has Questionable Refund Detection Teams (QRDT) in each of its 10 service centers. Many of IRS' efforts to enhance this program in 1995 were intended to make it easier for those teams to identify fraudulent returns. IRS' efforts included (1) revision of the formulas used to score tax returns as to their fraud potential,[9] (2) expansion of the Electronic Fraud Detection System (EFDS), and (3) implementation of the Abusive Return Tracking System.

For the past several years, IRS has used computerized formulas to score the fraud potential of every return, whether filed electronically or on paper. The intent is to help QRDTs focus their efforts on the most productive cases. In past years, however, the scoring formulas identified far more potentially fraudulent returns than the QRDTs could review and identified many returns as having a high potential for fraud that the QRDTs determined, upon further review, did not involve fraudulent activities. That was also the case in 1995. IRS recognized that the formulas needed to be further improved and modified the formulas for use in 1996.

In the past, the Questionable Refund Program was a labor-intensive process that required QRDTs to deal with massive amounts of paper. In an attempt to make that process more efficient, IRS is implementing EFDS--an automated system that, among other things, gives QRDT staff access to additional data sources to enhance their ability to detect fraudulent returns.

---

[9]Revision of the formulas was not something new in 1995. IRS has been revising the formulas every year in an attempt to make them more effective.

EFDS is to be implemented in phases. In 1995, IRS implemented Phase I in the five service centers that receive electronic returns. Phase I gave QRDT staff the capabilities to review prior year tax return information and query other IRS and Treasury databases. In conjunction with EFDS, IRS placed the Automated Wage Information (AutoWIF) System in four service centers that do not process electronic returns. AutoWIF provided those centers with basically the same capabilities as EFDS. IRS officials told us that EFDS and AutoWIF allowed service center staff to identify refund schemes that they would not have been able to identify in the past. Phase II of EFDS, which was to be implemented in all of IRS' service centers for the 1996 filing season, is expected to further enhance the research capabilities of QRDTs.

In a February 1996 report on EFDS, Internal Audit said that Phase I effectively provided staff with research and query capabilities. At the same time, Internal Audit identified several problems that required management attention. For example, Internal Audit said that controls were not adequate to ensure that all electronic returns were loaded onto EFDS or to ensure that all electronic returns identified as potentially fraudulent were properly tracked on EFDS. According to IRS management, many of the concerns identified by Internal Audit were addressed in the changes to EFDS for 1996, and the remaining concerns will be addressed in system enhancements planned for 1997.

To further help QRDTs do their job, IRS implemented the Abusive Return Tracking System to identify instances where an SSN was used on more than one return. About 4.6 million multiple uses of SSNs were identified on paper returns in 1995.[10] Output from the Abusive Return Tracking System was made available to the QRDTs but was of little use because, according to IRS officials, it involved a massive amount of paper that was not easy to work with. According to the Director of IRS' Office of Refund Fraud, IRS is compiling data on multiple SSN uses again this year and has taken steps to make the data more user friendly.

Even with these new tools and with more staff than in 1994, the QRDTs identified fewer fraudulent returns in 1995 than in 1994, and the percent of fraudulent refunds stopped before issuance (i.e., the "deletion rate") declined (see enclosure V). The Director of IRS' Office of Refund Fraud opined that there were fewer fraudulent returns to be identified because the up-front

---

If someone attempting to file an electronic return used an SSN that had already been used on another return, the electronic submission would be rejected, as discussed earlier.

filters and knowledge of IRS' additional controls deterred persons from filing fraudulent returns. He mentioned, for example, the fact that fewer EIC claims were filed in 1995 than in 1994. QRDT staff suggested several other possible causes for the statistical decline, including various problems encountered in implementing the new procedures for 1995.

AGENCY COMMENTS

We requested comments on a draft of this letter from the Commissioner of Internal Revenue or her designated representative. The Director of IRS' Office of Refund Fraud provided comments in a March 13, 1996, meeting and elaborated on those comments on March 18, 1996. IRS' Chief Compliance Officer provided additional comments on March 22, 1996.

Both officials said that the statistics in the letter were generally accurate. They suggested some changes for clarity, which we made where appropriate. The Director emphasized that although IRS is reducing the number of refund delays in 1996, it is not deemphasizing its efforts to ensure that persons do not receive refunds to which they are not entitled. He said, instead, that IRS is attempting, through revised procedures and enhanced systems, to better target its resources to those cases that most warrant IRS' attention and thus minimize the burden on honest taxpayers. The Director also noted that because nobody knows the actual level of fraud, there is no way to determine whether the decline in the number of fraudulent returns detected in 1995 was due to a decrease in the incidence of fraud or a decrease in the effectiveness of IRS' detection efforts. He reiterated his belief that there were fewer fraudulent returns to be identified in 1995 because up-front controls and knowledge of IRS' additional controls deterred persons from filing fraudulent returns.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to assess the status and results of steps IRS took to reduce its exposure to fraud in 1995. To achieve that objective, we (1) reviewed the results of extensive audit work done by IRS' Internal Audit Division; (2) reviewed documentation on IRS' procedures and the results thereof; (3) interviewed officials at IRS' National Office, its Cincinnati and Fresno Service Centers, and its Baltimore and San Francisco District Offices;[11] and (4) talked to representatives of the National Association of Public Accountants and the National Association of

[11]We selected these offices because they were convenient to staff working on the audit.

Tax Practitioners. We did our work from January 1995 through February 1996 in accordance with generally accepted government auditing standards.

- - - - -

We are sending copies of this letter to the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. We will also make copies available to others on request. If you or your staff have any questions about the information in this letter, please contact me at (202) 512-9110 or David Attianese of my staff on (202) 512-9029.

Sincerely yours,

Lynda D. Willis

Lynda D. Willis
Director, Tax Policy and
Administration Issues

Enclosures

IRS ANALYSIS OF ELECTRONIC FILING SUBMISSIONS THAT WERE REJECTED BY UP-FRONT FILTERS

IRS reviewed 395 submissions that had been rejected in 1995 by up-front filters in the Electronic Filing System to see what eventually happened. The 395 submissions had been rejected because one or more SSNs on the submission had already been used on a return filed that year. IRS' test results, which are not projectable, are shown in table I.1.

Table I.1: IRS Analysis of Submissions Rejected by the Electronic Filing System

Taxpayer response to rejection	Number of returns	Percentage of total
Dropped the problem SSN and filed a corrected electronic return	127	32
Dropped the problem SSN and filed a corrected paper return	50	13
Changed the problem SSN and filed a corrected electronic return	38	10
Filed a paper return with the problem SSN and received a refund	113	29
Had not filed as of the time of IRS' test	67	17
Total	395	100[a]

[a]Total does not add to 100 because of rounding.

Source: IRS data.

RESULTS OF SUITABILITY CHECKS FOR 1995

IRS checks the suitability of persons applying to participate in the electronic filing program as return preparers or transmitters. For 1995, IRS expanded that process to include fingerprint and credit checks for new applicants. Not all applicants were subjected to those checks. For example, certified public accountants, attorneys, and enrolled agents were exempted from fingerprint checks, and applicants who only intended to provide electronic filing as a benefit were exempted from credit checks. IRS paid $18 for each fingerprint check and $2 for each credit check. The results of IRS' suitability checks for 1995 are shown in table II.1.

Table II.1: Results of Suitability Checks for 1995

Type of check	Number done for 1995	Number of applicants who failed
Suitability	32,851[a]	1,518[b]
Fingerprint	14,667	125
Credit	26,883	229

[a]This number includes applicants who were subjected to fingerprint and credit checks.

[b]This number includes applicants who failed due to fingerprint and credit checks.

Source: IRS data.

SSN PROBLEMS ON PAPER RETURNS IDENTIFIED BY IRS IN 1995

IRS identified about 8.6 million SSN problems on individual income tax returns filed on paper in 1995. Table III.1 shows the nature of those problems and what IRS did to resolve them.

Table III.1: SSN Problems on Paper Returns Identified by IRS in 1995

Type of problem	Number	Actions taken by IRS
Paper returns with missing or invalid SSNs for EIC-qualifying children and dependents[a]	3.3 million	About 1 million referred to Examination and taxpayer informed of problem (see enclosure IV for results). About 2.3 million not investigated and taxpayer not informed of the problem. For all cases, whether investigated or not, at least part of any claimed refund was delayed.
Paper returns with missing or invalid taxpayer SSNs[a]	0.7 million	Taxpayer informed of problem.[b] No data available on results. If a refund was involved, it was delayed.
Duplicate SSNs on paper returns	4.6 million	Refunds not delayed. Data made available to QRDTs for their use in research/investigation, but very little done with data because it was not user friendly.

[a]In these instances IRS had data only on the number of returns involved, not the number of SSN problems on those returns. Thus, in these instances, the number of SSN problems could be more than the number indicated.

[b]Although IRS notified taxpayers about these problems, we reported in August 1995 (GAO/GGD-95-148) that the notice IRS used did not clearly explain what taxpayers had to do to clear up the problem. IRS was to revise that notice for use in 1996.

Source: IRS data.

PAPER RETURNS IDENTIFIED WITH MISSING OR INVALID SSNS

In processing paper returns in 1995, IRS checked to see whether (1) required SSNs were included on the return and (2) the names and related SSNs on the return matched the Social Security Administration's records. If IRS found a problem and the return met certain criteria, IRS was to freeze the taxpayer's refund, if any.

In 1995, IRS identified about 3.3 million paper returns with missing or invalid SSNs for EIC-qualifying children and dependents.[1] However, IRS' plans only provided the necessary resources to follow up on about one-third of those cases, and IRS' procedures were inadequate to ensure that the cases most in need of review were referred for follow-up. Thus, according to IRS data

-- about 1 million of the 3.3 million taxpayers were sent notices telling them (1) that a problem had been identified with their returns; (2) what they had to do to resolve the problem; and (3) that their refund, if they had claimed one, was being delayed. These 1 million cases were then referred to IRS' Examination function for resolution.

-- the remaining 2.3 million taxpayers, all of whom were due refunds, were only sent notices telling them that their refunds were being delayed. They were not told that IRS had identified a problem on their return but were simply told that the refund delay was part of an IRS effort to review returns claiming either the EIC or the exemption for a dependent child. IRS did not refer these 2.3 million cases for follow-up and subsequently released the refunds after holding them for several weeks.

IRS data, as of December 31, 1995, showed the following results from the 1 million cases referred to Examination:

-- 799,462 of the cases had been closed, of which 473,196 (59 percent) were closed with no change to the reported tax liability or refund because the taxpayers were able to prove that they were entitled to claim the dependent or the EIC. The other 326,266 were closed with changes amounting to about $530 million.

---

[1]Because IRS only identified returns that met certain dollar criteria, neither we nor IRS knows how many paper returns, in total, were filed in 1995 with missing or invalid SSNs for EIC-qualifying children and dependents.

-- The rest of the 1 million cases were unresolved as of December 31, 1995.

In a September 1995 report, IRS' Internal Audit Division noted that many of the cases reviewed by Examination were unproductive and resulted in an inefficient use of Examination resources and an undue burden on thousands of taxpayers. Internal Audit recommended changes to IRS' procedures for identifying cases to be referred to Examination--changes that management said would be implemented for 1996.

FRAUDULENT RETURNS AND REFUNDS
DETECTED AND DELETED IN 1995

As shown in tables V.1 and V.2, the number of fraudulent returns and refunds identified by IRS during the first 9 months of 1995 and the number of fraudulent refunds deleted (i.e., stopped before they were issued) declined compared with the same point in time in 1994.[2]

Table V.1: Number of Fraudulent Returns Detected and Deleted for the First 9 Months of 1994 and 1995

Fraudulent returns	1994 paper	1994 electronic	1994 total	1995 paper	1995 electronic	1995 total
Detected	39,852	32,573	72,425	31,830	27,411	59,241
Deleted	35,646	17,396	53,042	27,142	10,593	37,735
Deletion rate	89%	53%	73%	85%	39%	64%

Source: IRS data.

Table V.2: Dollar Amount of Fraudulent Refunds Claimed and Deleted for the First 9 Months of 1994 and 1995

Dollars in millions

Fraudulent refunds	1994 paper	1994 electronic	1994 total	1995 paper	1995 electronic	1995 total
Claimed	$82.4	$67.7	$150.1	$66.5	$58.3	$124.8
Deleted	$75.0	$35.7	$110.7	$56.5	$21.5	$78.0
Deletion rate	91%	53%	74%	85%	37%	63%

Source: IRS data.

(268704)

[2]We limited our comparison to the first 9 months because IRS had not compiled data for the last quarter of 1995 at the time we did our analysis.

Mr. HORN. You mentioned that we ought to look at HUD regarding its mission. Now could you elaborate on that a little bit for the record? I realize that some of this is in print. I have got them all behind me. But I have not read them all, since they just came out yesterday for us.

How do you feel about HUD? Do we have a confusion of mission within there in terms of what they are doing, or how would you put it?

Mr. DODARD. I would like to have Judy Joseph, who is sitting to my right, respond to your specific questions. But I would like to give an overall statement in response to your question of how do we feel about HUD.

HUD is the only agency that we have on the list that the entire agency is listed as high-risk. In fact, when I met with you a couple of weeks ago, I explained that that is because the problems that we have seen with HUD have developed over 20, 30, and 40 years. And they are very systemic, and they are very deep-rooted. And it is going to take a substantial number of years before they can work their way out of it.

Judy has testified on numerous occasions on areas needing improvement at HUD. She has met with the Secretary and his chief of staff on numerous occasions, trying to work them through to solve some of their problems. And she can respond to any question you might have.

Mr. HORN. OK.

Ms. JOSEPH. Regarding the mission, I think the real question falls in the area of what is the Federal housing policy that the Congress and the administration can come to consensus on. And I think that really is a part of the real issue with HUD, and why we have HUD on the high-risk list. Until we really understand as a county what we want our Federal housing policy to achieve, it is awfully difficult to have numerous programs.

At last count, there were over 240-some programs, and many initiatives that have been either earmarked or identified by the Congress or by the administration as a way of trying to address some pretty sorely needed problems, addressing some very, very serious problems.

HUD's financial management, its information systems, its organizational structure, its skills and abilities of its staff, its internal controls are fundamentally the basis by which we originally put them on the list, because I viewed it as an infrastructure concern.

No matter what the Congress and the administration wanted to choose to have as Federal policy, we needed to have good information on which to base those decisions from a public policy perspective. And we needed to have good systems in place to oversee and manage those programs.

But as we have been at HUD and have seen the numerous programs that exist there, and many of them are programs that really have the opportunity to be consolidated or streamlined, or in some cases perhaps viewed in a broader context of Federal housing policy outside of HUD; when you think of housing policy also being a part of the tax code, obviously housing policy through programs at the Agriculture Department in rural housing. We have VA, Veterans

Administration housing, and then we have numerous economic and community development programs throughout the Government.

So when you think about housing policy or housing and economic policy, it really is a lot larger than HUD. And because there are so many other players, I think that it continues to confuse the real role and mission of HUD to some extent.

And in many ways, that is why we feel that we need to work to build or strengthen HUD's infrastructure from a management perspective, but then we have to really set them in a course or a direction that really gets to what you all are most concerned about in terms of housing, the Nation's poor as well as people of middle and upper income.

Mr. HORN. Let me read you a letter from my good friend and colleague Rick Lazio, Chairman of the Subcommittee on Housing and Community Opportunity of the Banking and Financial Services Full Committee. This just appeared on my rostrum here. It is dated today.

Dear Chairman Horn: Last September, I sent a letter to the General Accounting Office, asking them to devote significant effort to their ongoing investigation of the Department of Housing and Urban Development as a high risk agency. I commend you for holding this timely hearing on the waste, fraud and abuse within Federal departments and programs.

In their latest evaluation of HUD, GAO concludes that the Department is still very much a high-risk government agency. HUD's long-standing deficiencies in internal controls, information and financial management systems, organizational structure, and developing staff expertise continue to leave the Department vulnerable to program mismanagement.

HUD's Office of Inspector General recently released its Semiannual Report to Congress in which it recognized improvements in some aspects of HUD's performance. However, it also noted that under current circumstances "the prospects for further improvement are dim." In particular, it found that the number and varied types of HUD programs and initiatives are beyond the capability of HUD staff to carry out. In addition, the Office of Inspector General found that various components of HUD are "not equipped to provide reasonable stewardship over taxpayer funds expended for their programs." Of the offices listed as incapable of exercising appropriate oversight over funding, of greatest concern is the Office of Multifamily Housing. This office will manage more than $10 billion in Section 8 contract renewals in fiscal year 1998. Even more alarming are the number of contracts coming due over the next several years. The cost of renewing these contracts, if left unchecked, could consume HUD's entire discretionary budget within the next 5 to 7 years. We must continue to work together with the administration to create a permanent solution that deals with the approaching crisis.

As we roll up our sleeves for the work of the 105th Congress, we look forward to building communities of opportunity in our cities and towns along with HUD's new Secretary Andrew Cuomo. During his confirmation hearing, Secretary Cuomo stated that HUD's mission must be "the development of self-sufficiency, not the perpetuation of government programs." Secretary Cuomo looks forward to a "future in which everyone willing to do his or her part will be empowered with the tools to reach as high as their talents and hard work will take them." Those words echo President Clinton's recent Inaugural Address that the "pre-eminent mission of our new government is to give all Americans an opportunity—not a guarantee, but a real opportunity—to build better lives."

On the first day of the 105th Congress, I introduced H.R. 2, the Housing Opportunity and Responsibility Act of 1997, which comprehensively reforms our nation's public housing system, removes disincentives for public housing residents to work and encourages self-sufficiency. Rather than imposing Washington-knows-best prescriptions tied to a hand-out, we offer working families a hands up the ladder of personal success. H.R. 2 is the first step in transforming public housing from a way of life into a way to a better life.

In the present environment of finite resources, HUD must devote all of its energies toward a tightly focused mission. As President Clinton has stated, we must learn to do more with less, and do it even better. H.R. 2 provides the tools to help accomplish this by deregulating the operations of well-run public housing authori-

ties, giving greater power and flexibility to local governments and communities to manage housing programs, and permanently eliminating Federal regulations that have concentrated the poorest families in the worst housing. H.R. 2 repeals the last vestiges of the welfare state by replacing the United States Housing Act of 1937. The bill declares that it is the policy of the Federal government to promote and protect the independent action of citizens, state and local governments, and private and non-profit organizations to develop housing opportunities and strengthen their own neighborhoods.

Last session, Congress devoted tremendous effort and resources toward enacting permanent housing reform legislation. This year, we have hit the ground running. Majority Leader Armey, in a recent Republican radio address stated that public housing reform is one of the priorities of the 105th Congress. We will be working every step of the way with House Members on both sides, Republicans and Democrats in the Senate, and HUD's new administration under Secretary Cuomo. I am confident that this will be the year that Congress passes the reforms crucial to our neighborhoods and communities.

That said, I must express my serious concern regarding HUD's continuing management and oversight deficiencies. In 1994, the National Academy of Public Administration concluded that if HUD was not operating under a clear legislative mandate and in an effective accountable manner in 5 years, Congress and the Administration should consider dismantling the Department. During the last several years, I have convinced many colleagues that we must preserve a place at the President's Cabinet table for American communities. Despite former Secretary Henry Cisneros' noble efforts, HUD still sways under the sword of Damocles. Permanent reform legislation is a significant part of the solution. The remaining problems outlined by GAO and HUD's Inspector General must be addressed by the Department itself and Secretary Cuomo's continuing efforts to reform HUD from within.

I look forward to working with Secretary Cuomo, and am confident that Congress will pass bipartisan housing reform legislation with support from the Administration. Again, I commend you for holding this hearing on a subject of such critical importance to all Americans.

Rick Lazio, Chairman, Subcommittee on Housing and Community Opportunity.

[The letter referred to follows:]

JAMES A. LEACH, IOWA, CHAIRMAN
BILL McCOLLUM, FLORIDA
MARGE ROUKEMA, NEW JERSEY
DOUG BEREUTER, NEBRASKA
RICHARD H. BAKER, LOUISIANA
RICK LAZIO, NEW YORK
SPENCER BACHUS, III, ALABAMA
MICHAEL CASTLE, DELAWARE
PETER KING, NEW YORK
TONI CAMPBELL, CALIFORNIA
EDWARD ROYCE, CALIFORNIA
FRANK D. LUCAS, OKLAHOMA
JACK METCALF, WASHINGTON
ROBERT NEY, OHIO
ROBERT L. EHRLICH, JR., MARYLAND
BOB BARR, GEORGIA
JON FOX, PENNSYLVANIA
FRANK LOBIONDO, NEW JERSEY
J.C. WATTS, OKLAHOMA
SUE W. KELLY, NEW YORK
RON PAUL, TEXAS
DAVE WELDON, FLORIDA
MERRILL COOK, UTAH
VINCE SNOWBARGER, KANSAS
JIM RYUN, KANSAS
BOB RILEY, ALABAMA
RICK HILL, MONTANA
PETE SESSIONS, TEXAS

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING AND FINANCIAL SERVICES
ONE HUNDRED FIFTH CONGRESS
2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6050

HENRY B. GONZALEZ, TEXAS
JOHN J. LAFALCE, NEW YORK
BRUCE F. VENTO, MINNESOTA
CHARLES E. SCHUMER, NEW YORK
BARNEY FRANK, MASSACHUSETTS
PAUL E. KANJORSKI, PENNSYLVANIA
JOSEPH P. KENNEDY II, MASSACHUSETTS
FLOYD H. FLAKE, NEW YORK
MAXINE WATERS, CALIFORNIA
CAROLYN B. MALONEY, NEW YORK
LUIS V. GUTIERREZ, ILLINOIS
LUCILLE ROYBAL-ALLARD, CALIFORNIA
THOMAS M. BARRETT, WISCONSIN
NYDIA M. VELAZQUEZ, NEW YORK
MELVIN WATT, NORTH CAROLINA
MAURICE HINCHEY, NEW YORK
GARY ACKERMAN, NEW YORK
KEN BENTSEN, TEXAS
JESSE JACKSON, JR., ILLINOIS
CYNTHIA McKINNEY, GEORGIA
CAROLYN CHEEKS KILPATRICK, MICHIGAN
JIM MALONEY, CONNECTICUT
DARLENE HOOLEY, OREGON
JULIA CARSON, INDIANA
BERNARD SANDERS, VERMONT
(202) 225-7502

February 13, 1997

The Honorable Stephen Horn
Chairman, House Subcommittee on
Government Management, Information
and Technology
B373 Rayburn HOB
Washington, D.C. 20515

Dear Chairman Horn:

Last September, I sent a letter to the General Accounting Office (GAO) asking them to devote significant effort to their ongoing investigation of the Department of Housing and Urban Development (HUD) as a high risk agency. I commend you for holding this timely hearing on the waste, fraud and abuse within Federal departments and programs.

In their latest evaluation of HUD, GAO concludes that the Department is still very much a high-risk government agency. HUD's long-standing deficiencies in internal controls, information and financial management systems, organizational structure, and developing staff expertise continue to leave the Department vulnerable to program mismanagement.

HUD's Office of Inspector General (OIG) recently released its Semiannual Report to Congress in which it recognized improvements in some aspects of HUD's performance. However, it also noted that under current circumstances, "the prospects for further improvement are dim." In particular, it found that the number and varied types of HUD programs and initiatives are beyond the capability of HUD staff to carry out. In addition, the OIG found that various components of HUD are "not equipped to provide reasonable stewardship over taxpayer funds expended for their programs." Of the offices listed as incapable of exercising appropriate oversight over funding, of greatest concern is the Office of

Multifamily Housing. This office will manage more than $10 billion in Section 8 contract renewals in FY1998. Even more alarming are the number of contracts coming due over the next several years. The cost of renewing these contracts, if left unchecked, could consume HUD's entire discretionary budget within the next five to seven years. We must continue to work together with the Administration to create a permanent solution that deals with the approaching crisis.

As we roll up our sleeves for the work of the 105th Congress, we look forward to building communities of opportunity in our cities and towns along with HUD's new Secretary Andrew Cuomo. During his confirmation hearing, Secretary Cuomo stated that HUD's mission must be "the development of self-sufficiency – not the perpetuation of government programs." Secretary Cuomo looks forward to a "future in which everyone willing to do his or her part will be empowered with the tools to reach as high as their talents and hard work will take them." Those words echo President Clinton's recent Inaugural Address that the "pre-eminent mission of our new government is to give all Americans an opportunity – not a guarantee, but a real opportunity – to build better lives."

On the first day of the 105th Congress, I introduced H.R. 2, the Housing Opportunity and Responsibility Act of 1997, which comprehensively reforms our nation's public housing system, removes disincentives for public housing residents to work and encourages self-sufficiency. Rather than imposing Washington-knows-best prescriptions tied to a hand-out, we offer working families a hand up the ladder of personal success. H.R. 2 is the first step in transforming public housing from a way of life into a way to a better life.

In the present environment of finite resources, HUD must devote all its energies toward a tightly focused mission. As President Clinton has stated, we must learn to do more with less, and do it even better. H.R. 2 provides the tools to help accomplish this by deregulating the operations of well-run public housing authorities, giving greater power and flexibility to local governments and communities to manage housing programs, and permanently eliminating federal regulations that have concentrated the poorest families in the worst housing. H.R. 2 repeals the last vestiges of the welfare state by replacing the United States Housing Act of 1937. The bill declares that it is the policy of the Federal government to promote and protect the independent action of citizens, state and local governments, and private and non-profit organizations to develop housing opportunities and strengthen their own neighborhoods.

Last session, Congress devoted tremendous effort and resources toward enacting permanent housing reform legislation. This year, we have hit the ground running. Majority Leader Armey, in a recent Republican radio address stated that public housing reform is one of the priorities of the 105th Congress. We will be working every step of the way with House Members on both sides, Republicans and Democrats in the Senate, and HUD's new administration under Secretary Cuomo. I am confident that this will be the year that Congress passes the reforms critical to our neighborhoods and communities.

That said, I must express my serious concern regarding HUD's continuing management and oversight deficiencies. In 1994, the National Academy of Public Administration (NAPA) concluded that if HUD was not operating under a clear legislative mandate and in an effective accountable manner in five years, Congress and the Administration should consider dismantling the Department. During the last several years, I have convinced many colleagues that we must preserve a place at the President's Cabinet table for American communities. Despite former Secretary Henry Cisneros' noble efforts, HUD still sways under the sword of Damocles. Permanent reform legislation is a significant part of the solution. The remaining problems outlined by GAO and HUD's Inspector General must be addressed by the Department itself and Secretary Cuomo's continuing efforts to reform HUD from within.

I look forward to working with Secretary Cuomo, and am confident Congress will pass bipartisan housing reform legislation with support from the Administration. Again, I commend you for holding this hearing on a subject of such critical importance to all Americans.

Sincerely,

Rick Lazio
Chairman
Subcommittee on Housing and
Community Opportunity

Mr. HORN. Does the GAO have any feel for what the Secretary is talking about, is it the way to go, or what is the feeling?

Ms. JOSEPH. Well, the reform legislation he is speaking to focuses primarily on public housing. And many of the issues that concern us are outside of public housing. There are clearly management issues as well as program design issues in public housing, but we have issues and concerns in the FHA multi-family portfolio area. And we have concerns as it relates to the management and financial infrastructure of the agency as a whole.

So there are a number of issues beyond what H.R. 2 actually addresses. It is obviously a beginning, and there are many things about that bill, which largely reflects the bill that was introduced last year. Many things about it really would streamline public housing.

Mr. HORN. Well, we passed it, and then it was over at the other body, as we say.

Ms. JOSEPH. Yes, sir.

Mr. HORN. What I am curious about is in GAO studies of HUD, are there parts of HUD that should be in other agencies, for example? I am thinking of lending programs generally. Maybe they ought to be under one roof, if we are going to get efficiency out of it. Although the argument would be you are taking them away from the mission of the agency broadly construed. And that is just a mechanical way of carrying out part of the mission.

Ms. JOSEPH. Right. There are a couple of aspects of HUD's mission that could possibly be performed in other places. Obviously, the guaranteed loan programs for home ownership, single family home ownership, as well as multi-family housing could possibly be consolidated with the Veterans Administration's rural housing program. Those have never been put together on the table for discussion.

We have looked at FHA from the standpoint of determining whether it should be separated from HUD and be a stand-alone Government corporation. And there are pros and cons to that particular activity. The single family side of FHA——

Mr. HORN. Is there a report on that that GAO has?

Ms. JOSEPH. Yes, sir. Actually, we are in the process of issuing on the 21st of this month a report based on a request from the Senate subcommittee dealing with oversight of HUD. Chairman Faircloth had introduced a bill last year on the dismantlement of HUD. And he asked GAO to do a review of the implications of his bill.

And in that, we do discuss a proposal that he makes to move FHA to the Treasury, actually completely changing the way we would do single family mortgage insurance. It would be quite different than the way that the Government does it today. And his bill also would eliminate completely multi-family loan insurance as a program for the Federal Government.

Mr. HORN. That is interesting.

Mr. FULTZ. Excuse me, sir, if I could just add.

Mr. HORN. As you were talking, I had the thought that Treasury could manage some of these, and talk about it as a business-type program. So I would be very interested in seeing the letter that you are sending to the Senator.

Mr. FULTZ. Mr. Chairman, if I could add to Judy's comments. One of the agencies that I also have responsibility for is the Department of Energy. And as you know, there have been numerous proposals and thoughts about abolishing it also. As a caution we have suggested to many different committees that one has to be careful where those programs might go, and what agencies they would be assigned to.

Because then you would need to restructure the priorities and the responsibilities of those receiving agencies. And we would suggest that if those agencies, or if parts of these agencies are moved, a very careful thought process has to evolve with clear understanding of measures given to the receiving agencies, and an understanding of what Congress expects to happen, and how those programs are to be folded within those other agencies.

Mr. HORN. Did GAO historically ever get involved in the various reorganizations going back to the Hoover's Commissions 1 and 2, going back to the Nixon administration where they had probably the last substantive recommendations of any administration in terms of reorganization of the Government, was GAO ever consulted in history? Do we know that?

Mr. DODARO. I would have to do a little research with you people who are a little older than me, Mr. Chairman.

Mr. HORN. Elmer Statts will know.

Mr. DODARO. Elmer will know. I will consult with Elmer and Chuck, and give you an answer. I do not think so. If my memory serves correctly, we would be commenting on some of the proposals after the fact, but not consulted during their development.

Mr. HORN. Well, you were not into the program analysis aspect in those days, as much as you are now anyhow. You had to wait until Speaker Rayburn left, and Mr. Cannon the head of Appropriations left, because they fought that for years.

So you are in it now, and we all depend on you for some objective advice here. And I appreciate your comments. And we will be getting to certain agencies again. Certainly, Commerce is the easiest one probably to pick off, since there is very little commerce. What we need is a Department of International Trade, and make the Patent Office an independent agency, and try to get things out of the Cabinet that are not controversial, and sort of do their thing, leave them alone, you know. At least, that is where I am coming from on it.

Now the information age. You mentioned getting the Federal Government into the information age. The question is, again, it gets down to education, training, and using best practices, that you have done so well and all of that.

What is the feeling of GAO as to how well the executive branch is doing in learning from each other, learning from business, and getting into the information age, and what else should be done?

Mr. DODARO. A couple of things. One, I think that we are making some progress, but it is very incremental. I am very worried about the success of the reforms ushered in by Clinger-Cohen and the Paperwork Reduction Acts. I do not think that we are off to a rapid start in many aspects of implementing that legislation.

The first thing that ought to be a high priority for the Congress. GAO has a number of activities planned to try to assess implemen-

tation of that, is to get moving on it. We no longer can afford delays in implementing and getting into this arena.

We also have to look hard at squeezing the money down to make sure that we do not make bad investments, as we have had in the past. And we have to look at upgrading the technical capabilities of agencies in order to do that.

Now that is one aspect of the Clinger-Cohen Act that really is not addressed, the technical capabilities, other than making sure that we have good quality chief information officers.

Now we know that having good quality chief financial officers have helped, but you need the underpinning in the organizational structure to do it. And that is a very serious concern about whether we are going to be able to turn the corner on that issue.

But I would encourage the Congress to have a tight hold on the purse strings until it sees that agencies have good plans and good strategies, and that this situation is under control.

Effectively assessing how well that legislation is being implemented is essential, and that is where I would start, and then go from there. And we are looking at the other possibilities for enhancements to that core legislation.

Mr. HORN. What year did we start the chief financial officers in actual implementation?

Mr. DODARO. The act passed in November 1990. So during 1991, we started implementation of aspects of the act, putting in place the leadership structure. The financial audit, one was on a pilot for awhile. We do not have that aspect of the CFO Act being fully implemented across Government until the fiscal 1996 financial statements and audits.

Originally, a lot of the CFOs were just anointed for people who were already in place, and we had a problem then. So we lost 2 or 3 years earlier bringing in some additional qualified people. And I do not want to see that happen in the chief information officers.

Mr. HORN. Well, that is what I am leading to.

Has GAO done a sort of story of the implementation of the CFO Act, just a case study you would call it in a business school or a school of public administration, and can we learn something from that in administering the CFO Act, have you got some material in that area?

Mr. DODARO. Yes, we do. We have been tracking progress and giving updates on the progress in implementing the CFO Act, and there are many lessons to be learned. First of all, to make sure that you get the qualified person in place, you do not add additional duties and responsibilities. That is a problem. And that you get the investment processes. And the CFO has to have the proper amount of authority to enforce many of the investment provisions and requirements in the act. So getting the right person and the right type of authorities is important.

We are planning a series of evaluations to provide that information to the Congress. As you know, that act became effective in August 1996. So we are not that far into it yet. But we think that early assessments in dealing with the problems are critical.

That is the biggest lesson learned, not only out of the CFO Act, but many management reforms that have been tried to be imple-

mented over the years. If there is not active congressional oversight and pushing, a lot of those things just do not happen.

Mr. HORN. I realize that there is not a Comptroller General in full term at the present time.

But when an assistant secretary is nominated by the President, has the GAO ever said here is the bundle of reports that relate to the function you are about to take over, and good luck, here they are? Do we send them to them, or is that considered too aggressive?

Mr. DODARO. No. We meet with everybody right away. As Keith indicated earlier, we are in an outreach mode constantly, meeting with new people, and talking to them, and encouraging them, and offering assistance.

Mr. HORN. Do you do that before confirmation?

Mr. DODARO. We do not. And actually, a lot of the people who are pending confirmation are advised by the White House not to talk to us, because they are not in an official capacity yet. So there are very strict limits on people during the confirmation.

Mr. HORN. That is another stupid decision by the White House. You know, it is just insane. They are not giving policy views, but they ought to be semi-educated on the responsibilities that they are undertaking. Because once they get over there, the confirmation period is a very good time for them to read those reports. Because it will help them to answer some questions of various Senate committees.

And I just cannot imagine an appointee that would not want to read those reports, and see where the snakes are, after they have charmed him to come here, and give up his home in Okatella or wherever. And it just seems to me that that is the kind of necessary information that a nominee ought to have, to know what the ground is that he or she is going into.

Mr. DODARO. Actually, that is a good point. One of the things that we could look into is I do not know if there is——

Mr. HORN. Just send it to him in a blank envelope or something.

Mr. DODARO. Well, it may not have to be blank. But that is what I was going to suggest. Your thought stimulated that. There is no reason we cannot correspond.

Mr. HORN. It is one thing for them to sit over in the agency. And we have had a few sad cases there, where they were making decisions and all of the rest, and they have not even been confirmed yet. That happened a few administrations ago, as I remember.

Mr. FULTZ. Mr. Chairman, if I could also add. As part of our outreach effort, in dealing with congressional committees and Congressmen like yourself, we also have ongoing dialog with the staff of various committees.

And during the confirmation process, or in interviews that we might have with the members of responsible committees, we will suggest questions or issues that need to be addressed. And often, those questions and issues do come up in the confirmation process.

Mr. HORN. Well, that is great. And I think that is very helpful. Well, we could all stay here and go through other questions. But

the hearing record here will remain open to allow for followup questions that have been prepared by both staffs that we have not had a chance to answer today. And if you would be good enough to have those answered and submit them for the record, we will put them at this point.

[The information referred to follows:]

Question 1:

In a report on the National Performance Review, the GAO stated that one of the deficiencies of the National Performance Review was that the NPR reform initiatives addressed only one of the (then) 18 GAO-designated high-risk areas and 34 of the (then) 84 OMB-designated high-risk areas. I am quoting from a GAO report, "Management Reform: Implementation of the National Performance Review's Recommendations," issued in December 1994.

... the recommendations did not touch upon such high-risk areas as

- the Farmers Home Administration's farm loan programs
- defense weapons system acquisition
- defense contract pricing
- defense inventory management

... The NPR recommendations also did not address nearly three-fourths of what we consider the most important management problems in 23 Federal agencies. For example, in addition to many of the high-risk areas discussed previously, problem areas not considered by NPR include:

- lack of effective controls over Department of Defense disbursements
- weak internal control procedures and inadequate managerial information systems within the Food and Drug Administration
- inadequate project management and planning at the Department of Energy, and
- shortfalls in the FAA's airline inspection program.

In your opinion, why did NPR not address these issues, especially in the second phase of the initiative? They knew about these areas. You reported on them. Have you followed up at all on what the Administration is doing to encourage the agencies to improve in these areas? The last one – FAA inspections – is in the forefront of peoples' attention right now. It was identified as a problem years ago. Why has it not been fixed? I know this is not under your control. You

just do these reports and hope that Congress and the Administration take note. But what would you do if you were king for a day, let's say, to get these problems fixed once and for all?

Response:

As you noted, we stressed in our report that while we agreed with many of the recommendations coming out of the NPR, significant additional opportunities to make the government "work better and cost less" were not covered, and actions beyond those recommended by the NPR were needed.

For each of the areas you mentioned, we continue to conduct audit work focused on identifying causes of existing problems as well as actions needed by the agency, OMB, and/or the Congress to implement solutions. For example, regarding FAA's inspection program, we have issued a number of reports on problems emanating from FAA not targeting its limited inspection resources to those areas of highest risk such as new entrant airlines, commuter airlines, and aging aircraft. We have also reported on problems with the accuracy and completeness of FAA's databases and made recommendations for specific actions needed for improvements. FAA has agreed with most of our recommendations in these areas and is attempting to implement needed corrective actions. We continue to monitor FAA's improvement efforts.

Getting these problems fixed requires actions on two levels. First, each of these problem areas, including those that we have designated as high risk, require certain specific actions that are unique to that issue. As indicated in our latest high-risk report series, the Congress and agencies continue to make progress on such actions. For example, the Congress passed the Health Insurance Portability Act of 1996 to add funding for Medicare program safeguard efforts and make the penalties for Medicare fraud more severe. Effective implementation of this legislation and other agency actions are key to mitigating many of Medicare's vulnerabilities to fraud and abuse.

While issue-specific corrective actions are crucial to resolving high-risk and other important problem areas, a key to lasting solutions, preventing new problem areas from emerging, and

achieving long-needed program improvements and increased accountability on the part of managers lies in more fundamental federal management reforms. The framework for these needed reforms has been put in place, primarily through three legislative initiatives--the Government Performance and Results Act of 1993, the expanded Chief Financial Officers Act of 1990, and the Paperwork Reduction Act of 1995--along with the Clinger-Cohen Act of 1996. Sustained management follow-through and continued congressional attention, however, will be critical to making these reforms a reality.

Question 2:

The Department of Housing and Urban Development (HUD) was designated as a high-risk area in January 1994. HUD is responsible for 240 programs/activities, including the management of more that $400 billion worth of insured mortgages, $485 billion in outstanding mortgage-backed securities, and about $180 billion in prior years' budget authority for which it has future commitments. All these programs and activities are considered at risk because HUD does not have an effective internal control environment. Internal controls prevent fraud, or detect it promptly once it occurs. In a small business, it is having one person open the envelopes in the day's mail, taking out the checks, and then having someone else sending them to the bank. If you have two people involved in a sensitive activity, it keeps them both honest. It is also reconciling bank statements, and other balances regularly, something the IRS still has difficulty with.

These internal control weaknesses were a major factor in the HUD scandals of 1989. There has been little improvement since then. Representative Lazio has sent a letter to me which I want to include for the record. The letter describes the sorry state of HUD's controls over fiscal management, and quotes the HUD Inspector General as saying that "prospects for future improvement are dim." The Office of Inspector General found that various components of HUD are "not equipped to provide reasonable stewardship over taxpayer funds expended for their programs." Of the offices listed as incapable of exercising appropriate oversight over funding, one which the letter emphasizes is the Office of Multifamily Housing. It manages more than $10 billion in Section 8 contract renewals in fiscal year 1998. The cost of renewing such contracts, if left unchecked, could consume HUD's entire discretionary budget within the next five to seven years. This is a serious situation. Do you really think that the agency can pull itself out of this mess?

Response:

Yes, with the help of the Congress and with emphasis and commitment by HUD's top management, especially in the program areas, to balance financial integrity issues with program

delivery issues. First, a major challenge for HUD is to change its culture so program managers accept responsibility for financial integrity issues as well as for program delivery. Too often top management fails to place adequate emphasis on financial integrity. While we found that HUD had reinvented its management planning and control program, which was intended to assess risks in programs and set priorities according to those risks, our work indicates that managers seemingly were not taking the first step and assessing programs for risks. Except for prior material weaknesses, most priorities being set in the management plans related to program delivery and not to lowering financial risks in programs. We believe that until HUD is able to get its managers, as part of their day-to-day activities, to strike the proper balance between program delivery and financial integrity issues, many programs will remain vulnerable to waste, fraud, abuse, and mismanagement.

Second, while HUD can continue to take steps to reduce its risks to waste, fraud, abuse, and mismanagement, the Congress can also play a very important role. As HUD takes steps to reduce its high-risk nature, the basic capacity issue (matching staff resources with responsibilities for 240 program/activities) must also be addressed. The agency now plans to reduce its total staffing from about 10,500 (its level at the end of fiscal year 1996) to about 7,500 (a 29-percent reduction) by year 2000. Without changing the agency's structure, reducing the number of programs it administers, redesigning its business practices, and improving it information management, its staff downsizing will only increase the capacity problem. As a result, we believe the Congress has an excellent opportunity to help HUD eliminate the deficiencies that make it high risk and to align the agency's management responsibilities with its capacity. The Congress can do this by authorizing a major restructuring strategy that focuses HUD's mission and significantly consolidates, reduces, and/or reengineers its many separate program activities.

Question 3:

The Office of Management and Budget used to develop its own high-risk list. In 1990, OMB identified 16 agencies having 74 areas of vulnerability, later extended by adding 14 smaller agencies with 28 areas of vulnerability. In the fiscal year 1995 Budget, 84 areas were designated as high-risk. I did not see it in the current budget. Does OMB monitor the progress of the agencies in these areas? Does it still maintain its own list, or does it use the GAO's list? When did the OMB stop monitoring high-risk areas?

Response:

In the President's Fiscal Year 1997 Budget proposal, following a discussion of the administration's efforts to streamline management controls and reporting, including its ongoing "Accountability Report" pilot project, OMB disclosed that those initiatives "... eliminate the need to separately identify and track "high risk areas"–the government's serious management challenges." In recent testimony, the OMB Deputy Director for Management stated that OMB's cessation of the program in 1995 should not be interpreted as a signal that it did not believe the problems in the program were not serious or that they had been fully resolved. Rather, OMB believed that other current and planned initiatives would provide needed oversight over the government's most pressing problems. For example, in lieu of the "Spring Reviews" it has done in recent years, OMB plans to conduct "strategic management reviews" at each major department and agency

OMB asked for and received briefings on GAO's 1997 high-risk report series. Effective management oversight and control from OMB is important to resolving these problems and ensuring sustained involvement and follow-through on the part of top agency management. Too often in the past, corrective actions have been identified, recommendations made, and plans to address problem areas put in place, but these efforts have not come to fruition and the serious problems persist. It will be critical for OMB to follow through on its initiatives to institute annual accountability reports for all agencies, containing an overall assessment of agencies' financial position and results of operation, and including the identification of material internal

control weaknesses and problem areas and plans to address them, as required under the Federal Managers' Financial Integrity Act of 1982.

Question 4:

You state in your testimony that: "Overall, agencies are taking high-risk problems seriously, trying to correct them, and making progress in many areas." How long does it take to correct these problems? In your opinion, what would it take to resolve all of the issues on the 1997 list?

Response:

A primary objective of GAO's high-risk program is to provide focus on the major areas in the government most vulnerable to fraud, waste, abuse, and mismanagement. Because the areas included in our high-risk initiative are among the government's most severe and longstanding problems, it will take time to bring about lasting solutions.

But some improvements are being made. Five areas were removed from our high-risk list in 1995, including 4 of the 14 areas on GAO's initial list in 1990. Of the 25 areas currently on the list, 12 have been there for 2 years or less. Also, as we point out in our latest report series, progress has been made in many of the areas which are still designated as high risk, and, with continued improvement, several areas have good prospects of coming off the list.

Virtually every one of the 25 individual high-risk areas has unique issues associated with it--HCFA is faced with having to counteract continuously emerging new methods being used to obtain improper or fraudulent Medicare payments; IRS faces the challenge of modernizing tax processing systems that were put in place 30 to 40 years ago; and DOD must identify ways to reduce an infrastructure that far exceeds its current needs and is costly to maintain. But several fundamental problems are also common to most or all high-risk areas. These problems, which center around agencies' ability to produce reliable information and utilize that information to better manage programs, have been the target of congressional oversight and legislative action in recent years in three primary areas:

- **Information Management.** The first major information management reform legislation in a decade–the Paperwork Reduction Act of 1995 (PRA) and the Clinger-Cohen Act of 1996–emphasizes involving senior executives in information management decisions, establishing senior-level chief information officers, tightening controls over technology spending, redesigning inefficient work processes, and using performance measures to assess technology's contribution to achieving mission results.

- **Financial Management.** The landmark CFO Act of 1990, as expanded in 1994 by the Government Management Reform Act, provides a long overdue and ambitious agenda to help resolve critical financial management deficiencies. The act established a CFO structure in 24 major agencies to provide the necessary leadership and, beginning with those for fiscal year 1996, requires the preparation and independent audit of financial statements across the 24 CFO agencies. Moreover, the act set expectations for (1) the deployment of modern systems to replace existing antiquated, often manual processes, (2) the development of better performance and cost measures, and (3) the design of results-oriented reports on the government's financial condition and operating performance.

- **Measuring Results.** The Government Performance and Results Act of 1993 seeks to shift the focus of federal management and decisionmaking from a preoccupation with the number of tasks completed or services provided to a more direct consideration of the results of programs–that is, the real differences the tasks or services make to the nation or individual taxpayer. GPRA originated in part from the Congress' frustration that congressional policymaking, spending decisions, and oversight and agencies' decision-making all had been seriously handicapped by the lack of clear goals and sound performance information. The Congress viewed GPRA as a critical tool to address serious shortfalls–many of which had been extensively documented in our work--in the effectiveness of federal programs.

Together, these laws represent the foundation for reform that will go a long way toward resolving high-risk problems. But, past experience has shown that the early days of

implementing such legislation are telling. Sustained agency follow-through as well as strong and continuous congressional oversight are critical to the success of these reform efforts.

Question 5:

Your testimony on DOD is bleak. "The Department of Defense has 250 financial management systems with only five conforming fully with governmentwide financial systems standards. ...financial audits have highlighted significant deficiencies in every aspect of DOD's financial management reporting, resulting in the failure of any major DOD component to receive a positive audit opinion. Since 1990, auditors have made over 400 recommendations aimed at helping to correct these weaknesses."

Last Congress we managed to pass a bill, the "Federal Financial Management Improvement Act of 1996," that required federal agencies to have financial management systems that conformed to already existing Federal requirements. These are no penalties in that bill. A parallel bill has been introduced this Congress that does have penalties. Do you think that would provide the impetus needed to make the DOD adapt its systems and improve its financial management?

Response:

At one point in its evolution, the Federal Financial Management Improvement Act of 1996 included the same monetary penalties as those in the parallel bill referred to in your question. The penalties in the original bill would have decreased an agency's budget by a set percentage for each year the agency was not in compliance with federal accounting and system standards. For example, if problems remained after 2004 an agency's appropriation would be automatically reduced by 5 percent.

In deliberations on the 1996 Act, the requirement for an automatic reduction of a non-compliant agency's appropriation was deleted. One reason given at the time was the automatic nature of such reductions and their potentially adverse impact on critical government programs and missions. Of prime concern was the potential impact on DOD. If not in compliance with the provisions in the early version of the 1996 bill, which is expected to be a serious problem for DOD for some time to come, DOD's appropriation would have been automatically reduced from amounts the Congress deemed necessary to carry out our nation's defense. The 1996 Act,

however, includes several requirements to provide impetus to correcting problems, such as requiring a remediation plan to bring an agency's financial systems into compliance within 3 years after it is determined the agency is not in compliance.

Question 6:

What is the GAO strategy for helping the Federal Government deal with the Year 2000 computer problem?

Response:

GAO is following a three-pronged approach consisting of (1) developing Year 2000 guidance, (2) performing agency readiness assessment reviews, and (3) conducting in-depth audits of selected mission-critical systems. In the area of Year 2000 guidance, we have produced and widely distributed an exposure draft of a Year 2000 agency readiness assessment guide (GAO/AIMD-10.1.14, February 1997). This guide also has been discussed in several recent testimonies before congressional committees.

We are also planning--with input from congressional committees--to assess year 2000 readiness and perform in-depth audits at selected agencies. Currently, we have efforts underway at the Department of Defense, Health Care Financing Administration, Department of Veterans Affairs, Social Security Administration, Internal Revenue Service, and the Federal Aviation Administration. We will begin publishing reports on these agencies later this spring and summer.

Question 7:

On February 6, 1997, the Office of Management and Budget released a report on the status of the Year 2000 program in the Federal Government. The report shows that 22 of the 24 departments and major agencies have met the OMB's date for the completion of the awareness phase, and that 21 agencies plan to complete the assessment phase by June 1997. How confident are you in these estimates?

Response:

We understand that the OMB report presents Year 2000 program information and schedules as reported by the individual agencies. As agencies proceed into more depth on the assessment phase, they may find the effort more challenging than originally envisioned.

We have not completed reviews at any agencies to ascertain whether these estimates are reasonable. However, we are planning to verify the completion of the individual milestones at selected agencies.

Question 8:

What risks confront HCFA in managing the Medicare Transaction System acquisition?

Response:

To its credit, HCFA has reduced the potential problems often stemming from large-scale system developments by revising its initial MTS approach from developing and installing the system in a single increment to developing, testing, and implementing MTS through a number of releases. However, we have reported on other risks affecting the MTS development effort. For example, in our 1995 testimony (GAO/T-AIMD-96-12) before the Subcommittee on Human Resources and Intergovernmental Relations, House Committee on Government Reform and Oversight, we identified these risks:

First, HCFA has had difficulties in completely identifying MTS requirements. Inadequately defined requirements can cause technical problems.

Second, HCFA's MTS schedule showed significant overlap among the various system development phases. Progressing with succeeding phases before the previous phase has been completed increases the risk that technical problems will occur.

Third, HCFA has invested in the MTS project without performing an accurate cost/benefit analysis, which includes adequate information about MTS costs and expected savings. Without such an analysis, it is difficult for HCFA to make effective management decisions regarding the MTS investment.

Question 9:

The $4.5 billion National Weather Service (NWS) modernization project is nearing completion. What major challenges remain to ensure that this endeavor will result in the promised benefits of better weather forecasts and warnings?

Response

During the last 3 years, we have issued a number of reports (GAO/AIMD-94-28, GAO/AIMD-95-24, GAO/AIMD-95-81, GAO/AIMD-95-87, GAO/AIMD-95-239R, GAO/AIMD-96-29, GAO/AIMD-96-47, GAO/AIMD-96-74) and several testimonies (GAO/T-AIMD-95-87, GAO/T-AIMD-96-2, GAO/T-AIMD-96-47) focused on the problems and deficiencies plaguing the NWS modernization program.

We see two major issues that NWS must address to ensure successful completion and efficient operations of the modernization. These issues are (1) the successful development and deployment of the Advanced Weather Interactive Processing System (AWIPS), the forecaster workstations that will integrate weather data and support forecaster decision-making, and (2) the completion of an NWS systems architecture.

Until AWIPS is successfully deployed and operational, NWS will be unable to fully utilize the data from the $4.5 billion investment in weather satellites, radars, and ground-observing systems. The AWIPS workstations have been delayed and become more expensive because of design problems and management shortcomings. In 1996, we made several recommendations that, if implemented, will strengthen NWS' ability to manage the acquisition of AWIPS.

Secondly, in 1994, we recommended that NWS develop a systems architecture to guide the development and evolution of the NWS modernization. NWS has acknowledged that this technical blueprint is needed and is currently developing one. In the meantime, however, NWS will continue to incur higher system development and maintenance costs and reduced system performance until the systems architecture is developed and enforced.

Question 10:

In testimony yesterday, Mr. Armey said that in a hearing on the Government Performance and Results Act in 1993, it was stated that public perception was that 48 cents our of every dollar of Federal Payments was being wasted. Do you think that is essentially correct? What would your assessment be of what the total impact of all these high-risk areas is on the wastage of Federal funds?

Response:

While it is difficult to fully quantify losses being incurred, either individually or cumulatively, under the high-risk areas, they clearly involve billions of dollars. The government continues not only to miss huge opportunities to operate at less cost, but to achieve better service delivery.

One area where estimates have been made is Medicare, where losses in fiscal year 1996 alone could be from $6 billion to $20 billion, which represents between 3 and 10 percent of program expenditures annually. We also reported that, in the area of information technology, agencies have spent over $145 billion over the past 6 years in attempts to build up their infrastructure– but all too often with disappointing results. System development efforts continue to suffer from multimillion dollar cost overruns, schedule slippages measured in years, and/or marginal benefits in terms of improving mission. In the Department of Defense, while some progress has been made, about half of its $70 billion in inventory at the end of fiscal year 1995 was judged to be unneeded.

These examples demonstrate the need to address long-standing inefficiencies. Agencies' inability to quantify how much is being lost further highlights the need for strengthening accountability over resources and results of operations. With annual financial statement audits mandated under the expanded CFO Act of 1990, federal taxpayers will have for each major department and agency, and for the federal government as a whole, an annual scorecard on their financial condition and results of operations– a reporting and control discipline that has been required in the private sector for over 60 years and in state and local governments since the early 1980s.

Question 11:

In an article in today's Washington Post, an OMB representative is reported to have said that the OMB was "quite aware of the management challenges that confront each of the new high-risk areas." Do you know what strategy that OMB has developed to confront these problems and do you agree with it?

Response:

In recent testimony, the OMB Deputy Director for Management stated that GAO's high-risk list "identifies critically important program and management issues...affecting a major portion of government operations. .... GAO's high-risk list is a useful tool that encourages the Congress and the agencies to maintain continuous oversight and monitoring of agency actions." For its part, OMB plans to continue to monitor progress by agencies in addressing areas on GAO's high-risk list using several mechanisms. For example, it plans on a series of "strategic assessments" of cabinet departments and major agencies, focused on strategic planning activities and measuring improvements under management objectives set in the budget review process and progress being made to address problem areas including those on GAO's high-risk list.

OMB also stresses the importance of full and effective implementation of legislation, including the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, the Government Performance and Results Act of 1993, and recent information management legislation such as the Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996, which are aimed at fundamental and systemic reforms needed to address high-risk and other problem areas across government. We strongly agree with these goals, but effective implementation of these laws is absolutely essential.

OMB's role in addressing specific high-risk problems and in more broadly strengthening accountability across government is crucial. This is particularly true in the area of information management. OMB has significant leadership responsibilities to help agencies to improve their information management practices by

- ensuring the selection of qualified Chief Information Officers,

- establishing guidance and policies for agencies to follow in implementing the investment reforms, and

- evaluating the results of agency technology investments and enforcing accountability for results through the executive branch budget process.

OMB has been proactive in developing policies and procedures to help agencies institute effective investment decision-making processes. For example, OMB and GAO worked together to produce a guide in 1995 for both OMB budget examiners and agency executives on how to evaluate information technology investments using the concepts from our best practices work. OMB needs to continue to define expectations for agencies and for itself in this key area. As we recommended, OMB also needs to

- develop recommendations for the President's budget on funding levels for technology projects that take account of an agency's track record in delivering performance improvements from technology investments and

- develop an approach for determining whether OMB itself is having an impact on reducing the risk or increasing the returns on agency information technology investments.

To its credit, OMB has issued a memorandum to heads of executive departments and agencies laying out decision criteria that OMB will use in evaluating and funding major information system investments proposed for funding under the President's fiscal year 1998 budget. The criteria strongly reinforce the provisions of the reform legislation. Effective implementation of these criteria, however, will be the key to success.

OMB also has a crucial role in helping to resolve the two governmentwide information management issues new to our 1997 high risk list. The first is information security. Malicious attacks on computer systems are an increasing threat to our national welfare. Despite their

sensitivity and criticality, federal systems and data across government are not being adequately protected, thereby putting billions of dollars worth of assets at risk of loss and vast amounts of sensitive data at risk of unauthorized disclosure.

Since June 1993, we have issued over 30 reports describing serious information security weaknesses at major federal agencies. We have made dozens of recommendations to individual agencies for improvement and they have acted on many of them. For example, in May 1996, we reported that tests at DOD showed that DOD systems may have experienced as many as 250,000 attacks during 1995, that over 60 percent of the attacks were successful in gaining access, and that only a small percentage of these attacks were detected. And, in September 1996, we reported that during the previous 2 years, serious information security control weaknesses had been reported for 10 of the 15 largest federal agencies.

Also, in 1996, we recommended that OMB play a more proactive role in promoting awareness in monitoring agency practices. In particular, we recommended that OMB work with the interagency CIO Council to develop a strategic plan for (1) identifying information security risks, (2) reviewing individual agency security programs, and (3) developing or identifying security training programs.

The second governmentwide high-risk issue concerns the need to modify information systems to correctly process dates past the year 1999 (the "Year 2000 Problem"). As chair of the CIO Council, OMB has a key role to play in solving this problem, which threatens widespread disruption of federal computer systems. It is important for OMB to get agencies to rapidly review their information technology systems, assess the scope of their Year 2000 problem, renovate the systems that need to be changed, and test and implement them.

OMB's role in implementing the CFO Act is also vital. We have worked with OMB, agency CFOs and inspectors general, and the Department of Treasury over several years to be a catalyst for the preparation and audit of agencywide financial statements across government. We also have worked with OMB and Treasury to create the Federal Accounting Standards Advisory Board, which recently completed a complete set of new accounting standards for the federal

government. When financial statement audits under the CFO Act are completed, it will be important for OMB and the Congress to ensure that agencies promptly and thoroughly correct problems that these audits identify.

Other challenges where OMB has a role include

- continuing to build stronger financial management organizations by upgrading skill levels, enhancing training, and ensuring that CFOs possess all the necessary authorities within their agencies to achieve change;

- devising and applying more effective solutions to address difficult problems plaguing agencies' underlying financial systems;

- designing comprehensive accountability reports to permit more thorough and objective assessments of agencies' performance and financial conditions, as well as to enhance the budget preparation and deliberation process; and

- implementing complementary legislative requirements, including (1) the Debt Collection Improvement Act of 1996, enacted to expand the strengthen federal agency debt collection practices and authorities, and (2) the Federal Financial Management Improvement Act of 1996, requiring agencies to comply with new federal accounting standards, federal financial systems requirements, and the U.S. government's standard general ledger.

In concert with the CFO Act and information technology legislation, improved goal-setting and performance measures developed under GPRA are critical to addressing high risk areas. OMB has an important role in helping to ensure that clear goals and sound performance data are set to strengthen decision-making and pinpoint specific opportunities for improved performance. While the experiences of leading organizations and federal efforts under GPRA thus far show

that full GPRA implementation will take time and much effort, our executive guide[1] shows that improvements in performance--sometimes substantial ones--are possible even in the short term when an organization adopts a disciplined approach to defining its mission and desired results, measuring its performance, and using information to make decisions.

---

[1]Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

Mr. HORN. I might add that we also established a quorum in this hearing, at the end of my first page of my opening statement. So we have conducted ourselves according to the House rules.

Again, I share what Mr. Sessions said to you. I congratulate you as both an institution and as individuals for doing a superb job on this.

I happened to have gone through the other series you did. I have only gone through about two booklets of the current one, since I spent most of last night down here arguing about bills coming up in the next few months.

But thank you all, and it was good to see the staff that backs up Mr. Dodaro. I knew that he was bright, and I knew that he was articulate, but now I know why. I thank all of you for coming. You have each made a contribution.

And with that, if you do not have any last words, we will adjourn this hearing. Thank you.

Mr. DODARO. My only last words are to thank you and Mr. Sessions for your comments. Thank you very much.

Mr. HORN. And I would like to thank the following people: J. Russell George, staff director; Anna Miller, professional staff member; Andrea Miller, clerk; David McMillen, minority professional staff member, Mark Stephenson, minority professional staff member; and Patricia Kueber, court reporter.

The subcommittee is adjourned.

[Whereupon, at 11:56 a.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 12, 1997

The Honorable Steve Horn
Chairman, Government Reform and Oversight
Subcommittee on Government Management,
Information and Technology
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

As you know, the General Accounting Office (GAO) recently released its latest high-risk series of reports on federal program work considered "high-risk because of vulnerabilities to waste, fraud, abuse, and mismanagement."

The report discusses four high-risk areas at the IRS: Tax Systems Modernization (TSM); financial management; tax accounts receivable; and tax filing fraud. The report credited the IRS with making some progress in all four areas but outlined significant challenges to continuing this progress.

I would like to provide some perspective on the "IRS Management" report that was part of the series. I agree that these four areas require the focused attention by the IRS, Treasury and the Congress.

Tax Systems Modernization

The IRS clearly recognizes the amount of work ahead to further modernize and update our aging technology infrastructure. The report credits the IRS with hiring a new Chief Information Officer who has spent his first 10 months on the job restructuring the Information Systems organization; staffing critical operational functions, for example, Century Date Change and Quality Assurance; completing the program infrastructure to position the IRS and its contractors for further development, for example, establishing the Government Program Management Office; implementing a Department of Defense-based Systems Life Cycle discipline; establishing the Integration Testing and Control Center; targeting completion of the systems architecture by May 1997; and recruiting from outside the IRS and government a top executive team with impeccable information technology credentials. A nationwide recruiting effort to attract technical management executives resulted in over 1,500 inquiries.

The Honorable Steve Horn

GAO also points to the creation of an IRS Investment Review Board that has terminated some major modernization development projects and updated systems development life cycle methodology. The Service delivered a November 26, 1996, report to Congress that describes the shift of design and development work to contractors.

The action to date of the Investment Review Board shows that senior IRS executives are requiring and using rigorous analyses -- not only from the selection stage through roll-out of a project but to lessons learned that might apply to future investments. The adoption of an industry-standard systems life cycle is another critical element in imposing discipline across-the-board. Projects are being judged by the toughest of standards and eliminated if they do not meet the standards. Return on investment is a driving force behind all decisions. The Department of Treasury senior executives and their technical representatives are members of the Investment Review Board.

The Service has no illusions about opportunities missed in the past or the challenges ahead. Critical corrections have been made and will continue to be made, and the Service looks forward to working with the Department of Treasury, Office of Management and Budget, the Congress and GAO to bring the needed technology enhancements to tax administrators for the next century.

Financial Management

I fully agree that the IRS should be held to the same standards of record keeping to which taxpayers are held. But context and definition of terms are important to understanding the IRS' financial statement concerns. A disclaimer on the financial statements does not equate to poor tax administration.

As the government's primary revenue collector, the IRS has strong systems controls to ensure that taxpayers' individual accounts are confidential and accurate and that tax receipts are not lost or misappropriated. These systems work. Each year, the GAO has verified that more than $1 trillion the Service collects has been properly deposited in the Treasury. The current challenge is to alter these systems to provide the necessary data to meet the financial requirements of the Chief Financial Officers' (CFO) Act.

GAO's high-risk report acknowledges IRS' improvements in financial accounting and reporting, concluding that improvements are "particularly notable" in administrative accounting operations which track over $7 billion in appropriated funds each year. The Service now has a new administrative accounting system that is fully auditable. In the

revenue accounting area, GAO acknowledges that solutions are complicated by automated data processing systems that were designed 30 years ago for tax processing, not to support the new financial reporting requirements imposed by the 1990 CFO Act. While the Service can and does reconcile gross amounts collected (over $1 trillion per year), the current system does not track detailed transactions. During the last two years, considerable effort has been directed toward analyzing and documenting revenue transaction flows and source documentation.

The report mentions GAO's 59 recommendations of the past four years to improve the IRS' financial management systems and reporting. GAO notes that the IRS has completed action on some and has efforts underway to address the rest. In fact, GAO and IRS agree that 17 of the 59 recommendations have been closed. Over the next few months, GAO will be looking at another 28 that the IRS believes should be closed. This measure of progress, I believe, is a reflection of the top management attention given by GAO and IRS, which I can assure you has been considerable. This collaborative effort has included frequent working sessions and field visits.

Accounts Receivable

GAO highlighted the record tax collections in FY 1996 of $29.8 billion in delinquent taxes, but indicated that the IRS needs to know more about its inventory of assessments and types of taxpayers who become delinquent. The IRS does have a complete picture of the accounts receivable inventory and can provide reports about it by many categories including age, dollar, the major sources of assessments (e.g., examination, substitute for return, balance due, trust fund recovery penalty), and how much inventory is in each of the various collection work processes (e.g., notices issued to taxpayers, installment agreements, bankruptcy, currently not collectible). Also, the IRS analyzed data and conducted a study that showed that 70 percent of the people who do not pay and must be contacted are repeat delinquents. This led to the development of the IRS' repeat delinquency strategy which uses effective methods to address that market segment. Other IRS programs focus on delinquency prevention. One system identifies under deposited business taxpayers which are under depositing before quarterly returns are filed. Other efforts focus on innovative approaches to addressing widespread noncompliance versus one-on-one enforcement efforts. Some examples are the Dyed Diesel Program, the Tip Rate Determination Agreement, the Tip Reporting Alternative Commitment, and the Classification Settlement Program.

GAO indicated that the IRS does not have the data to determine what actions or improvements generated the 19 percent increase in FY 1996 Collection yield. The IRS has analyzed the data and knows what two things generated most of the increase. The

first relates to notices and installment agreements; the second was the five-year FY 1995 compliance initiative, which was not funded in FY 1996 after the first year and after the IRS hired about 6000 compliance employees. The compliance initiative generated over $800 million in additional compliance revenue in FY 1995 which included collections from delinquent accounts. As prior research indicates, there is a nexus between Collection staffing and programs and tax delinquency yields.

Filing Fraud

GAO highlighted the positive results of the IRS' Revenue Protection Strategy, but felt that more information is needed to determine which of the IRS' actions have had significant impact on detecting and deterring filing fraud. During the 1996 filing season, the IRS conducted a statistically valid study of approximately 2,000 returns in order to measure compliance levels in certain areas, including the earned income tax credit, duplicate social security numbers and alimony payments. The results of this study should be available in December 1997. GAO did not recognize that the IRS' extraordinary efforts to detect and prevent fraud in 1995 had a direct impact on the reduction of fraudulent returns in 1996.

Through the end of September 1996, direct compliance efforts prevented $909 million in erroneous or fraudulent refunds from being issued. (This figure represents $865 million in Examination assessments and $44 million in questionable refunds.) These results are attributed to the IRS' increased scrutiny of social security numbers (SSNs), and refundable credits. Also, because of recent legislation, the IRS has a more efficient method to handle claims for dependents, the earned income tax credit and the child care credit when there are missing or invalid SSNs involved. Additionally, during the first nine months of 1996, there were approximately $29 million fewer dollars in fuel tax credits claimed on individual income tax returns compared to the same period in 1995. A significant portion of this reduction is attributed to compliance initiatives in this area.

I very much appreciate the opportunity to comment on the GAO report. If you have any questions, please call me or have a member of your staff call Floyd Williams, National Director for Legislative Affairs, on 622-3720.

Sincerely,

Margaret Milner Richardson

Margaret Milner Richardson

○