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The Honorable James R. Jones
Chairman, House Budget Committee
U.S. House of Representatives

14 GAO/PAD-81-87

Dear Mr. Chairman:

Subject: Status Report on Implementation of GAO's
Audit Findings and Recommendations. (PAD-81-87)

In response to your request of July 9, 1981, we are providing a status report on implementation of our recommendations incorporated in the First Budget Resolution for Fiscal Year 1982. Based on our March 30, 1981 report to your Committee, we are addressing the following items:

1. Delinquent accounts and loans receivable
2. Unpaid taxes
3. Unresolved audit findings
4. Paperwork reduction
5. Defense logistical economies
6. Defense multi-year contracting
7. Full cost recovery for foreign military sales
8. Workforce cost control
9. General procurement and property management
10. Replacing obsolete computers

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Enclosed are summaries of actions taken in each of these areas since our March report and our assessment of further actions needed to achieve improvements. We determined the status of actions through follow-up with agency and Office of Management and Budget officials and our ongoing work with various congressional committees. These actions include high priority leadership by the Office of Management and Budget, actions by Federal agencies to improve program management and administration, continued congressional monitoring, and legislative action. We are continuing to monitor progress in these areas as part of our ongoing efforts to reduce waste and inefficiency in the Federal Government and will keep you apprised of specific actions taken and the results achieved.

We are also beginning to develop suggestions for your Committee on budget reform, administrative practices, and key program issues you may want to address in preparation for the

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fiscal year 1983 budget cycle. Assessments of these subjects will be included in subsequent monthly reports.

We appreciate the opportunity to work with your Committee on these important issues.

Sincerely yours,



Acting Comptroller General
of the United States

Enclosures - 10

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LIST OF ENCLOSURES

Enclosure

- I Delinquent accounts and loans receivable
- II Unpaid taxes
- III Unresolved audit findings
- IV Paperwork reduction
- V Defense logistical economies
- VI Defense multi-year contracting
- VII Full cost recovery for foreign military sales
- VIII Workforce cost control
- IX General procurement practices
- X Replacing obsolete computers

DELINQUENT ACCOUNTS AND LOANS RECEIVABLENature of the Problem

Debts owed the Federal Government are enormous and growing each year. Federal agencies reported that receivables due from U.S. citizens and organizations were \$139 billion as of September 30, 1980--a 36 percent increase in the last 2 years. As of September 30, 1979, Federal agencies reported that \$24 billion due from U.S. citizens and organizations was delinquent. Of this amount, \$13 billion represented delinquent taxes. Unfortunately, these gloomy statistics are materially understated because the accounting systems of many agencies do not provide accurate information on receivables, expected losses, and writeoffs.

Before the Government's debt collection problems can be remedied many actions--administrative and legislative--must be taken. In general, there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, many agencies have not aggressively attempted to collect amounts owed the Government. Debt collection has generally been afforded low priority with the emphasis on disbursing the funds rather than collecting them. Second, present collection methods are expensive, slow, and ineffective when compared with commercial practices. We have identified specific weaknesses in debt collection programs and have recommended a number of specific corrective actions to improve the recording and collection of debts owed to the Government. Our recommendations, unfortunately, have not always been implemented. Until all Federal agencies aggressively pursue the collection of debts, hundreds of millions of dollars will continue to be lost.

I. Actions GAO Believes Are Needed

1. High priority and leadership by Executive Office of the President.
2. Continued congressional monitoring.
3. Specific roles for the Department of Justice, Inspectors General, and the General Accounting Office.
4. Passage of legislation to give collectors tools needed.
5. Strengthened collection through administrative actions.

II. Summary of Actions Taken

1. High priority and leadership by Executive Office of the President. The President, in a memorandum dated April 23, 1981, directed the heads of Executive Branch agencies and departments to develop and implement an aggressive debt collection program by:

- Designating an official with responsibility and authority for debt collection and submitting the name of the official to OMB. Twenty-four major departments and agencies have designated this official.
- Preparing a detailed review of current debt issues and outlining the action to be taken to resolve the issues and a timetable for completion of the action.
- Submitting a progress report on the results of the review to the OMB Director by September 30, 1981.
- Reporting the status of debt collection annually thereafter in September.

In another action the Office of Management and Budget recently released the "Debt Collection Project--Report on Strengthening Federal Credit Management". The project team recommended a series of measures to increase accountability, augment resources, and provide private sector tools in Federal debt management.

2. Continued congressional monitoring. If legislative measures before both the Senate and the House (S. 1249 and H.R. 3741) calling for annual reporting on agency debt collection activities are passed, the Congress will be provided with detailed information that it can use to monitor the agencies' progress.

3. Specific roles for the Department of Justice, Inspectors General, and the General Accounting Office.

- Justice has continued to work with GAO in making changes to the Federal Claims Collection Standards that should help facilitate agencies' collection programs.
- Through their participation in the recently established President's Council on Integrity and Efficiency, the Inspectors General will have increased opportunities to surface debt collection issues that need Government-wide management as well as legislative attention.
- GAO has continued, through its reports on individual agency programs and through congressional testimony covering Government-wide issues, to point out the need for improvements to the current debt collection systems of individual agencies and the need for legislation providing the agencies with private sector debt collection tools.

4. Passage of legislation to give collectors tools needed. Comprehensive debt collection legislation was reported out by the Senate Governmental Affairs Committee (S.1249) on July 9, 1981, and was introduced and referred to the House Committee on Government Operations (H. R. 3741) on June 1, 1981.

5. Strengthened collection through administrative actions.

--GAO and Justice in April 1981 issued a change to the Federal Claims Collection Standards encouraging agencies to use private debt collection agencies to supplement their own collection efforts.

--The Department of the Treasury in a June 24, 1981, change to its Fiscal Requirements Manual detailed comprehensive reporting requirements for all accounts and loans receivable due the Government from the public. The reporting requirements will be effective at the end of fiscal 1981.

III. Further Actions Needed

1. High Priority and leadership by Executive Office of the President. Implementation of the policies contained in the President's April 23, 1981, memorandum, including continued monitoring of agencies' plans and actions for improving their debt collection programs.

2. Continued congressional monitoring. Passage of legislation that would require an annual detailed report to the Congress on agency debt collection activities. Explicit consideration of debt collection in the budget debate and decisions for the next few years while new administrative policies and procedures are being implemented and backlog is being dealt with.

3. Specific roles for the Department of Justice, Inspectors General, and the General Accounting Office.

--As new policies and procedures are being implemented, Justice and GAO should continue to identify and make changes to the Federal Claims Collection Standards that would facilitate improved debt collection methods and procedures Government-wide.

--Justice needs to develop specific plans for improving the debt litigation process so that large backlogs can be reduced.

--Inspectors General need to continue to identify, both within their respective agencies and Government-wide through the Council on Integrity and Efficiency, debt collection improvements that should be instituted.

4. Passage of legislation to give collectors tools needed.

--Prompt passage of comprehensive debt collection legislation. The key features of the proposed legislation, as contained in both S.1249 and H.R. 3741, are (1) referring delinquent debtors to credit bureaus,

(2) offsetting a Federal employee's salary and certain benefits to satisfy general debts owed the Government, (3) disclosing mailing addresses obtained from the Internal Revenue Service on delinquent debtors to private contractors for debt collection purposes, (4) clarifying that administrative setoff of delinquent debts owed the Government exists beyond the six year statute of limitations, (5) assessing interest on all debts owed the Government and penalties on those debts that are delinquent, and (6) reporting to Congress on debt collection activities.

--In addition, to the provisions of S.1249 and H.R. 3741, we believe that legislation is needed to (1) provide for the offset of delinquent debts against Federal tax refunds due to debtors; and (2) provide for the full usage of consumer reporting agencies in locating and obtaining financial information on debtors.

5. Strengthened collection through administrative actions. Responsibilities in GAO, Treasury, and OMB have been assigned and now need to be fully implemented, including continually monitoring the actions of other Federal agencies to ensure their effective implementation of the recent regulatory changes.

UNPAID TAXESNature of the problem

The amount of unpaid taxes has grown significantly in recent years. A good portion of this increase in unpaid taxes can be attributed to previous cuts made to IRS's collection staff. For example, at September 30, 1980, unpaid taxes totaled \$15.8 billion, an increase of 19 percent over the prior year. It is estimated that the \$2.9 billion figure for fiscal 1979 for "accounts being actively pursued by collection office personnel and revenue officers" might grow to \$10 billion in 4 years if additional staffing is not provided. Even with increased staffing, IRS may not be able to reduce the current amount of unpaid taxes, but only slow its growth.

In addition to increased staffing, a higher interest rate on unpaid taxes would also increase the amount collected by IRS because it provides a strong incentive for the debtors to pay on time. The recently passed 1981 tax act imposes such a higher interest rate.

I. Actions GAO Believes Are Needed

1. Increase IRS collection staffing. Our March 30, 1981, report indicated that IRS could absorb up to 1,500 additional staff years for its collection function for fiscal 1982. We estimated that an additional \$3.1 billion to \$4.5 billion in delinquent taxes could be collected by IRS during fiscal years 1982 - 1986 as part of its usual collection process if it could focus more on this effort and if adequate collection staff is authorized.

2. Increase interest rate on delinquent tax. In addition to the estimated collections shown above through increased staffing, changes in the formula used to calculate the interest rate on unpaid taxes would also increase the amounts collected by IRS. If the market interest rates continue to exceed the current IRS rate of 12 percent, roughly \$200 to \$400 million annually could be collected by increasing the interest rate on delinquent taxes.

II. Summary of Actions Taken

1. Requested increase in IRS collection staff. The President's fiscal 1982 budget request for IRS included a provision for about 600 additional staff years for the collection function. Therefore, another 900 staff years could be absorbed for a total increase of 1,500. House and Senate appropriation bills for IRS provide for 600 additional personnel above the President's fiscal 1982 budget request for a total increase of 1,200 with their focus to be on the collection function.

2. 1981 tax act increases interest rate on unpaid taxes. The recently passed 1981 tax act increased the interest rate on unpaid taxes from 90 percent of the prime rate to 100 percent

of the prime rate, effective February 1, 1982, with annual adjustments starting January 1, 1983. This action meets the need for changes to the interest rate on unpaid taxes as discussed in our March 30, 1981 report.

III. Further Action Needed

Budget for additional increases in IRS collection staff. Congressional appropriation for 900 additional staff years for the collection function above the President's fiscal 1982 budget request. Consideration should also be given to some further increase.

--Make the timeliness and quality of audit resolution a written performance standard and a factor in determining bonuses for Senior Executive Service members and merit pay for supervisors.

3. The inspectors general and directors of audit organizations should:

--Develop internal procedures and controls for efficient and effective planning, coordinating, reviewing, and reporting of audit work and audit followup activities in accordance with GAO and other professional standards.

Because of the short time period since the release of our report on unresolved audit findings (AFMD-81-27), we have not conducted a followup review of agency actions taken on the report recommendations. We have, however, been assisting the House Committee on Government Operations in its review of agency actions. The results of these and other current GAO efforts are summarized below.

A significant portion, \$14.4 billion, of the \$30 billion in unresolved audit findings identified in March represented Department of Energy (DOE) regulatory audit findings. In our report "Department of Energy Needs to Resolve Billions in Alleged Oil Pricing Violations," EMD-81-45, dated March 31, 1981, we recommended that:

The Director, OMB, should:

--Establish an orderly means to phase out DOE's enforcement program.

--Assist DOE in developing a plan to include DOE's personnel and funding needs for the orderly resolution of the violations and litigation outstanding when deregulation occurred.

The Congress should:

--Provide for an effective and orderly phase out of DOE's enforcement program.

--Approve a reasonable and appropriate funding request to permit DOE to carry out a plan for resolving the violations and litigation outstanding when deregulation occurred.

II. Summary of Actions Taken

1. OMB responded to our report (AFMD-81-27) indicating that it will:

--Continue to consider audit followup a priority issue as it works with departments and agencies to improve their financial systems.

--Place audit followup on the agenda of the President's Council on Integrity and Efficiency.

--Ensure that the Council on Integrity and Efficiency acts to see that needed changes are put in place.

--Include oversight of agency audit resolution practices in the budget review process.

--Consult with agencies, GAO, congressional staff, and other interested parties to see what revisions to OMB Circular A-73 may be necessary.

2. Federal agencies have provided comments on our report (AFMD-81-27) to the House Committee on Government Operations. We have been assisting the Committee staff in reviewing the comments and in preparing for hearings on unresolved audit findings. To date, the Office of Management and Budget and the Departments of Defense, Agriculture, and Commerce have testified before the Committee. The hearings have centered around progress made on the GAO report recommendations and agency plans for future action on unresolved audit findings.

GAO does not have current unresolved audit finding figures for the agencies included in our report. The Supplemental Appropriations and Recission Act, 1980, (Public Law 96-304, July 8, 1980) should have a significant impact on the unresolved audit findings reported. It requires that agencies resolve, by September 30, 1981, findings which were unresolved as of July 1980. They must also decide on the disposition of new audit findings involving questioned costs within 6 months.

3. Department of Energy Actions on GAO Recommendations

On April 2, 1981, GAO testified before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, on the impact of proposed budget cuts on DOE's compliance activities and the need for DOE to develop a plan for the orderly resolution of the outstanding violations and litigation. On July 28, 1981, we again appeared before the Subcommittee to discuss the Office of Enforcement's decontrol workplan.

In our report, EMD-81-45, we recommended that DOE, with OMB's assistance, develop a plan, based on a workload analysis, which would adequately consider the orderly resolution of outstanding violations and litigation. DOE did not act on our recommendation and the plan now being implemented was not prepared on the basis of a workload analysis.

The Office of Enforcement's plan is based on a "dollar driven strategy" which calls for the pursuit of the largest identified violations first and completion of the audit work on all cases which remained open as of February 28, 1981, before September 30, 1981.

Although this is a reasonable strategy to follow, the resources being allocated to carry out the plan are considerably less than intended by the House Appropriations Committee (H. Rept. No. 97-163, 97th Cong, 1st Sess. (1981)) and provided for by the Congress in the Supplemental Appropriations and Recission Act of 1981. This factor, in addition to records access and staff morale problems, will make it difficult if not impossible to complete the work as planned to resolve findings.

III. Further Actions Needed

Policy level responsibility for audit followup has been assigned to the Council on Integrity and Efficiency. It should revise OMB Circular A-73 and implement procedures for actually dealing with the audit findings in agency management and budgeting, OMB budget review, and litigation and debt collection, where needed.

DOE needs to act as aggressively as it can with the funds provided to resolve the outstanding alleged oil pricing violations.

We also believe that because of the relatively short time period which has passed since AFMD-81-27 was issued, its recommendations to agency personnel are still valid.

PAPERWORK REDUCTIONNature of the problem

Significant savings can be achieved immediately, both to the Government and private sectors by effective implementation of the Paperwork Reduction Act of 1980 (P.L. 96-511). Precise savings are hard to estimate but the Commission on Federal Paperwork estimated that Federal paperwork costs more than \$100 billion a year. This estimate includes both internal Government costs and costs levied on all segments of society by Federal information requirements. Improved Federal information management activities could result in savings of millions of dollars.

I. Actions GAO Believes are Needed

1. OMB and the agencies should apply sufficient resources to effectively implement the Paperwork Reduction Act of 1980 (P.L. 96-511).
2. Statutory requirements for construction contractors to file weekly payroll reports should be eliminated.
3. A systematic review process should be established for declassifying Government records.
4. Direct appropriations should be provided for the National Records and Archives Service (NARS) Federal Records Management activities.

II. Summary of Actions Taken

1. Sufficient resources should be applied by OMB and the agencies to effectively implement the Act. Although relatively modest incremental cost increases would be necessary, tremendous potential exists for improving the management of the Government's activities and programs through more effective use of information resources. OMB has included in their fiscal year 1982 budget a request for 90 people to achieve the following objectives consistent with the Act:

--a single control point for Federal information management policy and oversight;

--an end to fragmented responsibility for controlling Federal paperwork burdens on the public;

--visible and accountable officials for information management, both in OMB and in each agency;

--uniformity and consistency in policies for acquisition and management of advanced information technology;

- increase visibility, authority, and accountability for statistical policy coordination and records management; and
- development and implementation of a Federal information locator system.

2. Statutory Requirements for filing weekly payroll reports should be eliminated. The Department of Labor's regulations implementing the Copeland Anti-Kickback Act (40 U.S.C. 276(c) (1976)) require contractors working on Federal or federally assisted construction projects subject to Davis-Bacon Wage requirements to submit weekly statements to the Federal Government on the wages paid to each employee.

As demonstrated in GAO's report entitled "The Davis-Bacon Act Should Be Repealed" (HRD-79-18, April 27, 1979), these requirements for weekly submission of payrolls are an unnecessary burden on both the contractors and contracting agencies, result in a substantial amount of unnecessary administrative costs for the contractors and the Government, and serve very little purpose in enforcement of the Davis-Bacon Act. These costs to the contractors which are passed on to the Government have been estimated at about \$190 million a year.

S.3, introduced in the 97th Congress and referred to the Committee on Governmental Affairs, provides for eliminating the weekly statement--a certification--of wages paid to each employee, but does not deal with the weekly submission of payroll records required by the Department of Labor's regulations. We suggested that S.3, or the related committee report, be revised to insure that submission of the payroll records be eliminated.

As of August 31, no substantive action has been taken on S.3. Additionally, since the 97th Congress convened, members of both the Senate and House have introduced legislation to 1) repeal the Davis-Bacon Act, 2) rescind or modify the weekly payroll reporting requirements of the Copeland Anti-Kickback Act, and 3) repeal provisions of certain of the 77 related statutes which require use of the Davis-Bacon requirements on federally assisted construction projects. Some of these bills include H.R. 48, H.R. 321, H.R. 1034, H.R. 1070, H.R. 1325, and H.R. 1437. No action has been taken on these bills to date.

On April 7, 1981, the OMB in a report to the Congress on "Additional Details of Budget Savings for Fiscal Year 1982" announced proposed changes to the Davis-Bacon Act. One of these changes would include an administrative

action to eliminate the payroll reporting requirement and to accept a single, one-page, weekly statement certifying payment of wages. On August 14, 1981, the Department of Labor published proposed changes to its regulations in the Federal Register which will reduce some of the paperwork required under Government construction contracts governed by the Davis-Bacon Act.

3. A systematic review process should be established for declassifying Government records. Executive Order 12065 specifies that Federal agencies review all classified records considered permanently valuable as they become 20 years old to determine if they can be declassified. However, most of the declassified records probably will not be requested by the public, and it is unlikely that the December 1988 deadline for completing the review will be met.

In GAO's report entitled "Systematic Review for Declassification--Do Benefits Exceed Costs?" (LCD-81-3, October 15, 1980) GAO recommended that the order be modified to require that only those records be reviewed which are specifically requested by the public and those likely to be requested. If the order is not modified, the National Archives and Records Service, the Central Intelligence Agency, and the Departments of Defense, Energy, and State anticipate spending \$88 million (\$11 million per year) in salaries and benefits during fiscal years 1981 through 1988 to systematically review information for declassification. A change would improve responsiveness and save money without changing the policy of openness in Government. No action has been taken in this area.

4. Direct appropriations should be provided for NARS Federal Records Management activities. The National Archives and Records Service (NARS) technical assistance program to help agencies improve records management practices is funded through reimbursements from agencies, not through NARS appropriations. Because NARS must obtain enough money to cover its staff salaries, it places emphasis on obtaining agency agreements to finance technical assistance projects. This limits its ability to establish priorities and use its staff more effectively.

GAO, in its report entitled "Program to Improve Federal Records Management Practices Should Be Funded by Direct Appropriations", (LCD-80-68, June 23, 1980), recommended direct appropriations for NARS to allow the agency the flexibility it needs to better fulfill its responsibilities for improving records management practices in the Government and provide greater accountability to the Congress.

The potential for achieving savings through a strengthened NARS was illustrated in GAO's report entitled "Federal Records Management: A History of Neglect", (PLRD-81-2, February 24, 1981). No action has been taken on these recommendations to date.

III. Further Actions Needed

The following actions are needed:

1. Congressional approval of the fiscal year 1982 OMB budget request for implementation of the Paperwork Reduction Act of 1980.
2. Passage of legislation or administrative action to eliminate the wages paid reporting requirement for construction contracts.
3. Executive action to change Executive Order 12065 to require review of only classified records which are specifically requested by the public.
4. Executive action to request congressional approval for direct appropriation for the NARS technical assistance program.

DEFENSE LOGISTICAL ECONOMIESNature of Problem

In our January 21, 1981 memorandum to Secretary Weinberger we identified a variety of opportunities to effect economies in the logistical support of the military forces. While the Department of Defense (DOD) has made improvements over the years in response to GAO recommendations, there are six areas involving sharing or integration of support-type functions among the services where more vigorous action can produce even greater savings by reducing staffing and investment in facilities, equipment, and supplies.

I. Actions GAO Believes are Needed

1. Consolidate military base support activities.
2. Finish consolidation of management of consumable supplies in Defense Logistics Agency.
3. Consolidate management of aircraft depot maintenance activities.
4. Consolidate intermediate maintenance of aircraft components in Europe.
5. Integrate traffic management activities.
6. Use wholesale and retail inventories of parts more effectively.

II. Summary of Actions Taken1. Consolidate military base support activities

In our report "Consolidating Military Base Support Service Could Save Billions," (LCD-80-92, September 5, 1980), we addressed a number of steps DOD should take to better coordinate various aspects of base support management and reduce the overall cost of that support. Specifically, we recommended that DOD:

- Establish a focal point to coordinate interservicing, intraservicing, and support contracting programs.
- Set specific yearly cost reduction goals for each military service.
- Reduce base support funds for components which consistently fail to reach these goals.

- Assign additional, full-time staffing to the Joint Interservice Resource Study Groups (JIRSGs).
- Broaden the scope of the Defense Retail Interservice Support (DRIS) program's information data-base.
- Direct the military services to clearly state the objective of reducing costs through interservice support and maintain cost data on the success or failure of interservice consolidations.

Based on our report, DOD has taken the following actions:

- Deputy Secretary of Defense Carlucci set a savings goal of \$10 million per year for each Service for 5 years beginning in fiscal year 1983.
- All other DOD agencies have been directed to submit their own cost reduction goals.
- The DRIS program and Commercial Industrial Activities program have been removed from the Defense Logistics Agency and Deputy Assistant Secretary of Defense (Supply Maintenance and Transportation), respectively, to the newly created Deputy Assistant Secretary of Defense for Facilities, Environment, and Economic Adjustment.
- The DRIS Manual is currently being converted to a DOD Regulation.
- The Joint Interservice Retail Study Groups, which were scheduled to terminate in fiscal year 1983, have been extended indefinitely.

2. Finish consolidation of management of consumable supplies in Defense Logistics Agency

GAO expressed the belief that a firm decision by the Secretary of Defense on an OSD proposal to transfer management responsibility of all consumable items (about 1,300,000 line items) from the services to the Defense Logistics Agency (DLA) would pay handsome dividends in savings within 2 years. The proposal estimated savings of \$100 million annually in operating costs (about 4,000 people).

On July 20, 1981, the Deputy Secretary of Defense announced that 200,000 consumable items would be transferred from the military services to DLA for central management. The transfer of these items to DLA is expected to save about \$15 million annually.

3. Consolidate Management of Aircraft Depot Maintenance Activities

GAO contends that the Department of Defense can significantly improve aeronautical depot maintenance efficiency if it establishes

a single manager over the depot resources and workloading. Currently, the Army, Navy, and Air Force operate their own aeronautical depot maintenance systems independently from one another and, as a result, there is extensive capability redundancy and underused capacity.

On March 24, 1981, the Deputy Secretary of Defense directed the preparation of an option paper addressing the establishment of a single manager for Defense aeronautical depot maintenance. A joint OSD-Services task group, as a result of a 7 week effort, provided a draft study on June 22, 1981. The study arrived at two key options:

- To strengthen the existing interservicing system. This is supported by the services.
- To establish single managers to control investment and work assignment. This is supported by OSD task-group participants and GAO.

The draft study basically recommended that the existing system be intensified to improve the coordination among the services.

4. Consolidate Intermediate Maintenance of Aircraft Components in Europe

In our March 28, 1979 report, "Centralizing Air Force Component Repair in the Field Can Provide Significant Savings," (LCD-79-409), we concluded that the Air Force can utilize its field component repair resources more efficiently and effectively by centralizing such repair among units with common aircraft. Since March 1979, GAO has issued two additional reports on this subject. These reports, "F-16 Integrated Logistics Support: Still Time to Consider Economical Alternatives," (LCD-80-89 dated August 20, 1980), and "Follow-up on Centralizing Intermediate Level Maintenance for F-16 Aircraft in Europe," (C-PLRD-81-9, dated June 19, 1981), supported conclusions and recommendations made in our March 28, 1979 report. In these reports we specifically recommended that the Secretary of the Air Force:

- centralize F-15 and F-16 components repair, overseas and in the United States;
- collocate common types of aircraft when assigning or transferring aircraft or flying organizations; and centralize component repair as a means of minimizing requirements when updating, replacing, or acquiring new resources.

While Air Force officials agreed that there are savings and other benefits available from centralizing component repair, they felt that a thorough study should be made before acting on our

recommendations. Our June 1981 report summarized internal Air Force studies of the centralization issue. While the Air Force studies supported our recommendation, the position taken by the Air Force was to continue developing decentralized facilities at each operating base. As a result, no action on our recommendations has taken place.

5. Integrate Traffic Management Activities

In response to numerous recommendations to integrate traffic management activities of the Department of Defense, the Deputy Secretary of Defense announced on June 13, 1981, the realignment of some transportation and traffic management activities. He directed that the following actions be taken:

- Transfer, by October 1, 1981, the sealift and passenger booking and contract administration functions from the Military Sealift Command to the Military Traffic Management Command. The Military Sealift Command, however, will continue to be the sealift operator and procurement agent and will be the principal DOD interface with the Merchant Marine and the Maritime Administration.
- The Assistant Secretary of Defense for Manpower Reserve Affairs and Logistics (ASD MRA&L), in coordination with the Army and Air Force, will prepare a plan for improving the management and procurement of domestic passenger transportation services.
- The Joint Chiefs of Staff will be responsible for assembling and leading a joint service task group to develop and implement a plan for strengthening the Joint Deployment Agency. This plan will establish the organizational and procedural framework for performing joint wartime and contingency mobility planning and deployment and peacetime and wartime traffic management.

Although these actions are certainly a positive step toward centralized traffic management, we believe they fall short of the structure and the operations as envisioned and recommended by 1) the Blue Ribbon Defense Panel, 2) congressional committees, 3) an independent contractor, and 4) the General Accounting Office.

- The Blue Ribbon Defense Panel established by the then Secretary examined the multi-service approach to transportation in 1970. It recommended that transportation be consolidated under a "Unified Logistics Command."
- The House and Senate reports on the fiscal year 1980 Defense Appropriation Bill directed DOD to develop an

implementation plan for consolidating the Military Sealift Command and the Military Traffic Management Command and create a Defense Traffic Management Agency.

--A study recently completed by Harbridge House, Inc., which DOD contracted for in response to this congressional directive recommended, among other things, the establishment of the Unified Traffic Management Command under the Joint Chiefs of Staff.

--GAO has suggested that a Unified Traffic Management Command include not only the traffic management functions of the Military Sealift Command and the Military Traffic Management Command, but also that of the Military Airlift Command.

6. Use Wholesale and Retail Inventories of Parts More Effectively

Problems in this area, throughout DOD, have been the subject of prior GAO reports and we continue to devote much of our efforts to this area. We have just completed a review directed toward determining what actions have been taken on our prior recommendations to improve supply management aboard submarines and aircraft carriers^{1/} and to evaluate the effectiveness of supply support provided by the Navy's automated ships.^{2/} The follow-up report will be issued this fall and will identify specific problem areas and details on actions taken.^{3/} It will also include specific recommendations on further improvements needed including making more effective use of parts and supplies. Concerning Air Force supply activities, we have reported that the Air Force can save millions of dollars by making greater use of DOD supply systems to obtain parts needed for the aircraft modification programs.^{4/}

In response to recommendations to strengthen supply activities, the Navy agreed fully, or in part, with all of our recommendations except one, and either has acted on them or has promised to act on them. The Air Force agreed fully with our recommendation to obtain parts from the DOD supply system and has taken action to do so.

^{1/}"Submarine Supply Support Costs Can be Greatly Reduced Without Impairing Readiness" (LCD-76-237, June 7, 1977)

^{2/}"Millions of Dollars Can Be Saved by Improved Management of Aircraft Inventories" (LCD-78-221, December 22, 1978)

^{3/}"Improved Management of Fleet Supplies and Spare Parts Can Save Millions Without Affecting Readiness" (PLRD-81-59)

^{4/}"Improved Management of Air Force Modification Program Can Save Millions" (PLRD-81-5, March 16, 1981)

III. Further Actions Needed

1. Consolidate military base support activities - Further, DOD actions we believe necessary are to:

--Assign full-time personnel to each of the JIRSGs, and

--Broaden the DRIS programs data base to highlight for management potential areas for greatest savings.

2. Finish consolidation of management of consumable supplies in Defense Logistics Agency - The Secretary of Defense should monitor the impact of the initial transfer closely and make further transfers as soon as it is determined to be feasible.

3. Consolidate management of aircraft depot maintenance activities - GAO plans to respond to the DOD study when it is officially provided. Basically, Defense appears to be expanding on an effort that has proven to be unsuccessful in the past. The problem is that there continues to be a need for someone to make the tough decisions when the services cannot agree on how an item is to be handled. Voluntary coordination has not worked.

4. Consolidate intermediate maintenance of aircraft components in Europe - While DOD does not agree, we still consider our recommendations to be valid and subject to agency action as pointed out in each of our three reports on this subject.

5. Integrate traffic management activities - We continue to believe that the best way to maximize efficiency in the area of logistics support is through a truly centralized or unified traffic management command. Under such a concept, decisions would be made solely on the basis of the overall impact on Defense logistics. The most efficient and economical methods and modes of transportation would be employed giving across-the-board consideration to customer needs, supply situations, and other factors which influence traffic management decisions. As long as the traffic management function remains fragmented--as it is today--the full potential of a unified traffic management command will not be realized.

6. Use wholesale and retail inventories of parts more effectively - Problems which we believe require the greatest management attention in each of the three services are:

Army - A continuing specific problem that has been plaguing the Army for years is its program for validating aged, unfilled material orders (backorders). Our review addresses this problem at both the wholesale and retail level, and involves other CONUS and overseas Army activities.

Navy - We believe the Navy could use inventories of spare parts more effectively by identifying parts in long supply. We view this area as having tremendous economic potential and have started a review directed toward making these type resources available, as Government Furnished Material (GFM) to contractors for use in production.

Another area needing greater attention is the Navy's policy for stocking insurance items aboard ships. Insurance type items are those for which there has been no demand for several years-- currently the time period is 4 years. The Navy plans to increase this time from 4 to 10 years, which will increase the quantity and number of parts stocked by an estimated \$200 million. We have started a review in this area directed toward evaluating the reasonableness of the basis for the Navy's planned increase.

Air Force - Ongoing efforts in this service will identify procedural and system weaknesses which permit stockage of parts, at wholesale and retail levels, in excess of quantities needed. Another review, planned to start in August 1981, will identify the need for better visibility and use of parts made available through the modification programs.

The reports resulting from these reviews will contain more details on improvements needed and specific recommendations to bring them about.

DEFENSE MULTI-YEAR CONTRACTING

Nature of the Problem

The existence of only limited authority for DOD to enter into multi-year contracts for most purchases has resulted in:

- Inadequate and inconsistent funding for weapons programs which, in turn, causes delays, efficiencies and cost growth, and
- The lack of an "up front" commitment to a program which could produce program stability, permit economical production runs, and provide the incentive to contractors to invest in labor-saving capital equipment which would reduce costs and increase productivity.

Longer term contracts will allow the Government to order materials in more economical quantities. They will also enable contractors to make more economical use of resources and contribute to the stability of the workforce.

I. Actions GAO Believes are Needed

Statutory authorizations are needed for DOD to make multi-year contracts for the production of new weapon systems in order to obtain lower unit costs.

II. Summary of Actions Taken

H.R. 3519 and S.815 (in conference as of August 11, 1981) provide the Department of Defense statutory authorization for multi-year contracting. The Office of Federal Procurement Policy is considering seeking similar Government-wide authority in its proposed Uniform Procurement System to be submitted to Congress in October 1981 pursuant to P.L. 96-83.

The Department of Defense has initiated a number of actions in anticipation of multi-year contracting authority. It has:

- Issued a May 1, 1981, multi-year procurement policy memorandum to the service secretaries and directors of the defense agencies. The memorandum defines DOD's policy, the concepts involved and provides examples of multi-year procurement structures.
- Identified about seven potential candidates for multi-year contracting.

The Air Force has expended considerable detailed effort in preparing its proposal of the F-16 aircraft multi-year contract candidate, including formal briefings to DOD and the Office of Management and Budget.

III. Further Actions Needed

Assuming enactment for DOD, the next step will be implementation. DOD has been preparing itself for this change and GAO plans to monitor DOD's implementation to selectively determine whether (1) projected savings are reasonable and measurable and (2) there are any potentially significant problems that have not been identified.

Action may be required by the Congress on the Proposed Uniform Procurement System when the specific proposal is made to the Congress in October 1981.

FOREIGN MILITARY SALES

Nature of the Problem

The Foreign Military Sales Program has grown from about \$1 billion in goods and services ordered in fiscal 1970 to over \$15 billion ordered in fiscal 1980. The value of unfilled orders was over \$53 billion as of September 1980.

Because of the enormous size of this program, it is essential that the program be operated at no loss to the taxpayer as required by law. However, in prior years, the Department of Defense has made large subsidies to foreign countries under the Foreign Military Sales Program. By not charging foreign governments enough for equipment and spare parts, the Department is, in effect, subsidizing the sales with taxpayers' money.

During the past several years, GAO has issued many reports on the need to improve pricing and cost recoupment under the Foreign Military Sales Program. Although the Department has taken considerable corrective action based on previous GAO work and congressional follow-up; cost recovery practices are still inadequate. The Department is still not following a policy of full cost recovery.

I. Actions GAO Believes Are Needed

The Department of Defense (DOD) has experienced longstanding accounting and financial management problems in administering the Foreign Military Sales Program. DOD needs to strengthen its accounting and financial management of the military sales program in the following areas:

- recovery of the full costs of administratively supporting the program;
- recovery of the full replacement cost for items sold to foreign customers from Defense inventories;
- control over the costs waived under the program by keeping the Congress informed of the amount approved for waivers and the reasons for the waivers; and
- improve collections through better accounting systems for foreign sales.

II. Summary of Actions Taken

Since March, the following actions were taken by congressional committees and DOD to improve accounting and financial management of the Foreign Military Sales Program.

- The Subcommittee on Legislation and National Security of the House Government Operations Committee held

hearings on May 6, 1981, on the GAO report titled "Cost Waivers Under the Foreign Military Sales Program: More Attention and Control Needed." (FGMSD-78-48, September 26, 1978).

- The Subcommittee on Defense of the House Appropriations Committee held hearings on May 21, 1981, on "Better Accounting and Financial Management Needed to Eliminate Continued Foreign Military Sales Subsidies."
- In April 1981, the Deputy Secretary of Defense alerted the military departments and Defense agencies to the need for particular emphasis on certain financial management areas related to foreign military sales.
- DOD recently established a quality assurance unit to monitor foreign military sales pricing. However, this unit is not yet fully operational.
- DOD is continuing its study of a centralized accounting system.

III. Further Actions Needed

Corrective action has been taken by DOD on some of the problems noted by the GAO and Defense internal audit reports. This action, however, has usually been slow in coming, narrowly confined, and implemented in an inconsistent manner. Moreover, Defense's attention to the overall problems of inadequate foreign military sales cost recoupment has been limited to little beyond the policy formulation stage.

Although some improvements have been made and management awareness has increased, more must be done. Our previous reports, the Defense internal audit reports, and our ongoing work show that Defense still has serious financial management problems and that many millions of dollars are not being recovered from foreign customers as required by law. Further, a centralized accounting system has not been developed. Many of the more important recommendations made by GAO to improve accounting and financial management in the Department of Defense have not been implemented. In short, Defense needs to

- develop an adequate centralized accounting system,
- establish and implement pricing policies that result in full cost recovery, and
- provide the Congress with adequate information for effective oversight and control.

WORK FORCE COST CONTROL

Nature of the problem

The current budget process and related documents do not give the Congress data in the form needed to make informed decisions about the size and composition of the total Federal work force. The means to control the size of the federally funded work force—personnel ceilings, hiring and promotion freezes, and grade controls—are affecting only the direct Federal work force which in fiscal year 1980 (according to Treasury Department reports) cost \$111.2 billion consisting of \$58.1 billion for defense and \$53.1 billion for civilian activities. In contrast, the control of the Government's indirect or contracted work force, which we estimate costs \$72.6 billion in fiscal year 1980, is extremely limited. This cost is not clearly identified in the budget object classifications and documents, and we computed it by defining the indirect work cost as the cost of service contracts to the private sector and by using Treasury Department reports to calculate the costs. The budget process and documentation do not clearly show the nature of the contracted work forces or the funds expended for the numerous services obtained. Only major aggregations of budgeted costs are identified. These provide little information to make informed resource decisions.

Whether by administrative action or by legislation, a change to the budget procedures should permit control of total work force costs and should also give program managers flexibility to use the type and mix of personnel services that can best carry out their missions. Improved visibility of these costs would give the Congress a better means to evaluate past performance, assess current mix decisions (in-house or contract), and establish dollar limitations on total work force costs, rather than the piecemeal approach used--personnel ceilings, hiring freezes, limits on consultants, and other special categories.

I. Actions GAO Believes are Needed

To better identify, manage, and control its total work force costs, the Government could use several alternatives to its present controls. These alternatives include

- revising the object class structure and budget justification documents to give a clearer, more detailed breakdown of direct and indirect work force costs,
- revising the budget classification system to coincide with goals, missions, and program objectives established in authorizing legislation,
- improving existing data systems, particularly the personnel cost data system operated by OPM and the Federal Procurement Data System administered by GSA,

- developing a totally new system for accumulating and recording costs on both the direct and indirect work force, and
- establishing a work force budget which segregates work force data and costs from other elements of the budget.

In a July 17, 1981 report ^{1/} to the Chairwoman, Subcommittee on Human Resources, House Committee on Post Office and Civil Service, we provided more detailed information on the above alternatives and reported that GAO favors revising the present object classes in the budget presentations. This would take several years to fully implement and would involve:

- Adding several object class categories to identify direct and indirect work force costs.
- Revising OMB and agency budget procedures, budget justification forms, and systems to accommodate the change to the object class structure.
- Adding to the executive and congressional budget decision-making, the consideration of dollar limitations on total work force costs through appropriation acts.

II. Summary of Actions Taken

None

III. Further Actions Needed

The Congress needs to select an alternative to modify the budget procedures to better identify, manage, and control total Federal work force costs and implement this alternative either through administrative action or by legislation.

^{1/} "Improving the Credibility and Management of the Federal Work Force Through Better Planning and Budgetary Controls" (FPCD-81-54).

GENERAL PROCUREMENT AND PROPERTY MANAGEMENT

Nature of the Problem

Government contracting for goods and services is one of the most pervasive and costly activities of Federal agencies and grantees. Typically, 20 percent of the Federal budget is expended through the procurement process.

Of major concern to the Congress since the report of the Commission on Government Procurement in 1972 has been the need for greater uniformity, consistency, and simplification of the procurement process, Government-wide. A constant objective is the importance of increasing competition in Government procurement. During the 1970s trends have been to less competition --which means the probability of higher prices. Sole source awards in DOD now are 64 percent.

I. Actions GAO Believes are Needed

GAO believes there is a Government-wide need to clearly specify the factual support needed to justify noncompetitive procurements as well as a need to develop plans establishing objectives for improving competition. Specifically, actions are needed to insure

- Better planning of the annual procurement program,
- Better management of the process, and
- Higher skill and competence levels.

II. Summary of Actions Taken

During discussions with DOD officials and in congressional testimony, we noted that increasing competition was not included in the 31 initiatives instituted by DOD to improve the acquisition process. We are pleased to note that on July 28, 1981, in testimony before the Senate Armed Services Committee hearing on procurement, that DOD increased its initiatives to 32 by adding "increased stress on competition" as one of its principle initiatives.

The Office of Federal Procurement Policy (OFPP), is addressing competition in its proposed Uniform Procurement System. (See Enclosure VI.) GAO has informally provided data to OFPP on two ongoing GAO efforts on competition in DOD and civil agencies.

III. Further Actions Needed

Completion of OFPP's proposed Uniform Procurement System and favorable congressional action on the system is a needed first step. OFPP is required to submit its proposal to the Congress in

October 1981. There is also a need for OFPP and agencies to jointly establish meaningful baselines as to each agency's current rates of competitive procurements and plans for improving them.

REPLACING OBSOLETE COMPUTERSNature of the Problem

The computer industry has made major technological advances in recent years, which have increased performance dramatically while reducing computational costs significantly. The Government has not kept pace with these advances. Its inventory of medium and large-scale equipment is 98 percent pre-1975 technology.

GAO recently reported (AFMD-81-9, December 15, 1980) that

- central agencies charged with the responsibility for determining when the point of economic obsolescence of their computers has been reached have not provided guidance to Federal agencies to help them,
- top agency management is not involved in key aspects of computer and information resource management, due in part to their lack of awareness of the great significance that the computer now plays in their agency's operations,
- computer managers have frequently become preoccupied with the day-to-day problems of keeping the old equipment operating, and have failed to plan for the future, and
- the procurement path that agencies have been required to follow to obtain newer computers is torturous, and time-consuming.

I. Actions GAO Believes are Needed

We feel that action to correct the situation is needed on three fronts:

1. General Services Administration should issue guidance for replacement of economically obsolete equipment;
2. Heads of Federal agencies should immediately institute a program to determine whether their equipment was obsolescent--using the same approach GAO used in its report--and if so, replace it expeditiously; and
3. The Office of Management and Budget should provide leadership by requiring Federal agencies to improve their managers' knowledge and involvement in ADP planning and resource allocation, and accurately account for resources used.

II. Summary of Actions Taken

1. Legislative - none
2. Budgeting - none
3. Administrative:

--General Services Administration has issued regulations in the area, and has encouraged agencies to replace older equipment under the new provisions.

--Office of Management and Budget has indicated a strong interest in the area. It was one of eight management subjects covered in their Spring preview meeting, which deals with major administrative problems. After the meeting additional information was assembled on obsolete computers and is currently under study by the management staff of OMB.

--Federal Agencies-GSA reports that 114 agency procurement requests have been processed under their Bulletin FPMR F-126, which is designed to expedite the acquisition process, including the replacement of obsolete computers. We plan to obtain an analysis of these acquisitions to determine how many of them cited economic obsolescence of existing equipment as the rationale for the requested action in order to assess the extent to which the obsolescence problem is being remedied.

III. Further Actions Needed

In our view, while GSA has facilitated the replacement of obsolescent equipment by changing their regulations, decisive action by OMB to highlight the area and stimulate appropriate agency responses is needed if momentum to get rid of old, expensive equipment is to be generated in the near future.

We plan to continue our contacts with OMB to encourage early and definitive action.

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