

December 1995

Reports and Testimony: November 1995

Highlights

Nuclear Safety

The countries of the former Soviet Union house hundreds of nuclear facilities and nuclear submarines as well as thousands of organizations using radiation for medicine or research. Aging facilities, lack of funds for safety improvements, and contamination from radioactive waste raise major safety and environmental concerns. Page 4.

FDA Approval Process

The time it takes the Food and Drug Administration to approve a new drug has decreased in recent years, from an average of 33 months in 1987 to 19 months in 1992. In a separate study, GAO found that approval times for medical devices varied widely in recent years; after remaining stable from 1989 through 1991, they rose sharply in 1992 and 1993, then dropped in 1994. Pages 11 and 12.

Medicare Managed Care

Health maintenance organizations could provide Medicare coverage at lower cost than fee-for-service providers. Strategies to fix the way Medicare pays HMOs include replacing existing fee formulas with competitive bidding or negotiated fees; adopting risk adjustment to avoid overpaying for healthy enrollees; and adjusting formulas to reflect local health care costs. Page 12.

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Reports and Testimony: November 1995

Agriculture and Food

Fruit Juice Adulteration: Detection Is Difficult, and Enhanced Efforts Would Be Costly

GAO/RCED-96-18, Nov. 3 (21 pages).

Nationwide, school districts serve more than 56 million gallons of fruit juice each year. Unscrupulous processors can gain an economic advantage over legitimate competitors by adding water, sugar, and other ingredients to fruit juice and labeling the product as pure. However, the extent to which adulteration takes place is uncertain and difficult to detect. Inspections of juice plants are not designed to spot adulteration, and current laboratory tests have limitations. Estimates of the problem's extent vary widely for orange and apple juice, the two most frequently consumed juices. Government and industry officials believe that the adulteration rate for apple juice is insignificant, but estimates of the adulteration rate for orange juice range as high as 20 percent. Since the mid-1980s, the Justice Department has prosecuted seven cases of juice adulteration. These prosecutions resulted in six convictions and one acquittal. On the basis of these convictions, the Agriculture Department has taken action against three companies that remain in business and against 21 individuals to prevent them from selling juice to the school meal programs. Government and industry officials have identified two main options for enhancing the detection of adulterated juice sold to schools—conducting in-plant inspections and instituting either systematic or risk-based juice-testing programs. Although both methods could enhance detection of adulterated juices, they would be costly.

Civil Rights

Military Equal Opportunity: Certain Trends in Racial and Gender Data May Warrant Further Analysis

GAO/NSIAD-96-17, Nov. 17 (40 pages).

Pentagon policy holds that discrimination based on race, national origin, gender, or other factors is counterproductive to combat readiness and mission accomplishment and contrary to good order and discipline. GAO reviewed Military Equal Opportunity Assessments prepared by the military services and examined active-duty personnel data to determine whether racial or gender disparities existed in selection rates. GAO examined accessions, assignments considered career enhancing, and promotions for fiscal years 1989 through 1993. In measuring promotion rates among

women, American Indians, Asians, blacks, and Hispanics compared with those for whites, GAO found that blacks in the military were statistically less likely than whites to be promoted. In contrast, women had a greater-than-expected likelihood of promotion.

Education

Higher Education: Selected Information on Student Financial Aid Received by Legal Immigrants

GAO/HEHS-96-7, Nov. 24 (26 pages).

According to records at the Education Department, about 390,000 legal immigrant students received Pell grant aid in academic year 1992-93. This was about 10 percent of all students receiving Pell grants. In total, immigrants received \$662 million, or about 11 percent, of Pell grant aid in that year. GAO was unable to determine the total number of legal immigrants who received Stafford loans because citizenship data are not maintained in the Education Department's loan files. Some immigrants who received Pell grants, however, also received Stafford loans totaling \$257 million. About 82 percent of the immigrants who received student aid lived in seven states, led by California and New York. Sixty-one percent attended public colleges, 19 percent attended private colleges, and 21 percent attended for-profit vocational schools. The 100 schools with the most immigrant Pell grant recipients accounted for about half of all such students, and 91 percent of these schools were located in the seven states with the highest concentration of immigrant students.

Employment

Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Actions

GAO/HEHS-96-4, Nov. 2 (75 pages).

The Labor Department's Senior Community Service Employment Program finances part-time, minimum-wage community service jobs for about 100,000 poor elderly Americans. GAO found that Labor distributes program funds through noncompetitive grants to 10 national organizations, called national sponsors, and to state agencies. These national sponsors and state agencies, in turn, use the grant funds to finance local employment projects run by community service host agencies, such as libraries, nutrition

centers, and parks, that directly employ older Americans. GAO found that the relative distribution of funds to the national sponsors and state agencies along with Labor's method of implementing the hold harmless provisions have resulted in the distribution of funds among and within states that bear little relationship to actual need. GAO also found that, under Labor's regulations, expenditures that GAO believes to be administrative in nature may be charged to another cost category, allowing grantees to exceed the statutory 15-percent limit on administrative costs. GAO summarized this report in testimony before Congress; see:

Senior Community Service Employment: Program Delivery Could Be Improved Through Legislative and Administrative Actions, by Cornelia M. Blanchette, Associate Director for Education and Employment Issues, before the Subcommittee on Early Childhood, Youth and Families, House Committee on Economic and Educational Opportunities. GAO/T-HEHS-96-57, Nov. 2 (15 pages).

Energy

Nuclear Safety: Concerns With Nuclear Facilities and Other Sources of Radiation in the Former Soviet Union

GAO/RCED-96-4, Nov. 7 (41 pages).

Although safety problems with nuclear reactors in the former Soviet Union and eastern Europe have received widespread attention, many other nuclear facilities and other sources of radiation in the former Soviet Union also pose safety, health, and environmental threats. For example, a 1993 accident at a plutonium processing plant in Russia highlighted safety problems associated with these types of facilities. This report provides information on (1) nuclear facilities (other than civil nuclear power reactors), nuclear-powered vessels, and other sources of radiation in the former Soviet Union; (2) the views of U.S. and international experts on the safety of these facilities and other sources of radiation; and (3) U.S. and international efforts to address nuclear safety and environmental problems with these facilities and other sources of radiation.

Environmental Protection

Testimony

Drinking Water: Safe Drinking Water Act Reauthorization Issues, by Peter F. Guerrero, Director of Environmental Protection Issues, before the Senate Committee on Environment and Public Works. GAO/T-RCED-96-35, Oct. 19 (16 pages).

In recent years, escalating costs and increasing serious implementation problems have affected the drinking water program, particularly as it affects individual water systems and the states responsible for overseeing them. The bill to reauthorize the Safe Drinking Water Act contains provisions that address these important issues. This testimony highlights some of the key findings in past GAO work relating to (1) various managerial, technical, and preventive approaches to dealing with water systems' compliance problems; (2) state resources needed to oversee the implementation of the drinking water program; and (3) financing infrastructure needs. GAO comments on relevant sections of the proposed reauthorization bill.

Global Warming: Limitations of General Circulation Models, by Peter F. Guerrero, Director of Environmental Protection Issues, before the Subcommittee on Energy and Environment, House Committee on Science. GAO/T-RCED-96-43, Nov. 16 (eight pages).

When discussing the implications of global warming and the steps needed to control greenhouse gas emissions, one needs to consider the range of projected temperature increases and the degree of uncertainty in these estimates. In July 1995, GAO reported (see GAO/RCED-95-164) on the limitations of general circulation computer models used to make such predictions. This testimony is based on the findings of that report. Although the accuracy of general circulation models has improved during the past decade, these models are still limited by incomplete and inaccurate representations of the processes affecting climate and by insufficient computing power. These limitations do not change the likelihood that the climate will change as a result of increased greenhouse gas emissions. They do, however, limit the ability to predict with certainty how the climate will respond—how much warming will occur, how soon it will happen, and what the regional effects will be. Efforts are under way to collect and analyze data, improve representations of various climatic

processes, and develop and use more powerful computers. These efforts, which could take a decade or more, should improve the accuracy of the models.

Financial Institutions

Administrative Law Judges: Comparison of SEC and CFTC Programs

GAO/GGD-96-27, Nov. 14 (29 pages).

Generally, Administrative Law Judges (ALJ) at the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) serve as hearing officers in cases involving violations of securities and futures laws. In response to press reports that CFTC routinely reversed or scaled back penalties imposed by its ALJs, this report compares the ALJ programs at the two agencies, including case-processing times and the results of appeals of ALJ decisions. GAO also provides information on budgets, staffing, and caseload statistics for both agencies' ALJ operations.

Community Reinvestment Act: Challenges Remain to Successfully Implement CRA

GAO/GGD-96-23, Nov. 28 (111 pages).

Concerned that banks and thrifts were unresponsive to credit needs in low- and moderate-income areas, Congress enacted the Community Reinvestment Act of 1977 (CRA). Under CRA, federal bank and thrift regulatory agencies must encourage institutions to help meet credit needs in all areas of the communities that they serve, consistent with safe and sound operations. CRA also requires the regulators to assess institutions' CRA performance during examinations and to consider that performance when evaluating institutions' applications for expansion or relocation of operations. Growing concern about the effectiveness of CRA's implementation and its regulatory burden on institutions led to the recent revision of CRA regulations. This report addresses the following four questions: (1) What were the major problems in implementing CRA, as identified by the affected parties—bankers, regulators, and community groups? (2) To what extent do the regulatory reforms address these problems? (3) What challenges do the regulators face in ensuring the success of the reforms and what actions would help the regulators to face these challenges? and (4) What initiatives have been taken or proposed to

help bankers overcome community lending barriers and enhance lending opportunities, particularly in low- and moderate-income areas?

Financial Management

Testimony

Financial Management: Challenges Facing DOD in Meeting the Goals of the Chief Financial Officers Act, by Gene L. Dodaro, Assistant Comptroller General for Accounting and Information Management, before the Subcommittee on Government Management, Information and Technology, House Committee on Government Reform and Oversight. GAO/T-AIMD-96-1, Nov. 14 (28 pages).

The Defense Department (DOD) needs accurate financial information and appropriate internal controls to effectively manage its vast resources—more than \$1 trillion in assets, 3 million in military and civilian personnel, and a budget of more than \$250 billion for fiscal year 1995. Unfortunately, DOD suffers from serious and pervasive financial management problems, ranging from the inability to account for billions of dollars in disbursements to a breakdown in an ability to protect assets from waste, fraud, and abuse. No military service or other major DOD component has been able to withstand the scrutiny of an independent financial statement audit. Although DOD recognizes the problem, it faces serious challenges in implementing its “blueprint” for reform. GAO continues to believe that DOD should establish an independent, outside board of experts to provide counsel, oversight, and perspective to DOD’s reform efforts. Such experts could provide valuable advice and expertise in three challenging areas: systems development, personnel needs assessment, and organizational structure.

Government Operations

Personnel Security: Pass and Security Clearance Data for the Executive Office of the President

GAO/NSIAD-96-20, Oct. 19 (36 pages).

Because of reported delays of more than a year in issuing access passes at the White House, Members of Congress have expressed concern about the

White House's management of the access pass and security clearance processes. GAO found that persons starting work at the White House during 1993 received final approval for permanent White House access passes an average of 346 days from their start date, but the average approval time fell to 98 days for staff brought on board in 1994. According to White House officials, the White House has not historically tracked time interval data on the access pass process. As a result, GAO could not compare the information it analyzed with prior experience. White House and congressional action have introduced changes to improve the access and security clearance processes. For the time intervals and offices GAO reviewed, with few exceptions, the time intervals declined and the procedures were followed. However, controls could be strengthened in several areas, including the renewal of temporary passes, the revoking of passes after separation, and the granting of security clearances.

**Government Contractors:
Selected Agencies' Efforts to Identify Organizational Conflicts
of Interest**

GAO/GGD-96-15, Oct. 25 (17 pages).

This report reviews federal agencies' implementation of the Office of Management and Budget's 1989 policy letter entitled "Conflict of Interest Policies Applicable to Consultants." It also reviews organizational conflict of interest requirements applicable to advisory and assistance service contractors, including consultants. GAO (1) determines whether selected agencies have complied with requirements to identify and evaluate potential organizational conflicts of interest and (2) identifies ways that agencies might improve their screening for such conflicts. GAO focuses on the Energy Department, the Environmental Protection Agency, and the Navy because they are among the largest users of contracted advisory and assistance services.

**Federal Job Classification:
Comparison of Job Content With Grades Assigned in
Selected Occupations**

GAO/GGD-96-20, Nov. 6 (144 pages).

Over the years, many studies have suggested that women and minorities are paid less than men and nonminorities who work comparable jobs. These observations have raised questions about whether the federal

government's classification systems result in lower grades being assigned to jobs in occupations with large number of females or minorities. GAO examined the relationship between job content and grades assigned using the Fact Evaluation System and found differences in the grading of positions in occupations with high representations of women or minorities. The National Performance Review and other studies suggest that the current classification systems should be abandoned in favor of more flexible, broad-banded systems. GAO suggests that policymakers closely monitor any new systems to ensure that (1) unintended disparities are identified and corrected and (2) the national policy underlying the existing classification system—that jobs be classified so that pay is equal for substantially equal work—is being satisfactorily achieved.

**U.S. Postal Service:
Postal Ratemaking in Need of Change**

GAO/GGD-96-8, Nov. 15 (35 pages).

Today, the U.S. Postal Service competes with communications technologies and private carriers for the delivery of services in markets that in 1970 were the sole domain of the Postal Service. Many observers believe that the current ratemaking process takes too long for the Postal Service to respond to today's rapidly changing market conditions. This report discusses (1) whether changes in policies concerning volume discounting and demand pricing should still be considered by Congress, (2) the issues surrounding the current ratemaking process, and (3) proposals for modifying the postal ratemaking process and other changes that merit further consideration by Congress. The proposals that GAO offers—to improve the effectiveness of the postal ratemaking process, ensure financial accountability, and give the Postal Service more flexibility to price and compete in the marketplace—provide the Postal Service, the Postal Rate Commission, and Congress with a variety of options to consider in reforming the ratemaking process.

Testimony

Federal Courthouse Construction: More Disciplined Approach Would Reduce Costs and Provide for Better Decisionmaking, by J. William Gadsby, Director of Government Business Operations Issues, before the Subcommittee on Oversight of Government Management and the District of Columbia, Senate Committee on Governmental Affairs. GAO/T-GGD-96-19, Nov. 8 (37 pages).

The General Services Administration (GSA), in response to the growing space needs of the federal judiciary, has begun a major courthouse construction initiative that could cost \$10 billion during the next 10 to 15 years. Concerns have been raised in Congress about the huge sums of money involved and that new courthouses may not be needed or are too expensive. This testimony focuses on three areas: (1) the approach for meeting federal courthouse needs, (2) the controls over and oversight of courthouse construction design and costs, and (3) the current efforts to improve this multibillion-dollar initiative. GAO found that GSA and the federal judiciary had wide latitude in making choices that significantly affected costs. These choices were made under circumstances in which budgets or designs were often committed to before requirements were established, design guidance was flexible, and systemic oversight was limited. The upshot was that some courthouses ended up with more expensive materials or costly design configurations, while others had, or are to have, more economical features. These differences had a major impact on the overall cost of courthouse construction.

Status of General Accounting Office Reviews of the Library of Congress, by J. William Gadsby, Director of Government Business Operations Issues, before the Senate Joint Committee on the Library of Congress. GAO/T-GGD-96-49, Nov. 29 (two pages).

This testimony discusses the status of GAO's reviews at the Library of Congress. It briefly summarizes GAO's August 1991 report (GAO/AFMD-91-13) on the Library's financial management and its response to GAO's recommendations. The testimony also explains the scope and status of GAO's current review, which broadly assesses the Library's management and updates the 1991 financial audit.

Federal Employee Redress: An Opportunity for Reform, by Timothy P. Bowling, Associate Director for Federal Management and Workforce Issues, before the Subcommittee on Civil Service, House Committee on Government Reform and Oversight. GAO/T-GGD-96-42, Nov. 29 (19 pages).

The redress system for federal workers seeks to protect these employees against arbitrary agency actions and prohibited personnel practices, such as discrimination or retaliation for whistleblowing. But how well is the redress system working, and does it add to or detract from the fair and efficient operation of the federal government? This testimony makes three main points. First, because of the system's complexity and the variety of redress mechanisms it affords federal employees, it is inefficient,

expensive, and time-consuming. Second, because the system is so strongly protective of the redress rights of individual workers, it is vulnerable to employees who would take undue advantage of these protections. Its protracted processes and requirements divert managers from more productive activities and inhibit some of them from addressing legitimate performance and conduct problems. Moreover, the demands of the system put pressure on employees and agencies alike to settle cases—regardless of their merits—to avoid potential costs. Third, alternatives to the current system do exist and may be worth further study as Congress considers modifying the federal system. Leading private sector employers told GAO that their managers are held accountable for treating people fairly but are also given the flexibility and the discretion to make the tough decisions that are an inevitable part of sound management. To the extent that the federal redress system is tilted toward employee protections at the expense of the effective management of the nation's business, it deserves congressional attention.

Health

FDA Drug Approval: Review Time Has Decreased in Recent Years

GAO/PEMD-96-1, Oct. 20 (44 pages).

New drugs marketed in the United States must be approved first by the Food and Drug Administration (FDA). FDA grants its approval after it has determined from data submitted by a drug's sponsor that the drug is safe and effective and that the manufacturer can guarantee its quality. GAO found a considerable reduction in approval time for new drug applications between 1987 and 1992. It took an average of 33 months for new drug applications submitted in 1987 to be approved but only 19 months on average to approve new drug applications submitted in 1992. The priority that FDA assigns to a new drug application and the experience of its sponsors significantly affect the likelihood of a quick decision. FDA assigns priority status to drugs that are expected to provide therapeutic benefit to consumers beyond that of drugs already marketed. Priority status and sponsor experience are also the two factors that predict the likelihood of drug approval. Finally, the limited data available on review time for FDA and its counterpart in the United Kingdom paint a more ambiguous picture than presented in many recent reports. In fact, the latest data published by the regulatory agency in the United Kingdom show that it does not have faster approval times than FDA.

**Medical Devices:
FDA Review Time**

GAO/PEMD-96-2, Oct. 30 (87 pages).

The Food and Drug Administration (FDA) regulates the manufacture and marketing of medical devices in the United States. Some critics have argued that FDA's review of medical devices is excessively lengthy and can impose inordinate delays in the introduction of new devices into the marketplace. GAO found that FDA review times and trends for medical device applications varied widely between October 1988 through May 1995. For 510(k) applications submitted, the review time remained stable from 1989 to 1991, then rose sharply in 1992 and 1993, before dropping in 1994. For 1994, the median was 152 days. The mean time to a decision was higher—166 days—and this mean will continue to grow as the remaining open cases (13 percent) are completed. The review time trend for original premarket approvals was less clear, in part because a large proportion of applications had yet to be completed. Not all the time that elapsed between an application's submission and its final determination was spent under FDA's review process. In many cases, FDA had to wait for additional information.

**Medicare Managed Care:
Growing Enrollment Adds Urgency to Fixing HMO Payment Problem**

GAO/HEHS-96-21, Nov. 8 (28 pages).

Enrollment of Medicare beneficiaries in health maintenance organizations (HMO) has soared in recent years, concentrated in some states and locales. This rapid growth in enrollment highlights the urgency of correcting Medicare's excessive payment rates to HMOs—particularly in certain areas. Likewise, enrollment stagnation elsewhere underscores the need to examine the causes of payment rate disparities among states and counties. Medicare's HMO payment method is plagued by three flaws. First, the rigidity of the formula-based fixed payment rate does not allow Medicare to capitalize on the competition among HMOs that, in the private market, leads to lower rates. Second, rate adjustment for differences in beneficiaries' health status are so imprecise that Medicare overpays HMOs that enroll beneficiaries in good health. Third, the reliance on a county's fee-for-service health care costs to establish a payment rate produces rates that vary considerably within market areas. GAO concludes that a sensible approach would be to pursue three promising strategies

concurrently—foster price competition among HMOs, improve risk adjusters' accuracy, and allow for adjustments in the current formula to reflect market competition and HMO's local health care costs. The Health Care Financing Administration (HCFA) plans demonstration projects using competitive bidding and improved risk adjustment, but results of a full-scale evaluation of these projects are years away. In the interim, HCFA should promptly gather and use valuable design and implementation data as they become available. HCFA's legislative authority to carry out these projects does not address managed care options explicitly, which raises questions about HCFA's authority to mandate HMO participation in the projects.

**Pharmacy Benefit Managers:
Early Results on Ventures With Drug Manufacturers**

GAO/HEHS-96-45, Nov. 9 (30 pages).

Some of the largest drug companies have recently merged or formed alliances with some of the largest companies that manage prescription drug benefits for health plans, called pharmacy benefit managers. The ventures gained immediate attention from industry observers not only because of their size but also because of concerns about their effect on competition in markets for drug manufacturers' products and pharmacy benefit managers' services. This report discusses the role of pharmacy benefit managers in the health care industry, the objectives of these ventures, and concerns about the effect of these ventures on competition in the markets served by drug companies and pharmacy benefit managers. GAO concludes that some mergers between drug manufacturers and pharmacy benefit managers warrant continued monitoring by the Federal Trade Commission to ensure that the pharmacy benefit managers do not give their manufacturing partners an unfair advantage by including their products on lists of preferred drugs that they cover and excluding those of competing firms.

**Health Care Task Force:
Governmentwide Costs**

GAO/GGD-96-45R, Nov. 9 (10 pages).

This letter provides information on the governmentwide costs associated with the President's Task Force on Health Care Reform. GAO collected information from all 10 federal agencies, including the Executive Office of

the President, that participated in the Task Force. GAO lists by agency their Task Force-related spending, which totaled \$13.8 million. More than half of the total—\$7.5 million—was attributed to personnel costs. Task Force spending ranged from more than \$9 million at the Department of Health and Human Services to less than \$50,000 at the Education Department. GAO also breaks out the total cost by work phases and functional categories.

**Ryan White Care Act of 1990:
Opportunities to Enhance Funding Equity**

GAO/HEHS-96-26, Nov. 13 (65 pages).

GAO's analysis of existing funding formulas demonstrates that federal funding under the Ryan White Care Act can be made more equitable. An important goal of the act was to target emergency funding to areas of greatest need. At the time the law was enacted, high rates of human immunodeficiency virus (HIV) infection were found in fewer areas of the country, service delivery networks were just beginning to form, and these service delivery systems had to rely primarily on private and volunteer resources. During the past five years, however, the HIV epidemic has become more widespread and less localized. Hence, areas where the AIDS caseload had burgeoned recently need per-case funding levels comparable to those in areas where AIDS was initially concentrated.

**Medicare:
Enrollment Growth and Payment Practices for Kidney
Dialysis Services**

GAO/HEHS-96-33, Nov. 22 (17 pages).

Medicare is the predominant health care payer for people with end stage renal disease—permanent and irreversible loss of kidney function. Medicare's costs for this program have increased, mainly because of the substantial increase in new beneficiaries being enrolled in the program. The average annual rate of increase averaged 11.6 percent between 1978 and 1991. In addition to the rise in enrollment, the mortality rate for new patients decreased. For example, deaths among beneficiaries during their first year in the program fell from 28 percent to 24 percent between 1982 and 1991. Since the program began in 1973, technological advances and greater availability of kidney dialysis machines have meant that persons who were not considered good candidates for kidney dialysis in 1973—those 65 years old or older and those whose kidney failure was

caused by diabetes and hypertension—are now routinely placed on dialysis. GAO’s review of medical services and supplies provided to all Medicare end state renal disease patients in 1991 shows that no separately billable service or supply was provided often enough to make it a good candidate to be considered part of the standard dialysis treatment and thus included in a future composite rate.

Testimony

Fraud and Abuse: Medicare Continues to Be Vulnerable to Exploitation by Unscrupulous Providers, by Sarah F. Jaggard, Director of Health Financing and Public Health Issues, before the Senate Special Committee on Aging. GAO/T-HEHS-96-7, Nov. 2 (16 pages).

The vast majority of Medicare providers try to abide by program rules and strive to meet beneficiaries’ needs. Nevertheless, Medicare is overwhelmed in its attempts to keep pace with, much less stay ahead of, those bent on cheating the system. GAO’s recent investigations of Medicare fraud and abuse have implicated home health agencies, medical suppliers, pharmacists, rehabilitation therapy companies, and clinical laboratories. They are attracted by the high reimbursement levels for some supplies and services, and the few barriers to entry into this lucrative marketplace. Once engaged in these profitable activities, exploitative providers too often escape detection because of inadequate claims scrutiny, elude pursuit by law enforcement authorities because of the authorities’ limited resources and fragmented responsibilities, and face little risk of speedy or appropriate punishment.

Housing

Rural Housing Programs: Opportunities Exist for Cost Savings and Management Improvement

GAO/RCED-96-11, Nov. 16 (28 pages).

The Agriculture Department’s Rural Housing and Community Development Service provides about \$2.85 billion each year for rural housing loans. As of June 1995, the Service had an outstanding single-family and multifamily housing loan portfolio of about \$30 billion, which represented a significant federal investment in affordable housing for the rural poor. The largest portion of the loan portfolio is for single-family direct and guaranteed mortgage loans that are made to families or individuals who are without adequate housing and who are

unable to obtain loans from private lenders at reasonable costs. Rural multifamily rental housing loans, made to finance apartment-style housing or to buy and rehabilitate existing rental units, make up the rest of the portfolio. This report provides information on the Service's single- and multifamily housing loans programs and discusses suggestions made by GAO and others that could yield cost savings or management improvement in these programs.

Income Security

Federal Pensions: Thrift Savings Plan Has Key Role in Retirement Benefits

GAO/HEHS-96-1, Oct. 19 (21 pages).

As of September 1994, about 940,000 federal workers covered by the Federal Employees Retirement System (FERS) were voluntarily contributing an average of 5.7 percent of their salaries to the Thrift Savings Plan. Most of the remaining 300,000 workers covered by FERS who were not contributing were in the lower pay ranges. Lower-paid workers who were contributing were doing so at lower rates than higher-paid workers—an average of 4.4 percent of their salaries. However, lower-paid workers may achieve satisfactory retirement income levels even with low contribution rates because Social Security benefits are proportionately greater for them than for higher-paid workers. Higher paid workers need to defer at least five percent of their salaries throughout their careers—if not more—to achieve retirement income of 60 to 80 percent of their preretirement salaries. Educating FERS workers can play a key role in their making wise preretirement investment choices. Although Thrift Savings Plan materials discuss the plan's financial aspects, they do not explicitly discuss how the Thrift Savings Plan can help workers covered by FERS achieve their retirement income goals. The Thrift Savings Plan Board is seeking legislation that would enable employees to invest in a domestic small capitalization fund and an international stock fund. GAO found that these two additions would make the Thrift Savings Plan's investment options more closely resemble those in similar private sector plans.

Information Management

Land Management Systems: Progress and Risks in Developing BLM's Land and Mineral Record System

GAO/AIMD-95-180, Aug. 31 (20 pages).

The Bureau of Land Management's (BLM) Automated Land and Mineral Record System/Modernization, which is estimated to cost \$428 million, is intended to improve BLM's ability to record, maintain, and retrieve land description, ownership, and use information. To date, the Bureau has been completing most of the project's tasks according to the schedule milestones set in 1993. In coming months, the work will become more difficult as BLM and the primary contractor try to complete, integrate, and test the new software system and meet the current schedule. Slippages may yet occur because little time was allocated to deal with unanticipated problems. BLM recently sought to obtain independent verification and validation to ensure that the new system software meets the Bureau's requirements. A key risk remains, however. BLM's plans include stress testing only a portion of the Automated Land and Mineral Record System/Modernization, rather than the entire project, to ensure that all systems and technology can successfully process workloads expected during peak operating periods. By limiting the stress test, BLM cannot be certain that the system's information technology will perform as intended during peak workloads.

Testimony

Medicare Transaction System: Strengthened Management and Sound Development Approach Critical to Success, by Frank W. Reilly and Christopher W. Hoenig, Directors of Information Resources Management Issues, before the Subcommittees on Human Resources and Intergovernmental Relations, and Government Management, Information and Technology, House Committee on Government Reform and Oversight. GAO/T-AIMD-96-12, Nov. 16 (15 pages).

The Health Care Financing Administration (HCFA) is developing a critical new claims-processing system, the Medicare Transaction System (MTS), to replace the nine systems now used by Medicare. MTS' goal is to better protect program funds from waste, fraud, and abuse; allow better oversight of Medicare contractor operations; improve service to beneficiaries and providers; and cut administrative expenses. The weaknesses in HCFA's development of MTS stem from a lack of a disciplined management process that has as its hallmark managing information

systems and technology as investments. Not managing MTS in this way has led to system design and development proceeding despite (1) difficulties in defining requirements, (2) a compressed schedule containing significant overlap of system-development phases, and (3) a lack of reliable information on costs and benefits. These risks can be substantially reduced if HCFA adopts some of the "best practices" that have proven effective in other organizations: managing systems as investment, changing information management practices, creating line manager ownership, better managing resources, and measuring performance.

International Affairs

Foreign Assistance: PLO's Ability to Help Support Palestinian Authority Is Not Clear

GAO/NSIAD-96-23, Nov. 28 (14 pages).

This is an unclassified version of a GAO report issued in June 1995 on the Palestine Liberation Organization's (PLO) finances. That report (1) assessed the PLO's ability to help finance the Palestinian Authority's operations in the West Bank and Gaza Strip, (2) reviewed whether the international donors effectively analyzed the need to help fund the Palestinian Authority's operating and start-up expenses, and (3) determined whether appropriate controls had been implemented to ensure that donor funds would be adequately accounted for. GAO was unable to independently verify the PLO's current financial condition because the PLO was unwilling to provide GAO with requested accounting records and supporting documentation. GAO did, however, obtain unclassified and classified data on the PLO's finances. Most of the information supplied by the State Department is included in this report. With minor exceptions, none of the material GAO obtained from the Central Intelligence Agency could be declassified.

Justice and Law Enforcement

Testimony

Federal Law Enforcement: Information on Certain Agencies' Criminal Investigative Personnel and Salary Costs, by Norman J. Rabkin, Director of Administration of Justice Issues, before the Subcommittee on Crime, House Committee on the Judiciary. GAO/T-GGD-96-38, Nov. 15 (34 pages).

This testimony discusses the composition and salary costs of federal investigative authorities in federal agencies. GAO provides preliminary information it has obtained on federal agencies with personnel employed in certain occupational series with criminal law investigative responsibilities, the number of these personnel, and their salaries. GAO also provides information it has developed on jurisdictional overlap or duplication of efforts among the agencies.

National Defense

DOD Procurement: Millions in Contract Payment Errors Not Detected and Resolved Promptly

GAO/NSIAD-96-8, Oct. 6 (28 pages).

The 374 business units—representing 82 large defense contractors and 57 small contractors—that responded to GAO's request for data as of July 1994 reported about \$231.5 million in outstanding overpayments and about \$625.9 million in underpayments. The evidence suggests and contractors reported that they followed up to collect underpayments and usually notified the Defense Department of overpayments. Contractors did not, however, always return overpayments unless told to do so. The Defense Finance and Accounting Service Center in Columbus, Ohio, cannot readily detect payment discrepancies because of significant errors in its automated payment records. Despite these errors, Center personnel pay contractors' invoices as if the payment data were correct. The Center did not properly pursue recovery after overpayments were reported by contractors or identified through contract reconciliation. The Center's delay in collecting overpayments has been long and costly. For the \$84.2 million in overpayments that it reviewed, GAO estimates that recovery delays cost the government about \$10.6 million in interest. Even after a public accounting firm completed contract reconciliations to identify the amounts owed the government, the Center did not recover overpayments promptly.

Defense Contractors: Pay, Benefits, and Restructuring During Defense Downsizing

GAO/NSIAD-96-19BR, Oct. 10 (44 pages).

In the midst of defense downsizing, salary, bonuses, and other compensation paid to the five highest paid executives at the top 10 defense

contractors ranged from \$230,000 in 1989 to nearly \$18 million in 1993. Many of these executives also exercised stock options, with one individual receiving \$26 million in 1993. In 1989, the average compensation paid by different defense contractors to salaried employees ranged from \$35,900 to \$48,700. By 1994, the figures had risen to \$48,100 and \$55,000, respectively. In 1989, the average annual compensation for hourly employees ranged from \$24,700 to \$32,200; in 1994 these figures ranged from \$30,200 to \$39,500. In response to decreases in Defense Department procurement, these companies have adopted various restructuring strategies, including mergers with competitors, divesting units no longer considered to be part of their core businesses, consolidation of production facilities, and commercialization of military technologies. Assistance provided to separated workers included termination pay based upon salary level and length of service; outplacement services, such as job counseling and assistance with resume writing; and extension of employee health, dental, and insurance benefits for a time after separation. Nine out of the 10 companies GAO surveyed provided incentives to encourage voluntary separation.

**Military Training:
Cost-Effective Development of Simulations Presents
Significant Challenges**

GAO/NSIAD-96-44, Nov. 8 (19 pages).

Since 1988, the Pentagon has been grappling with how to provide simulations that realistically portray joint warfare operations for training. To help meet this training need, the Defense Department (DOD) developed the Aggregate Level Simulation Protocol, a technique that allows multiple service and agency models to communicate with each other. Although the Protocol is a technological advancement, the existing warfare capabilities of the individual models are limited and the problem of providing a valid joint training environment persists. Because of these limitations and the cost and complexity of the Protocol, DOD is developing a new system—the Joint Simulation System—that is scheduled to be fully operational by 2003. Until that system is up and running, DOD plans to continue improving the Protocol. This report discusses (1) how well DOD is progressing with its development of the Joint Simulation System and (2) whether DOD's decisions to improve the Protocol are cost effective.

**Defense Acquisition Organizations:
Changes in Cost and Size of Civilian Workforce**

GAO/NSIAD-96-46, Nov. 13 (26 pages).

In 1994, Defense Department (DOD) acquisition organizations, including the Defense Contract Audit Agency, employed about 464,000 persons—398,000 civilian and 66,000 military. In addition to acquisition duties, the acquisition organizations have other significant responsibilities, such as logistics, maintenance, and supply. The workforce includes “white collar” jobs, such as engineering, accounting, and computer specialists, as well as “blue collar” jobs, such as machine tool operators, pipefitters, and shipyard workers. The civilian workforce in DOD’s acquisition organizations increased with the defense buildup of the early 1980s and decreased following the reductions that began in the mid-1980s. However, this decline occurred without a commensurate decline in civilian payroll costs, due in part to the significant decline in blue collar workers. DOD officials attributed the rise in civilian payroll costs to several factors, such as the advent of locality pay and changes in grade structure. Against the backdrop of the civilian workforce decline in DOD’s acquisition organizations, defense contract awards for services have risen about \$10 billion since 1980. About \$4 billion of this increase was for engineering and architectural and computer services. Even with the decline in both the defense procurement budget and the civilian workforce since 1990, the number of acquisition organizations remains relatively constant. GAO notes that each acquisition organization employs persons in similar jobs, such as personnel and budgeting, and opportunities may exist to improve efficiencies in these areas.

**Strategic Airlift:
Improvements in C-5 Mission Capability Can Help Meet
Airlift Requirements**

GAO/NSIAD-96-43, Nov. 20 (28 pages).

Although the Defense Department (DOD) is counting on the C-5 to deliver nearly half of the cargo carried by military aircraft in the event of war, a shortage of spare parts and a poor strategy to modernize the aircraft have resulted in readiness rates that are considerably below expectations. The manufacturer contends that improving the C-5 spare parts process, particularly by scheduling repairs of spare parts on the basis of their impact on mission capability, could substantially improve the C-5’s

mission capable rate. The rate could also be improved if the Air Force did a readiness evaluation similar to the one recently completed for the B-1B aircraft. That evaluation found that the B-1B's mission capable rate could increase if support for spare parts was improved. The Air Force has not prioritized proposed C-5 modifications according to which one would contribute most to improving mission capability. As a result, decision-makers cannot fully assess the impact that proposed improvements could have on overall aircraft mission capability or total airlift capability. If peacetime C-5 mission capable rates achieved the Air Force's goal of 75 percent, DOD could gain an additional 1.3 million ton miles per day of C-5 wartime capability—the equivalent of 10 C-17s. As a result, DOD could come close to meeting military airlift requirements.

**Retention Bonuses:
More Direction and Oversight Needed**

GAO/NSIAD-96-42, Nov. 24 (28 pages).

The Selective Reenlistment Bonus Program was created 30 years ago to help the military retain highly skilled service members. However, GAO found that in 1994, the Defense Department (DOD) paid about \$64 million in retention bonuses to individuals who worked in job categories in which positions were filled or who had been paid incentives to leave. Military officials defended their management of the retention and separation incentive programs, asserting that each is targeted at different segments of the force, that retention and separation incentives went to personnel in different grades and year groups, and that payment of separation incentives did not mean that they were satisfied with manning levels. GAO believes that if a skill is experiencing shortages that warrant the payment of retention incentives, it is not prudent to pay incentives to others with those same skills to leave the service. The Office of the Secretary of Defense is not providing adequate direction and oversight of the programs.

**Battlefield Automation:
Army's Digital Battlefield Plan Lacks Measurable Goals**

GAO/NSIAD-96-25, Nov. 29 (17 pages).

One of the Army's top priorities is a program to digitize the battlefield by creating a vast network of computers, sensors, and communications that would provide a common picture of the battlefield from soldier to commander simultaneously. The Army's plan, which is estimated to cost

\$4 billion, contains many risks and lacks specific, measurable goals for the series of large-scale experiments that are to be done. The Army plans to conduct a series of experiments from 1995 to 1997, including a brigade-level experiment in 1997 at a cost of \$258 million, without having had a successful battalion-level experiment. In fact, a battalion-level experiment in 1994 failed to meet Army expectations. Specific, measurable goals are needed to evaluate the achievements of each experiment, and they should be met before proceeding to the next experiment. Otherwise, the Army risks additional investments costing \$397 million for digital systems needed to conduct increasingly larger scale experiments through fiscal year 1999. On the basis of Army estimates, the investment required to digitize a 10 division Army could run as high as \$4 billion. Also, because Congress has directed the Army to include the Marine Corps in its plan, Defense Department funding for the Marine Corps must be identified and ensured to solidify its participation and success.

Natural Resources

Animal Damage Control Program: Efforts to Protect Livestock From Predators

GAO/RCED-96-3, Oct. 30 (19 pages).

Efforts to protect livestock from predators, mainly coyotes, constitute the major activity of the Agriculture Department's Animal Damage Control Program. In 1994, more than 100,000 predators were killed by the program's field personnel. GAO found that Agriculture field personnel in California, Nevada, Texas, and Wyoming used lethal methods in essentially all instances to control livestock predators. Agriculture's written policies and procedures call for field personnel to give preference to the use of nonlethal methods when practical and effective. However, according to program officials, this aspect of written guidance does not apply to the control of livestock predators. These officials said that in controlling livestock predators, nonlethal methods, such as fencing and the use of herders and guard dogs, are more appropriately used by ranchers, have limited effectiveness, and are impractical for field personnel to use.

Animas-La Plata Project: Status and Legislative Framework

GAO/RCED-96-1, Nov. 17 (36 pages).

The Interior Department's Animas-La Plata Project was designed to store water and divert it to arid regions in southwestern Colorado and northwestern New Mexico, mainly by channelling water from the Animas River to the La Plata River basin. Before beginning construction of the project, the Interior Department is required to determine whether the project would jeopardize the continued existence of any endangered species. This report provides information on the history and status of the Animas-La Plata project, the legislative framework provided for the project by the 1988 Colorado Ute Indian Water Rights Settlement Act and the Endangered Species Act, the consultation between the Bureau of Reclamation and the Fish and Wildlife Service under the Endangered Species Act, and the project's relationship to another congressionally authorized project—the Navajo Indian Irrigation Project.

Testimony

Forest Service: Observations on the Emergency Salvage Sale Program, by James K. Meissner, Associate Director for Natural Resources Management Issues, before the Subcommittee on Forests and Public Lands Management, Senate Committee on Energy and Natural Resources, and the Timber Salvage Task Force, House Resources Committee. GAO/T-RCED-96-38, Nov. 29 (eight pages).

Salvage timber involves dead or dying trees, much of which would be marketable if harvested before it rots. In the past, many sales of salvage timber were delayed, altered, or withdrawn, and some of the timber deteriorated and became unsalable. In response to the millions of acres of salvage timber caused by the devastating fires of 1994, Congress established an emergency salvage timber sale program, which was designed to increase the harvesting of salvage timber by easing environment procedures and eliminating the administrative appeals process. GAO testified that it is too early to say to what extent the changes introduced by the program will boost sales because few sales have been made since the program became effective. Some salvage sale offerings failed to receive bids mainly because of the terms and conditions of the sales, such as the minimum bid or specific logging requirements or the volume of timber being offered, were unacceptable to potential buyers. In addition, because of the short-term nature of the emergency salvage sale program, more comprehensive information on the universe of marketable salvage timber may help Congress as it assesses the program's impact and whether additional resources are needed to support it.

Science, Space, and Technology

Earth Science Information Network: Relationship of Consortium to Federal Agencies

GAO/NSIAD-96-13, Oct. 27 (27 pages).

The Consortium for International Earth Science Information Network was established in 1989 as a private, nonprofit organization chartered by the state of Michigan. It is structured as a consortium of university and nongovernmental research organizations. The Consortium's mission is to provide access to, and enhance the use of, information on human interactions in the environment by scientists and policy makers. In addition to discussing the Consortium's mission, this report provides information on (1) the Consortium's past and prospective funding, (2) the way in which NASA will oversee the Consortium's work on the human dimensions of global change, (3) the similarity of activities between the Consortium and the National Science Foundation's Centers for the Human Dimensions of Global Change, and (4) the Consortium's building requirements.

Social Services

Child Support Enforcement: States and Localities Move to Privatized Services

GAO/HEHS-96-43FS, Nov. 20 (16 pages).

Facing budgetary and staffing constraints and increasing federal performance standards, state child support enforcement programs are struggling to serve their ever-increasing caseloads. As states strive to improve their services to the public, many are turning to the private sector to augment their child support enforcement programs. Although states continue to expand these public and private partnerships, little is known nationally about such efforts. This fact sheet discusses (1) the extent of, rationale for, and perceived advantages and disadvantages of privatizing child support functions; (2) the terms of these contracts; (3) the legal issues surrounding privatization; and (4) what is known about the cost-effectiveness of these efforts.

Tax Policy and Administration

Tax Administration: Electronic Filing Falling Short of Expectations

GAO/GGD-96-12, Oct. 31 (27 pages).

Electronic filing is a cornerstone of the Internal Revenue Service's (IRS) plan to move away from the traditional filing of paper returns. Because electronic filing of tax returns in 1994 was most popular among those using Forms 1040A or 1040EZ—the simplest and least costly to process—IRS is not saving as much as it expected from electronic filing. Meanwhile, it appears that IRS will fall far short of its goal of 80 million tax forms filed electronically by the year 2001. A major impediment to the expansion of electronic filing is its cost to the public. Taxpayers who file an electronic return through a preparer or electronic filing transmitter must pay as much as \$40 for these services. By focusing solely on its goal of 80 million tax forms, IRS may be targeting its limited resources toward groups of taxpayers or types of returns that will boost the number of electronic returns but not necessarily yield the greatest reductions in IRS' paper-processing workload and operating costs. Although a marketing strategy that focuses on reducing paper and costs may generate fewer than 80 million returns, it could have a more significant impact on IRS' overall operations. The contract that IRS awarded in May 1995 may provide cost/benefit data that the agency can use to reassess its strategy. That information may help IRS identify steps to make electronic filing more attractive to those taxpayers and preparers who are now put off by its cost.

Transportation

Highway Funding: Alternatives for Distributing Federal Funds

GAO/RCED-96-6, Nov. 28 (70 pages).

Under the federal-aid highway program, billions of dollars are distributed to the states each year for the construction and repair of highways and related activities. The Intermodal Surface Transportation Efficiency Act of 1991 authorized about \$120 billion for this program for fiscal years 1992 through 1997. This report discusses (1) the way the formula works and the relevancy of the data used for the formula and (2) the major funding objectives implicit in the formula and the implications of alternative formula factors for achieving them.

Veterans Affairs

VA Health Care: Effects of Facility Realignment on Construction Needs Are Unknown

GAO/HEHS-96-19, Nov. 17 (43 pages).

As part of the fiscal year 1996 budget, the President requested \$514 million for major construction projects at the Department of Veterans Affairs (VA). These projects include the construction of two new VA medical facilities and major renovations at seven existing facilities. This report discusses how the projects are expected to benefit veterans and the relationships between the proposed projects and VA's recent efforts to realign all of its facilities into a new service network. GAO also discusses the potential effects of funding delays on VA's construction award dates and costs.

Special Publications

GAO Reports: Health, Education, Employment, Social Security, Welfare, and Veterans Issues

GAO/HEHS-96-58W, Nov. 1995 (42 pages).

This booklet lists GAO documents on government programs related to health, education, employment, social security, welfare, and veterans issues, which are primarily run by the Departments of Health and Human Services, Labor, Education, and Veterans Affairs. One section identifies reports and testimony issued during the past month and summarizes key products. Another section lists all documents published during the past year, organized chronologically by subject. Order forms are included.

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