

Month in Review: May 1999

Reports, Testimony, Correspondence, and Other Publications

Highlights

Information Security: Many NASA Mission-Critical Systems Face Serious Risks. Page .

If you have questions about the Month in Review, please call Cleve Corlett, Director of Public Affairs, at (202) 512-4800. For information on specific reports, please contact appropriate GAO Staff. GAO publishes the names of key contacts and their telephone numbers in each report.

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Reports and Testimony: June 1999

Special Publications

Federal Debt: Answers to Frequently Asked Questions—An Update

GAO/OCG-99-27, May 28 (55 pages).

Although the U.S. government has carried debt throughout its entire history, the large annual budget deficits of the last 20 years sharply increased the overall federal debt and its associated interest payments. Deficit reduction measures, along with economic growth, have helped to shrink annual deficits. At the end of fiscal year 1998, the federal budget was in surplus for the first time in nearly 30 years, and surpluses were projected to continue for the next decade. This report answers frequently asked questions about the federal debt, deficits and surpluses, and interest rates. The report also answers questions about debt in a time of surplus.

Agriculture and Food

Farmer Mac: Revised Charter Enhances Secondary Market Activity, but Growth Depends on Various Factors

GAO/GGD-99-85, May 21 (104 pages).

The Federal Agricultural Mortgage Corporation (Farmer Mac) was established in 1988 to create a secondary market in agricultural mortgages, thus improving the availability of agricultural mortgage credit. It was evident by 1996 that Farmer Mac was having trouble fulfilling its mission. As a result, Congress significantly revised Farmer Mac's statutory authorities. To make the secondary market in agricultural mortgages an attractive alternative for lenders, Farmer Mac has (1) used its enhanced charter authorities to develop new programs and products and streamlined the process for buying loans; (2) standardized some aspects of the loan processes, such as underwriting; and (3) developed risk management techniques to facilitate safe and sound secondary market activities. Although these efforts have boosted secondary market activity, Farmer Mac's share of the overall agricultural mortgage market remains small—about 1.2 percent. GAO concludes that Farmer Mac could continue to be viable if its recent rate of expansion is maintained, it continues to experience rates of return that are comparable to current levels, and economic conditions remain stable. However, even if Farmer Mac is viable under its current operating structure, the more basic public policy question is whether its public benefits are greater than its potential costs.

**Farm Service Agency:
Characteristics of Small County Offices**

GAO/RCED-99-162, May 28 (96 pages).

Historically, the Department of Agriculture's (USDA) Farm Service Agency has provided personalized service to farmers through thousands of field offices scattered across the country. These county offices run various commodity, loan, conservation, and emergency disaster assistance programs. In 1994, USDA was required to combine its field offices and reduce personnel and duplicative overhead expenses. Since then, the Farm Service Agency has closed more than 370 county offices and cut its county office staff by about 28 percent. These reductions were achieved primarily by closing and consolidating smaller county offices and by reducing staff at larger county offices. This report provides information on (1) the number of Farm Service Agency county offices with three or fewer permanent full-time workers; (2) the characteristics of these offices, including their proximity to another county office, their workload, the level of program benefits delivered, the relative contribution of farming to total county income, and the number of farms and farmland acres in the counties served by these offices; and (3) the ways in which varying the criteria associated with these characteristics can affect the number of county offices that are candidates for closure and consolidation.

Correspondence

U.S. Department of Agriculture: Analysis of Budgets, Fiscal Years 1999-2000. GAO/RCED-99-201R, June 17.

**Business, Industry,
and Consumers**

**Consumer Product Safety Commission:
Consumer Education Efforts for Revised Children's Sleepwear
Safety Standard**

GAO/HEHS-99-123, June 9 (18 pages).

In 1996, the Consumer Product Safety Commission (CPSC) amended the federal safety standards for children's sleepwear to allow non-flame-resistant snug-fitting cotton garments. CPSC, children's sleepwear manufacturers, and retailers have cooperated to make point-of-sale information on sleepwear safety standards available to consumers. In shopping visits to 70 stores in 14 cities, GAO found that removable information labels were used in nearly three-quarters of various

brand selections of snug-fitting garments. However, fewer than 16 percent of the stores displayed either consumer education brochures or signs about sleepwear safety requirements. Nearly two-thirds of the stores displayed other clothing, such as cotton long underwear and loose-fitting cotton T-shirts, on racks with sleepwear—a practice that has been shown to confuse consumers. Manufacturers and retailers said that they had not been more aggressive in offering consumer information because of uncertainty about the standards' future. They believed that spending more money to educate consumers about this product did not make good business sense if the standards that enable snug-fitting sleepwear to be marketed could be revised or revoked.

**Consumer Price Index:
Impact of Commodity Analysts' Decisionmaking Needs to
Be Assessed**

GAO/GGD-99-84, June 15 (160 pages).

One of the most important economic indexes produced by the federal government is the consumer price index (CPI). Last year, nearly \$500 billion in federal spending, such as checks to Social Security recipients, was tied to price changes measured by the CPI. The CPI is also used each year to adjust for inflation various aspects of the federal income tax, from tax brackets to personal exemptions. As a result, nearly every American is affected by changes in the CPI. The CPI tracks the prices of a fixed market basket of goods and services that consumers buy. The market basket contains thousands of different products and services, and the Bureau of Labor Statistics (BLS)—which publishes the index—tries to obtain prices on the exact same items each month. Sometimes, however, BLS cannot find the exact same items. When this happens, BLS price takers in the field “substitute” a new version of the product for the old one. If BLS' commodity analysts later decide that there are significant differences between the items and their substitutes, they make what BLS calls “quality adjustments” to separate pure price changes from price changes that are due to other factors, such as differences in quality, size, or quantity. Evidence exists that substitutions have a significant impact on the CPI. This report describes (1) how commodity analysts decide whether to make adjustments, (2) the adjustment methods they use, and (3) how supervisors of commodity analysts review the analysts' decisions.

Civil Rights

Equal Employment Opportunity: Data Shortcomings Hinder Assessment of Conflicts in the Federal Workplace

GAO/GGD-99-75, May 4 (20 pages).

Relevant and reliable data on the bases for federal employee discrimination complaints and the specific issues giving rise to these complaints would help decisionmakers and program managers better understand conflict in the federal workplace. These data could also be used to help plan corrective actions and measure the results of interventions. However, the Equal Employment Opportunity Commission does not collect such data in a way that would help answer such basic questions as the following: How many persons filed complaints? In how many complaints was each of the bases for discrimination alleged? What were the most often cited issues in employee discrimination complaints and in how many complaints was each of the issues cited? Moreover, the quality of data that the Commission collects from agencies and reports is questionable.

Indian Self-Determination Act: Shortfalls in Indian Contract Support Costs Need to be Addressed

GAO/RCED-99-150, June 30 (99 pages).

The Indian Self-Determination and Education Assistance Act was passed in 1975 to encourage tribes to manage programs that for years had been run on their behalf by the departments of the Interior and Health and Human Services. These programs include social services, health care, law enforcement, road maintenance, and forestry. Tribal contractors must receive funding equal to what each of the agencies would have provided had they run the programs. Contractors are also to receive funding for activities that they must perform to manage a program's contract. These contract support costs have grown considerably during the past 25 years. GAO found that tribes' allowable contract support costs tripled from 1989 through 1998—rising from \$125 million to \$375 million. This increase occurred for two reasons. First, the total amount of program dollars contracted by tribes—upon which contract support costs are based—has increased. Second, the total cost of tribes' administration of contracts has increased. Congressional funding has not kept pace with these increases. The resulting shortfalls have caused financial problems and frustration for tribes administering the programs. To make up for the shortfalls, tribes

have reported using program funds, which reduced services to tribal members, and using tribal resources, which precluded the use of that money to supplement program funds or to develop tribal business ventures. The contract support policies and practices of the Bureau of Indian Affairs, the Indian Health Service, and Interior's Office of Inspector General have been inconsistent, which may cause some tribes to receive more contract support funding than they are allowed and others to receive less. The impasse between providing full funding for contract support costs and limiting those expenses continues in Congress. GAO presents four alternative funding approaches to help Congress resolve this issue.

**Indian Programs:
BIA Should Streamline Its Processes for Estimating Land
Rental Values**

GAO/RCED-99-165, June 30 (44 pages).

The Bureau of Indian Affairs (BIA) has jurisdiction over roughly 56 million acres of Indian-owned land that is held in trust by the federal government. In 1997, tribes and individual Indians received more than \$104 million from 102,000 leases involving farming, livestock grazing, business development, and residential use. Members of Congress have raised concerns about how the rent for this land is set and how rent appraisals may affect the ability of Indians to lease their land and of lessees to rent it. This report discusses (1) how BIA uses appraisals and other methods to establish the lease value of Indian land; (2) how its appraisal methods compare with those of other federal and state agencies and of private appraisers and what other methods are used to value federal, state, and private leases; (3) impediments to leasing Indian trust land; (4) what alternatives to appraisals have been used to establish the lease value of Indian land, including any changes in federal laws and regulations that would be required; and (5) BIA's efforts to improve its appraisal methods. GAO also provides information on the leasing of Indian trust land, the residential leases of Indian trust and other land, and the acreage in Indian irrigation projects.

Correspondence

Tax Administration: EEO Issues in IRS' Midwest District Office.
GAO/GGD-99-122R, June 24.

Education

Correspondence

Intercollegiate Athletics: Comparison of Selected Characteristics of Men's and Women's Programs. GAO/HEHS-99-3R, June 18.

Energy

Nuclear Waste: Process to Remove Radioactive Waste From Savannah River Tanks Fails to Work

GAO/RCED-99-69, Apr. 30 (40 pages).

Several factors caused the Department of Energy (DOE) and its contractor, Westinghouse, to spend nearly half a billion dollars over 10 years before deciding that the in-tank precipitation process was neither safe nor efficient. The most serious factors were poor contractor management and weak DOE oversight. The failure of the in-tank precipitation process to work as originally planned will delay the cleanup of high-level waste at the Savannah River Site and will increase costs. Initially, the facility was have to been up and running in 1998. DOE now believes that an alternative process may not be available until as late as 2007 and could cost as much as \$3.5 billion. Depending on the alternative processes chosen, Westinghouse estimates that it could be as late as 2025 before the waste tanks are finally empty. DOE's plans for selecting an alternative process are still being formulated.

National Laboratories: DOE Needs to Assess the Impact of Using Performance-Based Contracts

GAO/RCED-99-141, May 7 (29 pages)

The Department of Energy (DOE) contracts with private companies and educational institutions to run 18 of its 22 laboratories. These are cost reimbursement contracts under which DOE pays all of its contractors' allowable costs. In 1994, DOE switched to performance-based contracts as part of its contract reform program. This report provides information on the status of performance-based contracting in DOE's national laboratory contracts and efforts to determine the impact of performance-based contracting. GAO found that DOE's use of performance-based contracting for

its laboratories is in a state of transition. GAO found a wide variance in the number of performance measures and the types of fees negotiated. Also, the contractors reported that the main benefits from performance-based contracting were that it has helped DOE clarify what it expects from the contractors and that it has improved communication.

**International Energy Agency:
How the Agency Prepares Its World Oil Market Statistics**

GAO-RCED-99-142, May 7 (14 pages)

Oil companies, investment firms, governments, and other players in the world oil market need timely and accurate information on world oil supply, demand, and stocks to make decisions about current and future sales and purchases of oil. The International Energy Agency (IEA), which was established in the wake of the 1973-74 Arab oil embargo, is a source of such information. This report answers the following questions: How does IEA prepare its historical and projected world oil market statistics? What accounted for the missing barrels in IEA's historical world oil market statistics in 1998?

**Department of Energy Workforce Reduction:
Community Assistance Can Be Better Targeted**

GAO/RCED-99-135, May 7 (45 pages).

Since 1993, the Department of Energy (DOE) has reduced its contractor workforce by 46,000 employees from a high of about 149,000. The National Defense Authorization Act for Fiscal Year 1993 requires DOE to develop workforce restructuring plans to minimize the impact of downsizing at defense nuclear facilities. The plans provide assistance for workers affected by the downsizing. GAO found that DOE's assistance to separated contractor workers is reasonably consistent with the types of benefits offered by other government and private employers. Also, most of the contractor workers separated during fiscal years 1997 and 1998 received benefits under DOE's workforce restructuring program. DOE's community assistance criteria, however, do not necessarily result in the most assistance going to the communities most affected by its downsizing or with the highest unemployment.

**Department of Energy:
DOE's Nuclear Safety Enforcement Program Should
Be Strengthened**

GAO/RCED-99-146, June 10 (39 pages).

The Department of Energy has a vast complex of research and nuclear facilities that hold large quantities of nuclear materials. Some of the materials have deteriorated, are not properly packaged for storage, and may pose a significant risk to workers, the public, and the environment. DOE uses a system of civil monetary penalties to hold its contractors accountable for meeting the agency's nuclear safety requirements. DOE found that, for it to be able to assess civil penalties, existing safety requirements would have to be reissued as enforceable rules. Since 1988, however, DOE has issued enforceable rules covering only two of 11 safety areas originally proposed—radiation protection for workers and quality assurance issues that define how work is planned and carried out. Nuclear safety rules are to be enforced at any DOE facility with the potential to cause radiological harm to workers, the public, or the environment. Although no problems have been identified with the application of the occupational radiation protection rule, DOE field offices have been inconsistent in placing facilities under the quality assurance rule. DOE began its enforcement program in 1996 and concentrates its investigations and enforcement actions on the most significant violations of nuclear safety rules. DOE has taken 33 enforcement actions and assessed more than \$1.8 million in penalties since 1996. Violations have included unnecessarily exposing workers to radioactivity and not following procedures intended to prevent an uncontrolled nuclear reaction from occurring. Some nonprofit contractors were exempted from paying about \$600,000 of the \$1.8 million in assessed penalties. DOE has recommended that the statutory exemption be continued and even expanded. However, GAO notes that contract mechanisms have fallen short in addressing safety-related problems and that, in contrast to DOE, other regulatory agencies do collect penalties from nonprofit organizations. GAO recommends that Congress consider eliminating the provision that exempts some contractors from paying penalties when they commit safety violations. GAO also recommends that DOE strengthen its nuclear safety enforcement program and ensure that field offices apply it consistently. GAO summarized this report in testimony before Congress; see:

Nuclear Safety: Department of Energy Should Strengthen Its Enforcement Program, by Ms. Gary L. Jones, Associate Director for Energy, Resources,

and Science Issues, before the Subcommittee on Oversight and Investigations, House Committee on Commerce. GAO/T-RCED-99-228, June 29 (nine pages).

**Nuclear Weapons:
DOE Needs to Improve Oversight of the \$5 Billion Strategic
Computing Initiative**

GAO/RCED-99-195, June 28 (73 pages).

Historically, the United States has detonated nuclear weapons to determine their safety and reliability. Since 1992, however, there has been a moratorium on testing. As a substitute for actual testing, the Department of Energy (DOE) developed the Stockpile Stewardship and Management Program in 1995. The program uses various methods, including computer modeling, to ensure weapon safety and reliability. The strategic computing initiative seeks to develop advanced computer models that will simulate nuclear explosions in three dimensions with higher resolution than previous models and with a more complete treatment of the underlying basic physics. The initiative is also developing the world's largest and fastest computers. GAO found that weak management and information processes have hampered oversight of this \$5-billion initiative. For example, the initiative's strategic plan is out of date, annual plans have been prepared only sporadically, and milestones are not well defined. Moreover, the lack of information has made it difficult to determine which of the hundreds of milestones have been met, which are behind schedule, or even which are still relevant. Program cost estimates have risen substantially. Finally, significant technical challenges will have to be overcome before a computer simulation can determine, in the absence of nuclear testing, whether a weapon system will work as expected.

Testimony

Federal Power: The Role of the Power Marketing Administrations in a Restructured Electricity Industry, by Victor S. Rezendes, Director of Energy, Resources, and Science Issues, before the Subcommittee on Water and Power, House Committee on Resources. GAO/T-RCED/AIMD-99-229, June 24 (17 pages).

The electricity industry faces vast opportunities as it moves into restructured, more competitive markets. During the past 20 years, competition has been replacing regulation in many sectors of the U.S. economy, including transportation, natural gas, and telecommunications.

As this restructuring proceeds in the electricity industry, policymakers must consider how the existing federal system of generating, transmitting, and marketing electricity is managed. This testimony discusses several broad goals of restructuring the electricity industry—goals that apply to both the private sector and the government, including the federal power marketing administrations. GAO also discusses the role of the power marketing administrations in the changing electricity industry.

Correspondence

Fusion Research: Costs of Ending DOE's Participation in the International Thermonuclear Experimental Reactor Project Appear Reasonable.
GAO/RCED-99-140R, Apr. 30.

Environmental Protection

Superfund: EPA Can Improve Its Monitoring of Superfund Expenditures

GAO/RCED-99-139, May 11 (22 pages).

The Environmental Protection Agency (EPA) spends about \$1.4 billion a year on the Superfund program to remedy potential threats to human health and the environment arising from hazardous waste sites. This is the third in a series of GAO reports discussing Superfund expenditures. This report analyzes Superfund data for fiscal years 1996, 1997, and 1998 to determine (1) the relative shares of Superfund expenditures for contractor cleanup work, site-specific, and non-site specific support; (2) the activities carried out with EPA's cleanup support spending; and (3) EPA's efforts to monitor and analyze how its regions and headquarters units spend Superfund resources.

Environmental Protection: Collaborative EPA-State Effort Needed to Improve New Performance Partnership System

GAO/RCED-99-171, June 21 (68 pages).

The Environmental Protection Agency (EPA) has had long-standing problems in building effective partnerships with the states, which have the lead responsibility for implementing many environmental programs. Among the key issues affecting the EPA-state relationship have been concerns that EPA is inconsistent in its oversight across regions, sometimes micromanages state programs, does not provide enough technical support

for state programs, and often does not adequately consult with states before making key decisions affecting them. In 1995, EPA established the National Environmental Performance Partnership System, a key element of which was EPA's commitment to give states with strong environmental performance greater flexibility and autonomy in running their environmental programs. This report (1) identifies the status of grants and agreements made under the system between EPA and the states, (2) examines progress by EPA and the states in developing results-oriented performance measures to be incorporated into system agreements and grants to the states, (3) examines how EPA oversight may or may not be changing in states that are participating in the system, and (4) discusses the extent to which the use of these performance partnership agreements and grants has yielded expected benefits.

**Environmental Information:
EPA Could Better Address Concerns About Disseminating Sensitive
Business Information**

GAO/RCED-99-156, June 25 (26 pages).

Since the mid-1980s, the federal government and several states have introduced public "right-to-know" initiatives on environmental issues. These initiatives require industries to report on their use and discharge of potentially harmful substances and require government agencies to make this information available to the public. Companies, however, have questioned the appropriateness of publicly disclosing increasingly detailed facility-level information. Specifically, they are concerned that their submissions contain "sensitive business information" that, if released, could harm their competitiveness. This concern is heightened because companies around the world are increasingly hiring "competitive intelligence" professionals to collect and analyze legally obtained information to glean insight into their competitors' operations. This report (1) provides information on the usefulness of publicly available information to competitive intelligence professionals and (2) assesses EPA's efforts to address industry concerns about providing the public with access to sensitive business information.

Testimony

Superfund: Progress and Challenges, by David G. Wood, Associate Director for Environmental Protection Issues, before the Senate Committee on Environment and Public Works. GAO/T-RCED-99-202, May 25 (15 pages).

Congress is considering possible changes to the hazardous waste cleanup program known as Superfund. This statement for the record discusses (1) the program's progress, cleanup pace, and accomplishments; (2) trends in the Environmental Protection Agency's (EPA) spending on Superfund administrative and support activities and how much of these costs EPA recovers from parties responsible for contaminating Superfund sites; (3) the number and type of waste sites that the program may clean up in the future; and (4) barriers to the redevelopment of brownfields—abandoned industrial properties, often located in blighted urban areas—and federal efforts to overcome these barriers.

Correspondence

Hazardous Waste: Time and Costs to Clean Up Superfund Sites Are Uncertain. GAO/RCED-99-186R, June 11.

Financial Management

Financial Audit: Senate Restaurants Revolving Fund for Fiscal Years 1998 and 1997

GAO/AIMD-99-185, June 15 (21 pages).

GAO arranged with the independent public accounting firm of KPMG Peat Marwick LLP to audit the financial statements of the Senate Restaurants Revolving Fund for fiscal years 1998 and 1997. KPMG found that the financial statements were reliable in all material respects. Management fairly stated that internal controls effectively safeguarded assets against unauthorized acquisition, use, or disposition; ensured material compliance with laws and regulations; and ensured that there were no material misstatements in the financial statements. KPMG found no reportable noncompliance with laws and regulations it tested. With respect to weaknesses in computer security cited by KPMG in a fiscal year 1997 audit, the Fund's management has taken steps to improve its computer access controls. Additional action needs to be taken, however. The Fund's operations are economically dependent on financial support provided by the Architect of the Capitol and the United States Senate. If operating trends continue, the Fund will continue to require financial support.

Financial Management: Better Controls Essential to Improve the Reliability of DOD's Depot Inventory Records

GAO/AIMD-99-132, June 28 (39 pages).

Accurate inventory records help the Defense Department (DOD) avoid buying unnecessary items. Moreover, Congress relies on DOD's reported inventory levels to verify inventory reductions and to determine budget requests. The Defense Logistics Agency's (DLA) inventory accuracy rates, however, do not provide reliable information for assessing the accuracy of inventory records. To provide a meaningful measure for managerial decisions and financial reporting purposes, DLA's procedures for counting and reconciling variances must be improved. Investigations of possible theft were not being done because of major delays in researching count variances and in notifying security offices of significant and unresolved discrepancies between counts and the inventory records. Better internal controls over the count process, including revised policies and written detailed procedures, would help ensure that the distribution depots properly perform counts and reconcile variances to produce valid count results. Additional procedures and emphasis on strict adherence to current policies and regulations would help ensure meaningful inventory research results and the prompt identification and investigation of possible fraud and theft. Moreover, a DLA inventory sampling methodology that better recognizes the importance of item dollar values and other differences between items would provide more meaningful inventory accuracy measures and serve as the basis for appropriate management action.

**Financial Audit:
Federal Deposit Insurance Corporation's 1998 and 1997
Financial Statements**

GAO/AIMD-99-202, June 30 (85 pages).

GAO audited the 1998 and 1997 financial statements for the three funds administered by the Federal Deposit Insurance Corporation (FDIC), the related statements of income and fund balance, and the statements of cash flow for those years. In its audits of the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund, GAO found that the financial statements of each fund were fairly presented in all material respects. FDIC management fairly stated that internal controls effectively ensured that there were no material misstatements in the financial statements and ensured material compliance with laws and regulations. There was no reportable noncompliance with laws and regulations GAO tested. This report also discusses (1) the scope of GAO's audits, (2) the Year 2000 and insured financial institutions, (3) the current status of the goodwill litigation cases, (4) the current status of the FSLIC Resolution

Fund's liquidation activities and funding, (5) FDIC's progress in addressing a reportable condition identified during GAO's 1997 audits, and (6) GAO's evaluation of the Corporation's comments on a draft of this report.

Correspondence

Internal Controls: Matters Related to Disbursements [by Treasury's Financial Management Service]. GAO/AIMD-99-157R, June 3.

Independent Counsels: GAO Audit Responsibilities After OIG Termination. GAO/AIMD-99-164R, June 4.

Financial Management: Briefing on the Federal Aviation Administration Property, Plant, and Equipment Accountability Review. GAO/AIMD-99-208R, June 11.

District of Columbia: New Financial Management System. GAO/AIMD-99-217R, June 18.

Management Letter: Suggested Improvements in IRS' Accounting Procedures and Internal Controls. GAO/AIMD-99-182R, June 30.

Government Operations

Testimony

Federalism: Previous Initiatives Have Little Effect on Agency Rulemaking, by L. Nye Stevens, Director of Federal Management and Workforce Issues, before the Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs, House Committee on Government Reform. GAO/T-GGD-99-131, June 30 (13 pages).

This testimony discusses the Federalism Act of 1999, which addresses several issues affecting intergovernmental relations, including the use of federal grant money, legislative requirements, agency rulemaking requirements, and performance measurement for state-run federal grant programs. GAO (1) focuses on two earlier executive and legislative branch initiatives that, like section 7 of the bill, were designed to highlight the impact of federal rules on state and local governments; (2) points out similarities and differences between the bill and these regulatory reform initiatives; and (3) comments briefly on the experience of one agency in

cooperatively setting goals and performance measures with states in a federal grant program.

Correspondence

District of Columbia Courts: Chronology of Events Associated With DC Courts Financial-Related Issues for Fiscal Year 1998. GAO/AIMD-99-204R, June 7.

Federal Assistance: Information on Federal Funds to Suffolk County, New York. GAO/RCED-99-220R, June 25.

Health

Private Health Insurance: Progress and Challenges in Implementing 1996 Federal Standards

GAO/HEHS-99-100, May 12 (52 pages).

Minimum standards of protection now apply to group (both fully insured and self-funded) and individual insurance coverage sold in all states. As a result, many consumers face fewer exclusions for preexisting conditions, enrollees should be able to more easily renew their health plans, employees may not be excluded from group health plans on the basis of their health status, small employers must have guaranteed access to all coverage sold in the small group market, and high-risk individuals losing group coverage may have better access to either individual health insurance or a subsidized high-risk pool. Nonetheless, high-risk individuals and some small groups may continue to face high premiums for guaranteed coverage, and relatively few high-risk individuals who lost group coverage appear to have purchased individual insurance guaranteed by the Health Insurance Portability and Accountability Act of 1996. Consumers' lack of awareness or understanding of the act can impede their ability to exercise their rights. One potentially effective education tool is the certificate of creditable coverage that must be issued to every enrollee who loses insurance coverage. However, guidance on this certificate does not explicitly and comprehensively outline the law's protections. Both the Health Care Financing Administration (HCFA) and the Department of Labor recognize that further efforts are needed, including targeting consumer education efforts, proactively ensuring employers' compliance, and ensuring that all states' insurance regulations fully conform with federal standards. Moreover, HCFA recognizes that its ability to fully perform its new regulatory role will be enhanced when enforcement regulations are issued.

**Children's Health Insurance Program:
State Implementation Approaches Are Evolving**

GAO/HEHS-99-65, May 14 (108 pages).

The states and the federal government have made considerable progress in getting the State Children's Health Insurance Program (SCHIP) up and running, but state design approaches are still evolving. They are now almost evenly divided between expansions of state Medicaid programs and programs with a stand-alone component: 51 SCHIP plans have been approved, two are under review, and three have not been submitted. More states will ultimately embrace a stand-alone component that provides them with greater budgetary control than Medicaid over program costs, permits them to vary benefits, and allows cost sharing. For most children, the SCHIP stand-alone benefit packages in the 15 states GAO reviewed offer coverage comparable to Medicaid, although some states have imposed limits on service. A growing number of states are exploring statutory options, such as including family coverage and subsidizing coverage through employers, but some question whether using such options would be consistent with the enabling statute's focus on children's insurance coverage. State outreach activities have sought to minimize the burden on beneficiaries and states by developing new ways for families to submit applications, increasing the number and operating hours of enrollment sites, and reducing application processing times. Publicity in some states is attracting children eligible for SCHIP and also children eligible for Medicaid but not enrolled. To prevent SCHIP from substituting for Medicaid, states with a stand-alone component must screen for Medicaid and enroll any eligible children in it. Some states are using joint applications to do this. To deter SCHIP from substituting for private insurance, states are instituting waiting periods for children with previous private coverage, requiring families to pay premiums and copayments, and studying and attempting to measure the extent of crowd-out.

**Medicare Home Health Agencies:
Closures Continue, With Little Evidence Beneficiary Access
Is Impaired**

GAO/HEHS-99-120, May 26 (44 pages).

About 14 percent of home health agencies (HHA) have closed and the number of visits provided to Medicare beneficiaries has declined since the Balanced Budget Act of 1997 mandated major changes to Medicare's home

health benefit. However, GAO found little evidence that access to the home health benefit has been impaired. The substantial increases in the number of HHA beneficiaries using this benefit and visits per user over the past several years have outstripped the recent reductions. Beneficiaries who are ineligible for Medicare home health care because they do not need skilled care may have been the likeliest candidates for service reductions. The changes in the number of HHAs and home health utilization are consistent with interim payment system (IPS) incentives. Following years of substantial increases in home health visits, the IPS has curbed the growth in home health spending. Whether services will be reduced to inappropriately low levels or access will be limited for beneficiaries who are likely to require more visits than the average is not known but GAO found little evidence that this is occurring now. The pending implementation of the prospective payment system (PPS), which will adjust payments to account for costlier patients, could ameliorate any future access problems. However, it is critical that PPS payments be adequate and appropriately account for variations in patient resource needs.

**Medicare+Choice:
Reforms Have Reduced, but Likely Not Eliminated, Excess
Plan Payments**

GAO/HEHS-99-144, June 18 (18 pages).

The Medicare+Choice program was created in 1997 to expand beneficiaries' health plan options, both by encouraging the wider availability of health maintenance organizations and by permitting other types of health plans, such as preferred provider organizations, to participate in Medicare. At the same time, the methodology used to determine plan payments was changed, in part because of concerns that (1) many health plans were overcompensated for the beneficiaries they served and (2) Medicare's managed care program had not, as originally expected, saved the program money. The new methodology is designed to both slow the growth of aggregate payments and more closely align per capita payments with the expected health care costs of plan members. Some health plan and industry representatives believe that these payment changes were too severe and will reduce beneficiaries' access to plans and additional benefits, such as outpatient prescription drug coverage, that are unavailable under fee-for-service plans. This report (1) reviews the extent to which health plans now provide additional benefits and whether they could continue to provide additional benefits if payments were reduced, (2) summarizes the evidence about managed care's effect on Medicare

spending, and (3) assesses whether the provisions of the Balanced Budget Act will eliminate excess plan payments.

**Nursing Homes:
Proposal to Enhance Oversight of Poorly Performing Homes
Has Merit**

GAO/HEHS-99-157, June 30 (49 pages).

GAO has previously reported that one in four of the nation's nursing homes has deficiencies so serious that they have harmed residents or placed them at serious risk of death or injury. (See GAO/HEHS-99-46, Mar. 1999.) Forty percent of the homes with serious deficiencies were cited for repeat deficiencies. The Health Care Financing Administration (HCFA), which oversees the quality of nursing home care, has announced plans to beef up enforcement at homes found to have repeatedly harmed residents. This includes expanding the definition of homes classified as "poor performers." HCFA's proposal to include homes with repeated isolated actual harm deficiencies would significantly increase the number of homes that would be subject to immediate sanctions without a grace period to correct the problems. If this revised definition had been in effect as of April 1999, GAO estimates that the number of nursing homes meeting HCFA's poor-performer criteria would have risen from about one percent to nearly 15 percent of facilities nationwide. Two-thirds of the poor-performing nursing homes GAO surveyed had repeated violations. As a result, they would have been subject to immediate sanction under HCFA's revised poor performer definition. The current definition allows them an opportunity to correct the problems without sanctions. Most of the repeat violators were cited for the same deficiency, and about one-third were cited for closely related problems. These findings suggest that HCFA's enhanced enforcement of homes found to repeat these serious care problems has merit.

Testimony

Medicare+Choice: Impact of 1997 Balanced Budget Act Payment Reforms on Beneficiaries and Plans, by William J. Scanlon, Director, Health Financing and Public Health Issues, before the Senate Committee on Finance. GAO/T-HEHS-99-137, June 9 (eight pages).

The net effect of payment revisions under the Balanced Budget Act of 1997 has been to reduce, but not fully eliminate, excess payments to health plans. Some provisions, such as the reduced annual updates, have been

implemented while others, such as the health-based risk adjustment system, are still to be phased in. Sweeping amendments to the act are not yet warranted for three reasons. First, the net effect of reforms on plans has been modest. Cuts in rate increases, for example, have held down per capita payment growth by only a little more than one percent. Second, at least some plans can provide the traditional Medicare package of benefits, offer some additional benefits, and make a profit even if they are paid less than they are today. For example, plans serving the Los Angeles area can provide the traditional Medicare package of benefits for about 79 percent of what they are currently paid. Third, the withdrawals GAO observed this year were not a reaction to the act's rate reductions alone. Market forces appear to have played a larger role. The act's health plan payment reforms will reduce aggregate excess payments and, as a result, some Medicare+Choice plans may reduce their supplemental benefits and rethink their participation in Medicare. The continuing challenge for Congress is to strike the appropriate balance between containing Medicare spending and fostering growth in Medicare+Choice.

Balanced Budget Act: Any Proposed Fee-for-Service Payment Modifications Need Thorough Evaluation, by William J. Scanlon, Director, Health Financing and Public Health Issues, before the Senate Committee on Finance. GAO/T-HEHS-99-139, June 10 (13 pages).

To slow spending growth while promoting more appropriate care, the Balanced Budget Act of 1997 made necessary and fundamental changes to Medicare's payment methods for skilled nursing facilities (SNF) and home health agencies. Additional refinements are needed to make these systems more effective. However, the intentional design of these systems is to require inefficient providers to adjust their practice patterns to remain viable. The boldness of these changes has generated pressure to reverse course. Congress will face difficult choices that could pit particular interests against a more global interest in preserving Medicare for the long term. As prospective payment systems (PPS) are implemented for rehabilitation facilities and hospital outpatient services, and as SNFs continue their transition to full PPS rates, provider complaints about tight payment rates and impaired beneficiary access will continue. It is important that these new payment mechanisms are monitored to help ensure that the correct balance between appropriate beneficiary access and holding the line on Medicare spending is being achieved. It would be premature to significantly modify the act's provisions without thorough analysis or a fair trial of the provisions over a reasonable time period.

Private Health Insurance: Impact of Premium Increases on Number of Covered Individuals Is Uncertain, by William J. Scanlon, Director of Health Financing and Public Health Issues, before the Subcommittee on Employer-Employee Relations, House Committee on Education and the Workforce. GAO/T-HEHS-99-147, June 11 (10 pages).

The extent to which new legislative requirements for health insurance providers could ultimately affect the number of individuals with insurance coverage depends on the answers to several questions. To what extent will insurers raise premiums? Will fewer employers offer coverage or will they pass some or all of the increased premium costs on to their employees? How many employees will decline offered coverage if they must pay higher premiums? Available studies offer only limited insights. Many studies are hampered by incomplete data, and their design and assumptions limit their applicability. Studies by one group estimate coverage loss that might result from an across-the-board premium increase, but legislation that affected some types of insurance providers' costs more than others might have a much smaller effect if beneficiaries could switch from plans with larger premium increases to plans with smaller ones. The extent to which individuals value the results of the specific mandates and general economic conditions, among other factors, are likely to play a role in determining how legislative mandates will affect the number of insured individuals.

Nursing Homes: Complaint Investigation Processes in Maryland, by Kathryn G. Allen, Associate Director for Health Financing and Public Health Issues, before the Maryland House of Delegates. GAO/T-HEHS-99-146, June 15 (13 pages).

In a March report, GAO cited nursing home problems in 14 states, including Maryland. These deficiencies ranged from procedures that may limit the filing of complaints to failures to investigate serious complaints promptly. Compared with other states, Maryland devoted fewer resources to investigating complaints, recorded substantially fewer complaints than Michigan or Washington, generally classified similar complaints as needing less prompt investigation, did not meet the assigned time periods for investigating many complaints, and had a large backlog of uninvestigated cases and poor tracking of the status of investigations. Consequently, serious complaints alleging that nursing home residents are being harmed can remain uninvestigated for weeks or months in Maryland. Such delays can prolong situations in which residents may be subject to abuse or neglect resulting in serious care problems like malnutrition and

dehydration, preventable accidents, and medication errors. In response to GAO's findings, the Health Care Financing Administration has told states to investigate any complaint alleging actual harm to a resident within 10 workdays. The Maryland General Assembly recently approved funding to significantly increase the number of nursing home surveyors. However, the seriousness and systemic nature of the weaknesses GAO identified require sustained commitment and strengthened oversight to help ensure adequate care to nursing home residents.

Medicaid: Questionable Practices Boost Federal Payments for School-Based Services, by William J. Scanlon, Director of Health Financing and Public Health Issues, before the Senate Committee on Finance. GAO/T-HEHS-99-148, June 17 (13 pages).

During the last four years, school districts' claims for Medicaid reimbursement for administrative costs associated with school-based health services rose from \$82 million to \$469 million in 10 states. More school districts and states have expressed interest in seeking such Medicaid reimbursements. Some school district and states appear to be intent on maximizing their receipt of Medicaid funds through suspect financing mechanisms. Many school districts with minimal knowledge of Medicaid and its billing requirements have contracted with private firms. The firms design the methods to claim administrative costs, train school personnel to apply these methods, and submit administrative claims to the state Medicaid agencies to obtain the federal reimbursement that provides the basis for their fees. The states and private firms are motivated to experiment with "creative" billing practices. Some Health Care Financing Administration (HCFA) regional offices have approved states' administrative claims while others have denied them. These weak controls create an environment in which Medicaid may be making excessive payments for inappropriate claims. Mounting claims for school-based administrative services demand prompt attention by the federal and state governments.

Medicare: Considerations for Adding a Prescription Drug Benefit, by Laura A. Dummit, Associate Director for Health Financing and Public Health Issues, before the Senate Committee on Finance. GAO/T-HEHS-99-153, June 23 (11 pages).

Proposals to add a Medicare prescription drug benefit have come during a period of rapid growth in national spending for pharmaceuticals and transformations in the prescription drug market. What remains unchanged

since 1965, however, is the absence of coverage for outpatient prescription drugs by traditional Medicare. One third of the Medicare population lacks the supplemental drug coverage provided to most beneficiaries through employer-sponsored plans, managed care organizations, Medicaid, or Medigap insurance. Moreover, high drug use among Medicare beneficiaries translates into a potentially daunting financial burden. The implications of adding prescription drug coverage to Medicare depend on the choice made about details, such as its scope and financing. Its design and implementation will also shape the impact of this benefit on beneficiaries, Medicare spending, and the pharmaceutical market. Recent experience suggests at least two approaches for implementing a drug benefit. One would involve the Medicare program obtaining price discounts from manufacturers. Such an arrangement could be modeled after Medicaid's drug rebate program. The second approach would draw from private sector experience in negotiating price discounts from manufacturers in exchange for shifting market share.

Nursing Homes: HCFA Initiatives to Improve Care Are Under Way but Will Require Continued Commitment, by William J. Scanlon, Director of Health Financing and Public Health Issues, before the Senate Special Committee on Aging. GAO/T-HEHS-99-155, June 30 (18 pages).

The federal government will pay an estimated \$39 billion for nursing home care in 1999. Working with the states, the federal government also plays a key role in ensuring quality care at these facilities. GAO has issued three reports that focus on problems in California nursing homes as well as the enforcement and complaint investigation processes nationwide. (See GAO/HEHS-98-202, July 1998, GAO/HEHS-99-46, Mar. 1999, and GAO/HEHS-99-80, Mar. 1999.) GAO found that one-fourth of nursing homes nationwide had serious deficiencies that actually harmed residents or placed them at risk of death or injury; 40 percent of these homes had repeated deficiencies. Complaints alleging serious care problems often went uninvestigated for weeks or months. Even when serious deficiencies were found, state and federal enforcement policies were ineffective in ensuring that deficiencies were corrected and stayed that way. HCFA agreed with GAO's recommendations and has developed about 30 initiatives to strengthen federal standards, oversight, and enforcement for nursing homes. This testimony discusses (1) the overall scope of HCFA's initiatives, (2) the early experiences of initiatives for which HCFA has already issued revised guidance to the states, (3) the implications of a proposed expansion of the category of nursing homes that would face more intensive review and

immediate sanctions for deficiencies, and (3) the initiatives that will require a long-term commitment for HCFA to implement.

Correspondence

Medicare: Identifying Third-Party Billing Companies Submitting Claims.
GAO/HEHS-99-127R, June 2.

Housing

Homeownership: Information on Single-Family Loans Sold by HUD

GAO/RCED-99-145, June 15 (15 pages).

In 1994, the Department of Housing and Urban Development (HUD) began a program to liquidate its inventory of single-family loans. From June 1994 through September 1997, HUD sold 98,640 single-family loans in a series of six sales. The loan purchasers agreed to offer borrowers the same forbearance that HUD was required to offer before the loans were sold. These sales allowed HUD to make critically needed staff reductions and saved more than \$830 million. GAO provides information on the current status of single-family loans sold and the ways in which HUD has ensured that the purchasers of these loans abide by the forbearance requirements contained in the loan sales agreements.

Homelessness: State and Local Efforts to Integrate and Evaluate Homeless Assistance Programs

GAO/RCED-99-178, June 29 (56 pages).

To provide greater assistance to homeless people and to meet their complex needs, states and localities are trying to link and integrate homeless assistance programs with mainstream social service systems. Some state and localities are also beginning to use outcome measures to better manage their programs and to help ensure that their limited resources are being targeted to the most successful programs. This report describes some notable examples of efforts by states and localities to (1) link and integrate their homeless assistance programs with mainstream systems and (2) measure and evaluate outcomes for their homeless assistance programs. (See GAO/RCED-99-49, Feb. 1999 and GAO/HEHS-99-53, Apr. 1999.)

Income Security

Social Security Reform: Implementation Issues for Individual Accounts

GAO/HEHS-99-122, June 18 (56 pages).

Social Security is one of the nation's most important and visible programs. Although individual accounts offer the possibility of a better rate of return on individual contributions, a flawed or failed system of accounts could have devastating effects on retirees and undermine public confidence in government. GAO believes that the following three critical questions need to be addressed in designing and implementing a system of individual accounts: Who would assume new administrative and record-keeping responsibilities? How much choice would individuals have in selecting and controlling their investment options? How much flexibility would workers have when they retire and begin to draw on their accounts? This report discusses the fundamental choices associated with each question and several options that could be considered.

Social Security: Capital Markets and Educational Issues Associated With Individual Accounts

GAO/GGD-99-115, June 28 (68 pages).

The aging of the U.S. population poses a financial burden for the Social Security program. Some have suggested including individual retirements accounts as an element of Social Security reform. To help Congress better understand the potential implications of individual accounts, this report describes how such accounts could affect the (1) private capital and annuities markets as well as national savings, (2) potential returns and risks to individuals, and (3) disclosure and education efforts needed to inform the American people about such a program.

Information Management

Year 2000 Computing Crisis: USDA Needs to Accelerate Time Frames for Completing Contingency Planning

GAO/AIMD-99-178, May 21 (47 pages).

Under the leadership of its chief information officer and the Year 2000 program office, the Department of Agriculture (USDA) is actively

developing business continuity and contingency plans to prepare for unforeseen Year 2000-related failures. However, much work remains to be done over the coming months to complete and test these plans. USDA's goal of completing these plans by December 1999 leaves no room for delays or enough time to correct, revise, and retest plans. GAO recommends that USDA advance its time frame to no later than September 30, 1999, and develop priorities for completing and testing plans to ensure that the department's most important business processes are addressed first. USDA's chief information officer agreed with GAO's recommendations.

**VA Information Systems:
The Austin Automation Center Has Made Progress in Improving
Information System Controls**

GAO/AIMD-99-161, June 8 (18 pages).

As part of its review of computer security at the Department of Veterans Affairs (VA), GAO assessed the effectiveness of information system general controls at the Austin Automation Center. The Center, one of three centralized VA data facilities, maintains the department's financial management and other departmentwide systems, including centralized accounting, payroll, debt collection, benefits delivery, and medical systems. This report is a "limited official use" report that details the weaknesses GAO found at the Center, the current status of corrective actions, and the recommendations GAO made.

**Defense Computers:
Management Controls Are Critical to Effective Year 2000 Testing**

GAO/AIMD-99-172, June 30 (32 pages).

The Defense Department (DOD) has planned or under way hundreds of Year 2000 end-to-end test and evaluation activities that must be finished in a relatively short time. So far, DOD is taking steps to ensure that these related end-to-end activities are effectively coordinated. However, DOD is far from successfully completing its Year 2000 end-to-end test activities. Much remains to be done. DOD needs to ensure that it completes efforts to establish end-to-end test management controls outlined in GAO's Year 2000 test guide—namely, establishing an independent quality assurance program to guarantee that its test guidance, plans, and standards are being met and that any deviations or other reasons for low confidence in end-to-end test results are brought to the attention of senior management.

Also, DOD must ensure that it effectively implements all of the controls it has included in its plans so that DOD executives receive timely and reliable information on end-to-end test results and limitations. With such information, DOD can act swiftly to correct known problems and to fill voids in test coverage.

Testimony

Information Security: Recent Attacks on Federal Web Sites Underscore Need for Stronger Information Security Management, by Keith A. Rhodes, Director of the Office of Computer and Information Technology Assessment, before the Subcommittee on Technology, House Committee on Science. GAO/T-AIMD-99-223, June 24 (13 pages).

The Melissa computer virus temporarily disrupted the operations of some federal agencies earlier this year by forcing them to shut down their e-mail systems. Since then, the government and private industry have tangled with other viruses, some even more vexing than Melissa. This testimony discusses a different type of malicious attack—the recent series of break-ins at federal web sites. These attacks reveal just how vulnerable federal information systems can be and underscore the need for better agency and governmentwide protection over information systems. This testimony discusses (1) the benefits and risks of web sites; (2) recent computer attacks, which primarily involved vandalism and denial of service; (3) the underlying causes of web site security problems; and (4) the short- and long-term solutions to this issue.

Year 2000 Computing Challenge: Concerns About Compliance Information on Biomedical Equipment, by Joel C. Willemsen, Director of Civil Agencies Information Systems Issues, before the Senate Special Committee on the Year 2000 Technology Problem. GAO/T-AIMD-99-209, June 10 (22 pages).

Can medical devices—from magnetic resonance imaging systems to x-ray machines to pacemakers—be depended on to work reliably on and after January 1, 2000? To the extent that biomedical equipment uses computer chips, it is vulnerable to the Year 2000 problem. The Food and Drug Administration (FDA) is collecting information from manufacturers of medical devices and scientific and research instruments and is posting this information on the Internet. In addition, the Veterans Health Administration has taken the lead in determining the Year 2000 compliance status of biomedical equipment and is sharing this information with FDA. This testimony discusses (1) the status of FDA's Federal Y2K

Biomedical Equipment Clearinghouse, (2) the compliance status information on manufacturers' web sites referred to in FDA's clearinghouse, (3) FDA's efforts to address GAO's recommendation to obtain and review the test results supporting manufacturer's compliance certifications for critical care and life support medical devices, and (4) the biomedical equipment compliance status of health care providers.

Year 2000 Computing Crisis: Estimated Costs, Planned Uses of Emergency Funding, and Future Implications, by David M. Walker, Comptroller General of the United States, before the Senate Committee on Appropriations and the Special Committee on the Year 2000 Technology Problem. GAO/T-AIMD-99-214, June 22 (27 pages).

Meeting the Year 2000 challenge has been necessary but expensive. Estimated federal costs rose from \$2.3 billion in February 1997 to \$8.7 billion as of last month. Between just February and May of this year, the estimated cost rose \$1.2 billion. The 24 major federal agencies have reported Year 2000 costs exceeding \$3 billion through fiscal year 1998. This year, agencies have requested emergency funds. They plan to spend much of this money on renovation, validation, and implementation activities, along with replacing personal computers and network hardware and software. Estimated future costs continue to climb. One major unknown is whether agencies will have to implement their business continuity and contingency plans. Such plans, if triggered, could entail substantial costs. GAO intends to review the agency plans submitted to the Office of Management and Budget and advise Congress of potential funding ramifications. Another less direct, but undeniable, issue associated with the Year 2000 challenge has been the postponement of many program and information technology initiatives so that resources can be devoted to the Year 2000 problem.

Year 2000 Computing Challenge: Delivery of Key Benefits Hinges on States' Achieving Compliance, by Joel C. Willemsen, Director of Civil Agencies Information Systems Issues, before the Subcommittee on Government Management, Information and Technology, House Committee on Government Reform. GAO/T-AIMD/GGD-99-221, June 23 (20 pages).

Just as the federal government faces significant Year 2000 risks, state and local governments also face this challenge. If the Year 2000 problem is not properly addressed, many vital government functions could be jeopardized. For example, food stamps and other benefit payments could be stopped, signal timing patterns could malfunction at highway

intersections, and parole eligibility determinations could be adversely affected. This testimony discusses the Year 2000 challenge facing state and local governments and the Year 2000 Compliance Assistance Act (H.R. 1599), which would allow state and local governments to buy information technology through the federal government to address the Year 2000 problem. GAO (1) highlights the reported Year 2000 readiness of state and local governments and the steps taken by the President's Council on Year 2000 Conversion, (2) discusses the readiness and federal activities associated with state-run federal programs, and (3) offers observations on H.R. 1599.

Year 2000 Computing Crisis: Customs Is Making Good Progress, by Jack L. Brock, Jr., Director of Governmentwide and Defense Information Systems Issues, before the Subcommittee on International Economic Policy and Trade, House Committee on International Relations. GAO/T-AIMD-99-225, June 29 (eight pages).

If the U.S. Customs Service does not address the Year 2000 problem in time, key automated systems affecting trillions of dollars in trade between the United States and other countries could malfunction. The result would be delayed trade processing; lost trade revenue; and more criminal activity, such as drug smuggling, money laundering, and commercial fraud. Fortunately, Customs has made good progress in dealing with the Year 2000 problem, thanks, in large part, to the effective program management structures and processes that it has in place. Nevertheless, challenges remain, such as completing end-to-end testing. This testimony discusses four key areas: the agency's progress so far, the effectiveness of its program management, its progress in leading a governmentwide effort to ensure continuous inspections at border crossings, and future challenges facing the agency.

Correspondence

Year 2000 Computing Crisis: Actions Needed to Ensure Continued Delivery of Veterans Benefits and Health Care Services. GAO/AIMD-99-190R, June 11.

GSA's Efforts to Develop Year 2000 Business Continuity and Contingency Plans for Telecommunications Systems. GAO/AIMD-99-201R, June 16.

Information Security: Subcommittee Questions Concerning the Melissa Computer Virus. GAO/AIMD-99-220R, June 18.

International Affairs

International Monetary Fund: Trade Policies of IMF Borrowers

GAO/NSIAD/GGD-99-174, June 22 (76 pages).

GAO is required to report on the extent to which International Monetary Fund (IMF) borrowers restrict free and open trade and whether their export policies could harm or result in unfair trade practices against U.S. companies. The 98 current IMF borrowers include several countries that have received large-scale IMF financial assistance since the Asian financial crisis began in 1997. This report (1) identifies the extent to which current IMF borrower countries restrict international trade and the borrowers whose trade has the potential to affect the United States; (2) describes the reported trade barriers and export policies of four IMF borrowers—Brazil, Indonesia, the Republic of Korea, and Thailand—that are among those with the greatest capacity to affect the United States and recent steps taken to reduce those barriers and modify policies; (3) identifies actions the four countries have taken or plan to take to liberalize their trading systems; and (4) determines the extent to which the impact of the four countries' export policies on the United States can be predicted and measured and which U.S. industry sectors might be affected by recent changes in trade from these countries.

International Monetary Fund: Approach Used to Establish and Monitor Conditions for Financial Assistance

GAO/GGD/NSIAD-99-168, June 22 (188 pages).

Countries that are members of the International Monetary Fund (IMF) may request financial assistance from the IMF when they face balance-of-payment problems. IMF staff and the borrower country agree upon the financial assistance and policy changes that the country intends to undertake as conditions for that assistance. Upon approval from IMF's Executive Board, the country gains initial access to financial assistance. This report (1) describes how IMF established financial arrangements with borrower countries and the types of conditions set under these arrangements and assesses how this process was used for six borrower countries (Argentina, Brazil, Indonesia, the Republic of Korea, Russia, and Uganda) and (2) describes how IMF monitors countries' performance and assesses how this process was used for the same six borrower countries, detailing the conditions met and not met and the actions that IMF took in

response. GAO summarized this report, along with GAO/NSIAD/GGD-99-174, in testimony before Congress; see:

International Monetary Fund: Lending Policies, by Susan S. Westin, Associate Director for Financial Institutions and Markets Issues, and Harold J. Johnson, Jr., Associate Director for International Relations and Trade Issues, before the Subcommittee on Domestic and International Monetary Policy, House Committee on Banking and Financial Services. GAO/T-GGD/NSIAD-99-194, June 22 (16 pages).

**Vietnam Economic Data:
Assessment of Availability and Quality**

GAO/NSIAD-99-109, June 1 (11 pages).

The recent financial crisis in East Asia and the overall importance of the region to the United States has highlighted the need for reliable and timely economic and trade data on individual countries in the region. In recent years, the United States has taken steps to normalize relations with Vietnam and is now negotiating a long-term trade agreement with its government. This report examines economic data on Vietnam, which has been experiencing significant economic growth and development as it moves to a more market-based economy. GAO discusses the availability, transparency, and quality of published economic and trade data on Vietnam.

**Export Promotion:
U.S. Export Assistance Centers Seek to Improve Services**

GAO/NSIAD-99-180, June 25 (24 pages).

Three agencies—the Commerce Department, the U.S. Export-Import Bank, and the Small Business Administration—have established a domestic network of 19 “one-stop shops,” called U.S. Export Assistance Centers. The agencies participating in this network were to coordinate among themselves, as well as with nonfederal organizations, such as state agencies and world trade centers. Their goal was to deliver a full range of nonagricultural export education, promotion, and finance services to small- and medium-sized exporters. The report examines the network’s activities. GAO discusses (1) the nature of coordination among the federal agencies participating in the network and between these agencies and nonfederal export-service providers and (2) network assistance to firms

that export services and to firms that are not ready to export but show potential and interest in doing so.

Testimony

United Nations: Observations on Reform Initiatives, by Harold J. Johnson, Associate Director for International Relations and Trade Issues, before the Senate Committee on Foreign Relations. GAO/T-NSIAD-99-196, June 22 (18 pages).

Reform at the United Nations, according to the Secretary-General, means embracing fundamental measures to strengthen the organization and its efficiency. Some of these measures, including greater accountability and budget restraint, have been demanded by member states. Other measures include initiatives announced by the Secretary-General in 1997. This testimony examines U.N. efforts to (1) unify and focus its organizational structure; (2) control its budget and institute new budget procedures; (3) improve oversight, program monitoring, and evaluation; and (4) improve its human resources management.

Justice and Law Enforcement

Combating Terrorism: Issues to Be Resolved to Improve Counterterrorism Operations

GAO/NSIAD-99-135, May 13 (28 pages).

During the past three years, federal agencies have conducted several successful interagency operations overseas, including some in which suspected terrorists have been returned to the United States to stand trial. Some agencies have also deployed personnel and equipment to prepare for special events, such as the Atlanta Olympic Games. However, federal agencies have not completed interagency guidance or resolved command and control issues. To improve their response to terrorist attacks, federal agencies have conducted more than 200 exercises, half of which included three or more federal agencies. About one-third included state and local participants. However, the agencies have not fully achieved the interagency counterterrorist exercise program directed in a June 1995 Presidential directive. As a result, some complex transfers of command and control between agencies have not occurred. International field exercises, generally led by the Defense Department (DOD), included the full range of interagency players in demanding scenarios, some taking place with no notice. In contrast, domestic counterterrorism exercises are less demanding. The FBI's crisis management field exercises have provided

good practice for its tactical response units, but generally have not exercised the Bureau's interagency leadership role and rapid deployments for no-warning terrorist attacks. The Federal Emergency Management Agency's (FEMA) consequence management exercises have been limited to tabletop exercises that do not fully test the government's ability to provide a rapid interagency response in a realistic setting. DOD, the Department of Energy, and FEMA have requirements and processes in place to capture lessons learned from counterterrorist operations and exercises. These agencies, however, did not capture lessons learned from all the exercises they led or all the field exercises they participated in. Other federal agencies have less rigorous requirements and processes for capturing lessons learned. Establishing a process to record the lessons learned from counterterrorism operations and exercises would be beneficial and could improve future efforts.

**Combating Terrorism:
Use of National Guard Response Teams Is Unclear**

GAO/NSIAD-99-110, May 21 (48 pages).

The Defense Department (DOD) recently approved the creation of 10 National Guard response teams to help state and local authorities deal with terrorists attacks involving weapons of mass destruction. GAO found differing views on the role and the use of these response teams and how they will fit into state and federal plans to respond to weapons of mass destruction. Army officials believe that the teams can be a valuable asset to federal authorities. They also believe that the teams will be a critical part of the state and local response. However, officials with the FBI and the Federal Emergency Management Agency, which are responsible for managing the federal response to terrorist attacks, do not see a role for the teams in the federal response. Instead, they foresee the National Guard providing its traditional assistance in emergencies. Differing views also exist at the state level. Many state, local, and federal groups can do the work that the teams would perform. For example, more than 600 state and local hazardous materials teams in the United States deal with incidents involving highly toxic industrial chemicals and other hazardous materials. GAO's discussions with state, local, and federal officials and its own analysis found several concerns that could affect the teams' abilities to meet their mission and responsibilities. These concerns centered on recruiting and retention, training, and operational issues. GAO summarized this report in testimony before Congress; see:

Combating Terrorism: Use of National Guard Response Teams Is Unclear, by Mark E. Gebicke, Director of National Security Preparedness Issues, before the Subcommittee on National Security, Veterans' Affairs, and International Relations, House Committee on Government Reform. GAO/T-NSIAD-99-184, June 23 (10 pages).

**Personal Bankruptcy:
Analysis of Four Reports on Chapter 7 Debtors' Ability to Pay**

GAO/GGD-99-103, June 21 (92 pages).

This report compares and evaluates the methodologies used by four reports on bankruptcy debtors' ability to repay their debts—two by Ernst & Young LLP under the sponsorship of VISA and Mastercard, one by Creighton University under the sponsorship of the American Bankruptcy Institute, and one by the Executive Office for U.S. Trustees. These reports focus on a major public policy issue—the amount of income that those who file for personal bankruptcy have available to pay their debts. GAO discusses each reports's research methodology for estimating the number of bankruptcy debtors who would be able to pay a portion of their debts and the amount of debt such debtors could repay.

**Drug Control:
Narcotics Threat From Colombia Continues to Grow**

GAO/NSIAD-99-136, June 22 (29 pages).

Despite the efforts of the United States and Colombia, the illegal narcotics threat from Colombia has grown since GAO's last report. (See GAO/NSIAD-98-60, Feb. 1998.) Today, Colombia remains the primary source of cocaine products in the U.S. market. For the third year in a row, coca cultivation has increased, and Colombia is now the world's leading grower of coca. More potent coca leaf is also being grown in Colombia. Colombia is now the major supplier of heroin to the eastern part of the United States. In the past year, the Colombian government has lost several battles to insurgent groups who, along with paramilitary groups, have increased their involvement in illicit narcotics activities and gained greater control over large parts of Colombia where drug-trafficking occurs. Although the Colombian government has launched several initiatives to counter the narcotics threat, the government faces significant obstacles. The Colombian military suffers from institutional weaknesses that hamper its ability to support counternarcotics operations. Government corruption,

budgetary constraints, and a weak judicial system are also problems. The United States has had limited success in reducing the flow of illegal drugs from Colombia. Despite two years of heavy herbicide spraying, U.S. estimates show no net reduction in coca cultivation. In fact, coca cultivation actually rose 50 percent. The United States has had difficulty supporting counternarcotics efforts in Colombia because of cutbacks in U.S. support for drug detection and monitoring. Moreover, reported human rights abuses by the Colombian military have led the United States to restrict assistance to Colombian police and military units if there is credible evidence of human rights violations. Finally, the growing involvement and strength of insurgent groups in areas where coca leaf and opium poppies are grown complicates U.S. support for counternarcotics activities.

Testimony

Combating Terrorism: Observations on Growth in Federal Programs, by Mark E. Gebicke, Director of National Security Preparedness Issues, before the Subcommittee on Oversight, Investigations, and Emergency Management, House Committee on Transportation and Infrastructure. GAO/T-NSIAD-99-181, June 9 (14 pages).

The President's budget request for fiscal year 2000 includes about \$10 billion to combat terrorism. About \$1.4 billion of that amount was earmarked for dealing with weapons of mass destruction, according to the Office of Management and Budget. This testimony focuses on three issues. First, GAO briefly describes the foreign- and domestic-origin terrorism threats, as it understands them from intelligence analyses, and discusses issues surrounding the emerging threat of terrorist attacks involving chemical, biological, radiological, or nuclear weapons. Second, GAO discusses the growth in federal programs to train and equip local "first responders"—police, fire, and emergency medical services—and the expansion of federal response teams to deal with terrorist attacks involving weapons of mass destruction. Finally, GAO discusses efforts to better manage the federal response to terrorism and opportunities for additional focus and direction.

Correspondence

Legal Services Corporation: Substantial Problems in 1999 Case Reporting by Five Grantees [Baltimore, Chicago, Los Angeles, New York City, and Puerto Rico]. GAO/GGD-99-135R, June 25.

Weaponry: Availability of .50 Caliber Semiautomatic Rifles. GAO/OSI-99-13R, June 30.

Weaponry: Availability of Military .50 Caliber Ammunition. GAO/OSI-99-14R, June 30.

National Defense

Defense Health Program: Reporting of Funding Adjustments Would Assist Congressional Oversight

GAO/HEHS-99-79, Apr. 29 (39 pages).

Between fiscal years 1994 and 1998, Congress appropriated \$48.9 billion for Defense Health Program (DHP) operations and maintenance expenses, and about \$4.8 billion was obligated differently from Department of Defense (DOD) budget allocations. DOD's strategy was to fully fund purchased care activities within available funding levels, leaving less to budget for direct care and other DHP activities, but it is difficult to reliably estimate annual demand and costs for each component. In 1994-96, purchased care obligations were \$1.9 billion less than allocated because of faulty physician payment rate and actuarial assumptions; in 1994-98, direct care obligations were \$1 billion more than allocated because DOD underestimated direct care requirements. Sizable funding changes like these generally occur without congressional awareness because the movement of DHP funds from one subactivity to another does not require prior congressional notification or approval. DOD officials expect future DHP allocations to track more closely with budget requests and allocations, while acknowledging that some movement of funds is inevitable given the lack of a universally enrolled beneficiary population for direct and purchased care. Repeated failure of DHP to adhere to its own budget requests or reported budget allocations could cause Congress to question their validity. DOD would not be burdened by notifying or reporting to Congress quarterly budget execution reports similar to those required of the TRICARE Management Activity to improve internal budget oversight and budget decisionmaking. Such reporting could help Congress determine whether additional program controls, such as a universal requirement that all beneficiaries enroll in direct care or purchased care, are needed.

**Prescribing Psychologists:
DOD Demonstration Participants Perform Well but Have Little
Effect on Readiness or Costs**

GAO/HEHS-99-98, June 1 (26 pages).

The military employs 431 psychiatrists and 430 clinical psychologists in 1999 to provide mental health care for about 8 million active-duty members, retirees, and dependents. Ten psychologists who had completed training by June 1997 under the Psychopharmacology Demonstration Project (PDP) were allowed to prescribe psychotropic medications at Air Force, Army, and Navy medical facilities across the country. At the time of GAO's review, they served in positions of authority, prescribed from comprehensive lists of drugs, and carried patient caseloads comparable to those of psychiatrists and psychologists at the same hospitals and clinics. Their clinical supervisors and others were complimentary about the quality of their patient care. However, 10 prescribing psychologists cannot substantially affect the medical readiness of an organization staffed by more than 800 psychiatrists and psychologists. The PDP graduates reduce the time patients must wait for treatment and increase the number of personnel and dependents who can be treated for illnesses with psychotropic medications, enhancing peacetime readiness where they serve. But it is unlikely that the 10 psychologists' prescribing abilities and knowledge of psychotropic drugs would be needed during wartime, when the preferred treatment is rest, counseling, and quick return to the front lines. Over the course of the PDP graduates' careers, the Defense Department will spend an average of about seven percent more (or about \$9,700 annually) per graduate than it would spend on a mix of psychiatrists and psychologists who would treat patients in their absence.

**Defense Acquisitions:
Achieving B-2A Bomber Operational Requirements**

GAO/NSIAD-99-97, June 10 (24 pages).

Operational testing found that the B-2A bomber met most operational requirements, but four significant deficiencies were identified that will limit or slow its pace in flight operations. These deficiencies were (1) the incomplete development of the ground mission planning system, (2) the limited situational awareness for the crew because defensive avionics do not provide the planned capability, (3) the insufficient reliability and maintainability of low observable materials and features, and (4) the

inability to effectively operate B-2As from operational sites other than the main operating base in Missouri. A March 1999 Air Force assessment found that one deficiency—development of the ground mission planning system—was nearly corrected. Congress has appropriated 98 percent of the funds that the Air Force has estimated it would need to acquire 21 block 30 B-2As and certain future improvements. This program is estimated to cost \$44.5 billion. Air Force officials told GAO, however, that funding requirements for future years and the total program cost could increase.

**Defense Acquisitions:
Naval Surface Fire Support Program Plans and Costs**

GAO/NSIAD-99-91, June 11 (17 pages).

Since 1994, the Navy has been working on a two-phase research and development program to address shortfalls in its naval surface fire support capabilities. GAO has already reported on the Navy's compliance with legislation directing it to retain two Iowa class battleships and their logistical support infrastructure. (See GAO/NSIAD-99-62, Apr. 1999.) This report describes the Navy's effort to modernize its naval surface fire support capabilities and identifies the cost of the modernization. An upcoming report will analyze the Navy's assessment of the costs associated with alternative ways to carry out the naval surface fire-support mission, including reactivating two battleships.

**Defense Modernization Account:
Operations and Benefits**

GAO/NSIAD-99-134, June 11 (four pages).

The Defense Department (DOD) may transfer unexpired funds from its appropriations to the Defense Modernization Account, which was established in 1996. These funds must come from savings realized from the efficient management of procurement or support of installations and facilities. Congress' intent was to encourage the military to use these savings to meet shortfalls in funding for modernization. GAO found that neither DOD nor the military services have ever transferred money into the Defense Modernization Account. The services attribute the inactivity in the account to a lack of funds. In fact, the legislation prohibits the transfer of funds if DOD determines that there are more important uses for the money. The Air Force said that it uses funds for other purposes, such as

reprogramming or as offsets to congressionally directed rescissions. The Marine Corps said that it does not have excess funds in support of installations, facilities, or procurement. The Navy stressed the lack of funds to use for the account. The Army said that it has been unable to afford transfers to the account because of tight budgets, readiness priorities, and support for contingency operations. GAO also found that DOD has never submitted to Congress any of the required quarterly reports on the activities of the account.

**Defense Acquisitions:
Progress of the F/A-18E/F Engineering and Manufacturing
Development Program**

GAO/NSIAD-99-127, June 15 (27 pages).

The F/A-18E/F is meeting all performance requirements, according to the Navy. GAO does not agree with this assessment. The Navy based its assessment on the E model's performance and assumed some improvements to the aircraft that have yet to be shown. Without that assumption, the F model, which makes up more than half of the E/F planned buy, is not meeting the interdiction range requirement—a primary justification for the program. The Navy's schedule for operational test and evaluation, combined with unresolved aircraft deficiencies, could cause the E/F to fail that testing. Corrections of some deficiencies have been shifted to later in the program. This will help the Navy stay within the congressionally mandated cost cap for development; however, correcting these shortcomings will increase the aircraft's development costs. GAO recommends that the Defense Department defer multiyear funding for the E/F program until all corrections of deficiencies have been incorporated into the aircraft's design and successfully tested.

**Military Readiness:
Readiness Reports Do Not Provide a Clear Assessment of
Army Equipment**

GAO/NSIAD-99-119, June 16 (30 pages).

Members of Congress have raised concerns about the combat readiness of U.S. military forces because of reductions in force size and the expanding demands of peacekeeping and humanitarian assistance operations. GAO found that, although the details are classified, a high percentage of active duty Army units have the major equipment items they need to do their

wartime jobs. Moreover, Army information shows that units are maintaining the bulk of their equipment in a fully mission-capable condition. Despite these positive indications of readiness, current readiness reporting systems are not comprehensive enough to reveal all readiness weaknesses. Two factors suggest that the Army could have difficulty sustaining equipment in the event of two nearly simultaneous wars. First, there is a significant shortage of maintenance personnel with the right skills and tenure. As a result, unit maintenance personnel are working longer and harder to keep equipment in a fully mission-capable condition. Second, Army officials are concerned that shortages of war reserve repair parts could seriously affect the operational availability of many of the Army's primary weapon systems. Army officials said that they have started to fund critical shortages. GAO makes recommendations to improve the reporting of (1) auxiliary equipment shortages in unit status reports and (2) equipment conditions in congressional readiness reports.

**Defense Transportation:
The Army's Hunter Pilot Project Is Inconclusive but Provides
Lessons Learned**

GAO/NSIAD-99-129, June 23 (32 pages).

The Army began a pilot project in 1997 to test an alternative approach to providing relocation services to its military personnel stationed at Hunter Army Airfield in Savannah, Georgia. The Army undertook this effort to address long-standing problems with the current personal property program. The Defense Department (DOD) has two other pilot programs underway to test different approaches to improving its personal property program and is proposing a fourth pilot. To determine which pilot, or portion thereof, could provide better long-term results, the U.S. Transportation Command is responsible for overseeing all personal property pilot tests and recommending the follow-on course of action. GAO is required to validate the results and savings achieved before DOD expands any of its personal property pilot projects. This report supplements a March 1999 testimony (GAO/T-NSIAD-99-106) and addresses the results of GAO's 12-month Hunter pilot test and lessons for evaluating other pilots. GAO (1) assesses the Army's evaluation methodology of the Hunter Pilot, including the validity of data and reported results, and (2) determines the status of all ongoing and planned pilot projects and the adequacy of DOD's plans to evaluate them.

**Defense Transportation:
Plan Needed for Evaluating the Navy Personal Property Pilot**

GAO/NSIAD-99-138, June 23 (15 pages).

The Defense Department (DOD) has been trying since 1994 to reengineer the personal property program by simplifying processes, controlling costs, ensuring quality by adopting best practices used by commercial businesses, and relieving carriers of terms and conditions unique to the military. Last year, the Navy began a pilot that allows servicemembers to choose a carrier and arrange their own moves. Between January 1998 and March 1999, 223 servicemembers used the pilot program to arrange their own move. Participation has been relatively low compared to the three other pilots planned or under way, which involve substantially more shipments—about 1,400 to 45,000 shipments annually. Surveys show that participants are satisfied with the pilot and would use the option again. The option of allowing members to arrange their own moves is not offered in any of the other pilots, which are broader in scope and are intended to replace the current program. GAO recommends that DOD consider testing the Navy pilot and its unique features in conjunction with one or more of the other pilots.

**Contract Management:
DOD Pricing of Commercial Items Needs Continued Emphasis**

GAO/NSIAD-99-90, June 24 (20 pages).

The Defense Department (DOD), with the encouragement of Congress, is boosting its purchases of commercially available goods and services. Although commercial purchasing is still relatively small and sole-source commercial purchasing is even smaller, DOD expects commercial purchases to increase in the future. It believes that determining fair and reasonable prices for commercial sole-source items will continue to be challenging. The Federal Acquisition Regulation (FAR) cautions military contracting officers not to obtain more information than is necessary to determine price reasonableness, and it stresses the need to limit information requests of the contractors. However, contracting officers may ask contractors to provide sales prices for the same or similar items, to explain their discount policy, and to supply cost data. The FAR defines price analysis as the process of examining and evaluating a proposed price without evaluating its separate cost elements or process. This report (1) determines the extent of price analysis that DOD contracting personnel

were doing to arrive at fair and reasonable prices for commercial sole-source items, (2) evaluates how well contract personnel did price analyses, and (3) determines what guidance and training was available to help them determine price reasonableness.

**Air Force Depot Maintenance:
Management Changes Would Improve Implementation of
Reform Initiatives**

GAO/NSIAD-99-63, June 25 (56 pages).

The Air Force, which spends about \$4 billion each year on depot maintenance programs, is implementing three initiatives designed to better manage these programs, including the management of spare and repair parts. This report reviews the status of the three initiatives and discusses several needed management changes.

**Defense Acquisitions:
Historical Analyses of Navy Ship Leases**

GAO/NSIAD-99-125, June 25 (19 pages).

The Navy recently proposed long-term leasing rather than outright purchase of 12 auxiliary dry cargo ships. Historically, the Navy has bought its combat ships and relied on long-term and short-term leases to acquire some auxiliary vessels for supply and other support functions. Although it now appears that the Navy will purchase the dry cargo ships, its still considers long-term leasing an alternative to buying auxiliary vessels. This report provides an historical analysis of the Navy's decisions to lease Sealift tankers, Maritime Prepositioning Ships, T-5 replacement tankers, and Chouest specialized support vessels. GAO (1) determines the basis and the support for the Navy's lease decisions, (2) reviews past concerns about those decisions, and (3) identifies legislative and regulatory changes that affect current and future leasing decisions. This report updates an April 1999 testimony before Congress. (See GAO/T-NSIAD-99-141.)

Testimony

Department of Defense: Improving the DOD Payment Process, Using Recovery Auditing and Changing the Prompt Payment Act, by David Cooper, Associate Director for Defense Acquisition Issues, before the Subcommittee on National Security, Veterans' Affairs, and International

Relations, House Committee on Government Reform. GAO/T-NSIAD-99-193, June 16 (15 pages).

Unless the Pentagon gains control over its payment process, it will continue to risk erroneously paying contractors hundreds of millions of dollars and perpetuating other financial management and accounting control problems. Improving the efficiency of the payment process could save millions of dollars each year. Although the Defense Department (DOD) is trying to improve its payment process and controls, it will likely take many years before DOD gets its payment problems under control. DOD needs to make better use of technology to improve and integrate its payment systems and to streamline and simplify its payment requirements. These actions will require sustained attention from top management. DOD also needs to concentrate on reducing overpayments and to adopt best practices to quickly identify and recover them. Contractors do not have to notify the government when they have been overpaid. GAO believes that contractors should be required to do so. Also, it may be time to raise the minimum dollar threshold required by the Prompt Payment Act. The Defense Finance and Accounting Service now sends out interest payments whose processing costs total more than the face value of the checks.

Recovery Auditing: Reducing Overpayments, Achieving Accountability, and the Government Waste Corrections Act of 1999, by David M. Walker, Comptroller General of the United States, before the Subcommittee on Government Management, Information and Technology, House Committee on Government Reform. GAO/T-NSIAD-99-213, June 29 (14 pages).

Federal agencies contracted for about \$173 billion in goods and services during fiscal year 1998. The Defense Department (DOD) accounted for about two-thirds of this amount. In addition to direct contracting, agencies indirectly pay out billions more dollars each year on health care, education, and agricultural programs. One of the most pressing issues facing the government today is the need for greater accountability in managing its finances. A key problem has been the government's inability to ensure proper payment of all of its bills while avoiding overpayments. The Comptroller General's testimony discusses the dimensions of the overpayment problem, earlier GAO work on DOD's recovery auditing demonstration program, and the Government Waste Corrections Act of 1999 (H.R. 1827). GAO believes that three principles should guide any recovery auditing program. First, there should be meaningful incentives to encourage agency participation and make the program work. Second, adequate safeguards must be in place to help ensure that the program is

implemented as Congress intended and that the integrity of the congressional appropriations process is preserved. Third, there should be transparency in the conduct of the program—that is, there should be evaluation and reporting of program implementation (in this case, to include how the recovered money is used). On the basis of these three principles, the Comptroller General suggests ways to strengthen H.R. 1827.

Contract Management: Observations on DOD's Financial Relationship With the Anthrax Vaccine Manufacturer, by Louis J. Rodrigues, Director of Defense Acquisitions Issues, before the Subcommittee on National Security, Veterans Affairs, and International Affairs Relations, House Committee on Government Reform. GAO/T-NSIAD-99-214, June 30 (eight pages).

Until last year, the Defense Department (DOD) had been procuring its anthrax vaccine from the Michigan Biologic Products Institute, a facility owned by the State of Michigan. This the only biologic facility in the country licensed by the Food and Drug Administration (FDA) to produce the vaccine. In 1997, FDA cited many manufacturing problems that could have led to the revoking of the facility's license. The State of Michigan sold the facility to the BioPort Corporation after production was shut down in early 1988. DOD, concerned about the potential loss of anthrax production, has made significant investment in renovating the facility. However, BioPort has experienced delays in completing its renovation and production of the vaccine is about five months behind schedule. Because of the delays, the company now faces a serious cash flow problem. GAO believes that the cash flow problem is due to the company's inability to achieve its overly optimistic business plan. To deal with its cash flow problem, Bioport requested—and DOD approved—the sale of 70,000 doses to other customers before meeting its contractual requirements with DOD. The company has also asked DOD for advance payments and has proposed increasing contract prices. DOD officials are considering what steps, if any, should be taken to resolve BioPort's cash flow problems.

Correspondence

Defense Health Care: Pharmacy Copayments. GAO/HEHS-99-134R, June 8.

Natural Resources

**Forest Service:
Amount of Timber Offered, Sold, and Harvested, and Timber Sales Outlays, Fiscal Years 1992 Through 1997**

GAO/RCED-99-174, June 15 (78 pages).

The amount of timber sold from the national forests has fallen significantly since a decade ago, when 11 board feet of timber was offered for sale each year. Congress has raised concerns that the cost of the Forest Service's timber sales program has not decreased likewise. This report provides information for fiscal years 1992 through 1997 on the (1) amount of timber offered for sale, sold, and harvested; (2) outlays for timber sales by type of outlay; and (3) estimated cost per thousand board feet harvested.

**Fishery Management:
Market Impacts of the American Fisheries Act on the Production of
Pollock Fillets**

GAO/RCED-99-196, June 30 (13 pages).

As the supply of better-known groundfish has dwindled, the demand for pollock, which is valued for fillets, fish paste, and other products, has increased. Over the years, the pollock fishery off the coast of Alaska has become overcrowded with too many ships chasing too few fish. Last year, Congress eliminated some vessels from the fishery, changed the way that the annual allowable pollock catch was distributed among the various sectors of the fishing industry, and set up a structure for the formation of fishing cooperatives. GAO was required to report on whether the act harmed the market for pollock fillets, including any reduction in their supply. This report provides information on the production of pollock fillets and the actions that affected production for the first and largest of the three 1999 pollock fishing seasons, which ran from January through March 1999. It also includes a historical perspective on the pollock fishery and discusses factors that could affect future production.

Testimony

Western National Forests: Status of Forest Service's Efforts to Reduce Catastrophic Wildfire Threats, by Barry T. Hill, Associate Director for Energy, Resources, and Science Issues, before the Subcommittee on Forests and Forest Health, House Committee on Resources.
GAO/T-RCED-99-241, June 29 (eight pages).

This testimony discusses the status of efforts by the Forest Service to develop a cohesive strategy to counter the growing threat that catastrophic wildfires pose to the national forests in the interior West. Developing and implementing such a strategy presents a difficult challenge for the Forest Service because the wildfire issue transcends the boundaries of both its regions and forests and its resource-specific

programs. GAO's comments are based on earlier reports and testimony. (See GAO/T-RCED-98-273, Sept. 1998, GAO/T-RCED-99-79, Feb. 1999, and GAO/RCED-99-65, Apr. 1999.)

Science, Space, and Technology

Federal Research: Evaluation of Small Business Innovation Research Can Be Strengthened

GAO/RCED-99-114, June 4 (90 pages).

The United States depends heavily on innovation through research and development. The Small Business Innovation Development Act of 1982, which authorized the Small Business Innovation Research (SBIR) Program, emphasizes the benefits of technological innovation and the ability of small businesses to transform the results of research into new products. As the program has matured in the 1990s, congressional concern has focused on the companies' ability to commercialize the results of their research and on the concentration of awards in certain states and companies—commonly known as “frequent winners.” This report discusses the (1) distribution of awards by company and geographic area, (2) extent to which federal agencies are considering commercial potential and the program's other goals in making their awards, and (3) previous evaluations of the SBIR program to identify opportunities to improve measurements of the program's outcomes. GAO summarized this report in testimony before Congress; see:

Federal Research: Evaluation of Small Business Innovation Research Can Be Strengthened, by Susan D. Kladiva, Associate Director for Energy, Resources, and Science Issues, before the Subcommittee on Technology, House Committee on Science. GAO/T-RCED-99-198, June 17 (11 pages).

Technology Transfer: Number and Characteristics of Inventions Licensed by Six Federal Agencies

GAO/RCED-99-173, June 18 (46 pages).

The federal government provided about \$70 billion for research and development in fiscal year 1998. Federal funds are used to support both “intramural” programs that involve government employees working in government facilities and “extramural” programs that are carried out by

nonfederal organizations through contracts and grants. This report provides information on (1) government-owned inventions licensed by six federal agencies during fiscal years 1996 through 1998; (2) whether the licenses were exclusive or nonexclusive; (3) whether the licensees were small businesses, individuals, large businesses, or nonprofit organizations; and (4) whether the licensees were foreign or domestic. The six agencies GAO reviewed are the National Institutes of Health, the Army, the Navy, the Air Force, the Department of Energy, and NASA. The six agencies reported that they granted a total of 866 licenses and received \$107.5 million in royalties during fiscal years 1996 through 1998. Most of the licenses were nonexclusive, most went to small businesses or individuals, and most went to domestic entities.

Social Services

Adults With Severe Disabilities: Federal and State Approaches for Personal Care and Other Services

GAO/HEHS-99-101, May 14 (87 pages).

According to 1994-95 data, 2.3 million adults of all ages lived in home- or community-based settings nationwide and required considerable help with day-to-day personal care. For those with severe disabilities, daily personal care was critical to avoiding institutionalization. However, adults with disabilities were almost twice as likely as the general population to live below the poverty line. Eighty-four percent of the severely disabled aged 18 to 64 were either out of work or not in the workforce. More than 80 percent had public health insurance, primarily Medicare, Medicaid, or both. Having a disability is a central eligibility criterion for 30 federal programs that cost an estimated \$110 billion in 1999. Disability is one of several eligibility criteria for 40 other federal programs. Medicare's home health benefit has shifted to a longer-term chronic care benefit. Forty states use home- and community-based services waivers as the primary funding source for Medicaid community-based care. The waivers allow the states to limit the availability of services geographically, target specific populations or conditions, control the number of individuals served, and cap overall expenditures. Under consumer direction policies in California, Kansas, Maine, and Oregon, states and consumers identified two challenges: (1) ensuring a qualified pool of personal caregivers for low-wage positions that typically attract workers with little or no training and (2) balancing states' concerns for consumer safety with consumers' rights to direct their own care. The personal care programs in these states

can serve as models for other states in expanding the delivery of services in noninstitutional settings and in emphasizing consumers' participation in directing services to meet their own care needs.

**Food Stamp Program:
Relatively Few Improper Benefits Provided to Individuals in
Long-Term Care Facilities**

GAO/RCED-99-151, June 4 (14 pages).

In the seven states it reviewed, GAO identified about 4,500 people living in long-term care facilities who were potentially improperly included as members of households receiving food stamps. These households could have received an estimated \$500,000 in food stamp overpayments during 1997. These potential overpayments represented a very small percentage of the \$8.5 billion in benefits paid in the seven states that year. In view of the relatively small number of potential food stamp overpayments involving residents of long-term care facilities, GAO concludes that computer matching may not be practical for the seven states included in its review.

**Welfare Reform:
Public Assistance Benefits Provided to Recently
Naturalized Citizens**

GAO/HEHS-99-102, June 23 (27 pages).

GAO found that recently naturalized citizens generally used Supplemental Security Income (SSI), Medicaid, and Temporary Assistance for Needy Families (TANF) benefits at a higher rate in 1997 than did the native-born. For example, 8.3 percent of the 927,338 immigrants who were recently naturalized received SSI benefits during 1997. The rate for native-born citizens is 2.4 percent. The benefits paid by the federal and state governments in 1997 to the recently naturalized citizens included in GAO's review totaled about \$735 million for four programs. This figures reflects nationwide data for the SSI program, as well as data from five states for the Medicaid and Food Stamp programs and from four states for the TANF program. Overall, the percentage of benefits paid to recently naturalized citizens in each program was about one percent or less of the total benefits paid to all recipients.

**SSI Children:
Multiple Factors Affect Families' Costs for Disability-Related
Services**

GAO/HEHS-99-99, June 28 (60 pages).

From 1989 to 1996, the number of children under age 18 receiving Supplemental Security Income (SSI) benefits more than tripled—from 265,000 to 955,000. Benefit payments rose from \$1.2 billion to about \$5.2 billion. The growth in rolls and allegations that some parents were coaching their children to feign disabilities in order to receive SSI benefits have raised concerns about the children's component of the SSI program. Congress required GAO to study and report on the disability-related expenses incurred by families of children on SSI that are not covered by federal, state, and local programs serving children with disabilities. This report (1) examines the disability-related costs that families of children on SSI incur and the factors that influence the level of such costs and (2) identifies factors affecting families' receipt of disability-related services from programs.

**Supplemental Security Income:
Progress Made in Implementing Welfare Reform Changes; More
Action Needed**

GAO/HEHS-99-103, June 28 (20 pages).

The Social Security Administration (SSA) has made significant progress in implementing welfare reform's requirements for assessing children's continuing eligibility for benefits. It has finished almost all of the one-time redeterminations required for children who had been receiving benefits when welfare reform was enacted, and it has done continuing disability reviews when required on low-birth-weight babies and 18-year-olds. It also has a plan to ensure that all required continuing disability reviews for children under 18 whose conditions are likely to improve will be completely underway by 2000. However, SSA has not yet decided whether any revisions are necessary to the interim final regulations that were issued to implement the law's new definition of disability for children, and it has made little progress in updating its medical listings for childhood impairments. Although it has taken steps to accomplish the update, such as recruiting staff, it has not set a timetable to accomplish the update. Until SSA completes this initiative, its medical listings for childhood impairments will continue to reflect multiple levels of severity. Because

the listings are the only basis on which children qualify for benefits, the lack of a uniform severity level in the listings raises equity concerns.

**Child Support Enforcement:
Effects of Declining Welfare Caseloads Are Beginning to Emerge**

GAO/HEHS-99-105, June 30 (40 pages).

The expected outcomes of welfare reform are changing the fiscal and political environment in which the Child Support Enforcement (CSE) Program operates. Declining caseloads—both in the Temporary Assistance for Needy Families and CSE welfare—have reduced the revenue some states have historically realized from the CSE program. At the same time, newly mandated methods for collecting more child support from noncustodial parents have increased states' responsibilities and costs. The federal government, on the other hand, has continued to incur program costs primarily because it reimburses states for a two-thirds share of their CSE expenditures. Moreover, the federal government's net costs are likely to grow as caseloads shrink and states spend more on administrative costs to implement enforcement tools required by the welfare reform law. Rising net costs for the states and the federal government will likely encourage both program partners to (1) reexamine how the CSE program is financed and (2) weight these new fiscal realities against the program's social and fiscal benefits of promoting parental responsibility and recovering welfare costs.

**Tax Policy and
Administration**

**Tax Administration:
Allegations of IRS Employee Misconduct**

GAO/GGD-99-82, May 24 (48 pages).

At a congressional hearing last year, witnesses alleged that senior managers at the Internal Revenue Service (IRS) did not receive the same level of disciplinary action as line staff and that the agency delayed action on substantiated cases of misconduct until senior managers were eligible to retire. The witnesses also said that IRS retaliated against whistleblowers and uncooperative taxpayers and that IRS employees zeroed out or reduced proposed tax assessments for reasons unrelated to the merits of the cases. GAO evaluated these charges. Available data showed significant differences between senior executive and line staff disciplinary cases in terms of disciplinary and processing times. For example, a much higher

percentage of cases involving senior executives was cleared or closed without action, and these cases tended to take longer to complete. At the same time, actions taken against lower-level employees more closely conformed to IRS' established table of penalties than did actions taken against higher-level employees. However, offenses committed by senior executives and line staff, as well as the factors surrounding the cases, were different. GAO's ability to compare these disciplinary cases was also hindered by a lack of detailed and accurate data in connection with IRS' disciplinary case database. GAO did not reach general conclusions about IRS' delaying action on misconduct cases until senior managers were eligible to retire. GAO could not determine the extent of reprisals against whistleblowers or retaliation against taxpayers because IRS does not maintain information on these cases. GAO found no evidence in the eight cases it reviewed to support allegations of improper zeroing out or reductions of recommended taxes by IRS managers. On the other hand, IRS does not systematically collect data on how much additional taxes recommended by auditors are inappropriately zeroed out or reduced by IRS employees. In particular, IRS has no data on supervisors' improperly limiting auditors' recommendations of additional taxes before an audit was closed.

**Tax Administration:
IRS' Abatement of Assessments in Fiscal Years 1995-98**

GAO/GGD-99-77, June 4 (88 pages).

Every year, the Internal Revenue Service (IRS) abates tens of billions of dollars in tax, penalty, and interest assessments. That is, IRS reduces these assessments on taxpayers' accounts. Abatements are important because they can correct tax, penalty, and interest amounts that have been overassessed because of errors by IRS or taxpayers. IRS has not developed comprehensive information on the number and amount of various types of past abatements. This report discusses, for individual and business tax returns, (1) the number and the amount of various types of tax, penalty, and interest abatements made during fiscal years 1995 through 1998 and (2) selected characteristics of the abatements, such as the tax years of abated assessments, taxpayers' use of paid tax preparers, and IRS' actions, such as audit or collection efforts, before abating assessments.

**Tax Systems Modernization:
Results of Review of IRS' Initial Expenditure Plan**

GAO/AIMD/GGD-99-206, June 15 (21 pages).

Because of serious management and technical weaknesses, GAO has included the Internal Revenue Service's (IRS) tax systems modernization effort on its list of federal programs at high-risk for waste, fraud, abuse and mismanagement. Congress limited IRS' ability to spend funds on information technology until the agency submitted an expenditure plan. GAO reviewed this plan. This report discusses (1) whether the plan satisfies the conditions specified in IRS' fiscal year 1998 and 1999 appropriations act, (2) whether the plan is consistent with earlier GAO recommendations on IRS' systems modernization, and (3) other GAO observations on the modernization effort.

Transportation

**Transportation Infrastructure:
Advantages and Disadvantages of Wrap-Up Insurance for Large
Construction Projects**

GAO/RCED-99-155, June 1 (31 pages).

Traditionally, project owners, contractors, and subcontractors have purchased insurance independently to protect themselves from financial losses. In contrast, with wrap-up insurance, the project owner can cover all the parties involved in the project. During the last decade, wrap-up insurance has been used increasingly on large construction projects because of the potential for cost savings. Wrap-up insurance covered about 300 construction projects nationwide in 1998. This report discusses the advantages and the disadvantages of wrap-up insurance over traditional insurance and the factors that can affect the broader use of wrap-up insurance.

**Transportation Infrastructure:
Impacts of Utility Relocations on Highway and Bridge Projects**

GAO/RCED-99-131, June 9 (35 pages).

Work on highway and bridge projects often involves relocating utility lines and facilities that distribute or transmit communications, electricity, natural gas, water, and sewage. Schedule slippages and higher costs

associated with these construction projects may result when these lines and facilities are not relocated in a timely manner. This report provides information on the impact that delays in relocating utilities are having on the delivery and the cost of federal-aid highway and bridge projects.

**Highway Safety:
Effectiveness of State .08 Blood Alcohol Laws**

GAO/RCED-99-179, June 23 (30 pages).

Most states make it illegal for someone to drive with a blood alcohol concentration (BAC) of .10—the level at which a person’s blood contains 1/10th of one percent alcohol. However, 16 states have more stringent laws setting the limitation at .08 BAC. In 1998, the Clinton administration endorsed a bill that would have required all states to enact and enforce .08 BAC laws or face cuts in federal highways funds. GAO found that the evidence does not conclusively establish that .08 BAC laws, by themselves, reduce the number and the severity of alcohol-related crashes. There are, however, strong indications that .08 BAC laws, in combination with other drunk driving laws (particularly license revocation laws), sustained public education and information efforts, and vigorous and consistent enforcement can save lives. Until recently, only four published studies examined the effectiveness of BAC laws in five states, and, although the National Highway Traffic Safety Administration characterized the studies as conclusively establishing that .08 BAC laws by themselves were effective, the studies had limitations. In April 1999, three additional studies were released that were more comprehensive and showed many positive results but also fell short of providing conclusive evidence that .08 BAC laws were, by themselves, responsible for reducing alcohol-related crashes and fatalities.

**Truck Safety:
Motor Carriers Office Hampered by Limited Information on Causes of Crashes and Other Data Problems**

GAO/RCED-99-182, June 29 (23 pages).

Of the more than 42,00 people who died on the nation’s highways in 1997—the latest year for which data are available—about 5,400 died in crashes involving large trucks. This figure represents a 21-percent increase from 1992, reversing a trend of decreasing truck fatalities since the late 1980s. This recent increase in fatalities reflects, in part, a 25-percent

increase in the annual number of miles traveled by large trucks since 1992. Although trucks are involved in fewer crashes per mile traveled than are passenger vehicles, crashes involving trucks are more likely to result in fatalities. In 1997, 98 percent of the deaths from wrecks involving a truck and a passenger vehicle were occupants of the passenger vehicles. Although no reliable nationwide data exist on the causes of crashes involving large trucks, some data indicate that passenger vehicle drivers' behavior is a significant contributing factor to crashes. The Office of Motor Carrier and Highway Safety plans to design and fund a study to obtain more detailed information on factors that may contribute to crashes involving large trucks. The Office has planned or undertaken several efforts to improve truck safety. These steps include identifying high-risk carriers that should be reviewed for compliance with safety regulations, educating passenger vehicle drivers about how to share the road with large trucks, and developing technology to alert truck drivers of the onset of drowsiness. However, the Office's effectiveness is limited by (1) long-standing data problems, (2) the length of time it takes to complete activities, and (3) the unknown effect of its campaign to educate passenger vehicle drivers about the limitations of large trucks.

Testimony

General Aviation Airports: Oversight and Funding, by John H. Anderson, Jr., Director of Transportation Issues, before the Subcommittee on Aviation, House Committee on Transportation and Infrastructure. GAO/T-RCED-99-214, June 9 (14 pages).

The federal government has made financial grants or transferred federal land to about 2,000 general aviation airports. GAO has issued several reports and testimonies on commercial and general aviation airports' planned capital development and funding sources. This testimony focuses on the following two questions about general aviation airports: How adequate is the Federal Aviation Administration's oversight and enforcement of general aviation airports' compliance with federal requirements related to the use of their land? How do general aviation airports' planned capital development costs compare with current funding levels?

Correspondence

National Airspace System: Review of FAA's Spending for Operations. GAO/RCED/OGC/AIMD-99-222R, June 18.

Veterans Affairs

VA Health Care: Third-Party Charges Based on Sound Methodology; Implementation Challenges Remain

GAO/HEHS-99-124, June 11 (21 pages).

The Department of Veterans Affairs (VA) used a sound methodology to replace its cost-based system with a charge-based system that sets charges at the 80th percentile level and better resembles market prices for thousands of health procedures and hundreds of diagnosis groups. VA expects higher revenues from insurers as a result but it lacks adequate data to estimate the effect of reasonable charges on its revenue and corresponding insurer cost. However, reasonable charges will not affect veterans' copayment and per diem obligations. Reasonable charges are expected to play a key role in VA's plans to expand and improve veterans' health care without increasing appropriations through fiscal year 2002, but factors that could limit the contribution that reasonable charges make to its revenue collections include VA's inability to collect routinely from health maintenance organizations and Medicare and its overcoming past collection problems. To the extent that VA's method will set some reasonable charges below insurers' usual payments, VA will collect less than other providers. VA does not have standardized procedures to ensure that insurers' payments are appropriate if less than reasonable charges. GAO recommends (1) monitoring reasonable charges and identifying those that should be increased to conform with local market prices and (2) verifying the appropriateness of insurers' payments when they are less than VA's reasonable charge.

Testimony

Homeless Veterans: VA Expands Partnerships, but Effectiveness of Homeless Programs Is Unclear, by Cynthia A. Bascetta, Associate Director for Veterans' Affairs and Military Health Care Issues, before the Subcommittee on Oversight and Investigations, House Committee on Veterans' Affairs. GAO/T-HEHS-99-150, June 24 (nine pages).

The Department of Veterans Affairs (VA) reports that about one-third of the homeless adults in America are veterans, many of whom suffer from psychiatric and substance abuse problems. VA has launched several programs during the last decade to address the special needs of homeless veterans. These targeted programs supplement the health care services provided through VA medical facilities. Federal agencies serving the homeless, including VA, have begun to coordinate their activities with each

other and with community-based service providers. These efforts are intended to overcome barriers to service, avoid unnecessary duplication of services, and enhance the delivery of services. This testimony discusses (1) VA's programs to address homelessness, including efforts made in partnership with community-based groups, and (2) what VA knows about the effectiveness of its homeless programs.

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Department of Agriculture, Commodity Credit Corporation: 1998 Single-Year and Multi-Year Crop Loss Disaster Assistance Program. GAO/OGC-99-48, May 27.

Environmental Protection Agency: Findings of Significant Contribution and Rulemaking on Section 126 Petitions for Purposes of Reducing Interstate Ozone Transport. GAO/OGC-99-49, June 9.

Department of Transportation: Credit Assistance for Surface Transportation Projects. GAO/OGC-99-50, June 9.

Nuclear Regulatory Commission: Revision of Fee Schedules; 100 Percent Fee Recovery, Fiscal Year 1999. GAO/OGC-99-51, June 21.

Social Security Administration: Effective Date of Application for Supplemental Security Income (SSI) Benefits. GAO/OGC-99-52, June 28.

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