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# Reports and Testimony: August 1991

## Highlights

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### Bank Insurance Fund

*The fund that protects federally insured bank deposits will likely be insolvent by year's end, and by September 30 the Resolution Trust Corp., responsible for the savings and loan cleanup, will have exhausted all but \$1 billion of the \$80 billion Congress provided to cover losses in the industry. Page 11.*

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### Trans-Alaska Pipeline

*Although the Trans-Alaska Pipeline delivers nearly 25 percent of the nation's domestic oil supply across some of the most hazardous geologic terrain of any pipeline in the world, it has lacked adequate safety oversight because government agencies essentially let the oil companies who own the pipeline police themselves. Page 35.*

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### Transition From School to Work

*U.S. competitiveness in global markets would be enhanced if more American youth who don't graduate from college—about 80 percent of all young people—were enrolled in high-quality cooperative education programs that combine classroom instruction with work experience and on-the-job training. Page 5.*

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# Reports and Testimony: August 1991

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## Agriculture and Food

### **Crop Insurance:**

#### **FCIC's Internal Controls on Safflower Coverage Must Be Improved**

GAO/PEMD-91-27, July 15 (24 pages).

During its assessment of the Federal Crop Insurance Corporation's price forecasts, GAO discovered serious problems with FCIC's nonirrigated safflower program. Specifically, GAO found that in three California counties where nonirrigated safflower insurance was available, FCIC (1) offered insurance in an area with a history of drought when it was unreasonable to expect crops to grow and (2) allowed farmers to insure their crops more than once. USDA looked into the situation and concluded that FCIC had erred in offering insurance on nonirrigated safflowers in California counties that had been suffering from four straight years of drought. In addition, USDA's Office of Inspector General concluded that FCIC had set the yield guarantee too high and the planting date too late in relation to normal precipitation in these counties. Although an FCIC official initially believed that the agency could avoid paying claims, FCIC's deputy management has concluded that "there appears to be no legally sufficient means of challenging these claims with a reasonable prospect of success." While FCIC has considered measures to address its internal control problems, they had not been implemented as of March 1991.

### **Federal Dairy Programs:**

#### **Information on Farm and Retail Milk Prices**

GAO/RCED-91-187FS, Aug. 28 (46 pages).

This fact sheet discusses changes since 1984 in retail and farm-level prices for milk, cheese, and processed dairy products nationwide, and for milk in 29 U.S. cities. GAO provides information on (1) the federal milk marketing order system, the demand for dairy products, and the effect of changes in farm milk prices on retail dairy prices; (2) changes in selected dairy product prices at the farm, processor, and retail levels as reported by the Bureau of Labor Statistics since 1984; (3) prices announced by dairy cooperatives and retail prices for milk sold in 29 cities since January 1985; and (4) changes in retail prices and farm-to-retail price spreads for dairy and eight other food products from 1980 to 1990.

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## Budget and Spending

### **Impoundments:**

#### **No Restrictions Placed on Obligations of Disaster Relief and Housing Funds Pending Congressional Approval of Rescission**

GAO/OGC-91-11, Aug. 20 (four pages).

On June 28, 1991, the President submitted to Congress his fifth special impoundment message for fiscal year 1991. This message revises the amounts of two deferrals and reports two rescissions of budget authority. GAO reviewed the two deferrals and found them to be in accordance with the Impoundment Control Act. The two rescissions involve funds for disaster relief and assisted housing. Notwithstanding the formal rescission proposals, funds for both these accounts are apparently not being withheld from either the Economic Development Administration or the Department of Housing and Urban Development.

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## Business, Industry, and Consumers

### **Prescription Drugs:**

#### **Little Is Known About the Effects of Direct-to-Consumer Advertising**

GAO/PEMD-91-19, July 9 (34 pages).

Until the early 1980s, drug companies and their advertising agencies seemed content to market prescription drugs to doctors through medical journals and a vast network of salespersons. Marketing ploys involved conducting symposia—some with “honoraria” of up to \$1,000 for attendance—as well as providing gifts, vacations, and cash payments. Since 1984, however, concern over loss of market share, especially to generic drugs, has led to new promotional activity aimed at both physicians and consumers. These include institutional advertisements, public service announcements, reminder advertisements, comparative price information, and product-specific advertisements. GAO found that available research does not provide an adequate basis for determining what the effects—or likely effects—of direct-to-consumer advertising may be. Methodologically rigorous and systemic studies have not been done in this area. Further, GAO found no credible studies that permit conclusions to be drawn about the extent to which consumers and physicians support or oppose direct-to-consumer advertising, or about the potential for changing attitudes following increased exposure to direct advertising. Nonetheless, rigorous studies of the effect of such advertising and knowledge of both physicians’ and consumers’ views about it are necessary components of regulatory policy in this area.

**Prescription Drugs:  
Selected Direct-to-Consumer Advertising Studies Have Methodological Flaws**

GAO/PEMD-91-20, July 22 (18 pages).

GAO reviewed five studies done by Scott-Levin Associates, a marketing research firm in Pennsylvania, to see whether the methodology (sampling design, data collection, and analysis) used ensured the accuracy and generalizability of their claims that support for direct-to-consumer prescription drug advertising has increased among both physicians and consumers. GAO found that the studies do not permit the valid or generalizable measurement of either physicians' or consumers' opinions about direct-to-consumer advertising. Further, the study data do not support conclusions about change in support for such advertising. GAO also found that the studies' analytical interpretations of the responses are, in many cases, inconsistent with conventional analyses of data used in opinion research.

**Seafood Processing:  
Foreign Ownership of Facilities in Alaska, Oregon, and Washington**

GAO/RCED-91-127, July 31 (22 pages).

Alaska, Oregon, and Washington have nearly 1,000 seafood processing facilities, which produced about 1.5 billion pounds of Alaska pollock, crab, salmon, and other products in 1989. The three states accounted for about 27 percent of the volume and 33 percent of the value of all seafood produced in this country. While agencies within the Department of Commerce collect data on foreign direct investment, none of these sources provides information specifically about foreign investment in seafood processing. The Foreign Direct Investment and International Financial Data Improvements Act of 1990 should improve the overall quality and availability of information about foreign investment in U.S. industry. The three states have differing requirements for the disclosure of ownership interests for business operations in the states. Alaska collects the most information, although no state agency collects information on loans from, or other nonownership involvement with, foreign sources. A 1990 report prepared by the Alaska legislature estimated that 37 percent of the 347 Alaskan processing facilities studied had some foreign ownership in 1989. Japanese companies accounted for the most foreign ownership, with Norwegian, Canadian, and English companies also being represented. In addition to ownership, GAO pinpointed

examples of foreign involvement through construction loans, sales agreements, or company representatives serving in management positions.

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## Education

### **Transition From School to Work: Linking Education and Worksite Training**

GAO/HRD-91-105, Aug. 2 (56 pages).

About half of U.S. youths do not go on to college; many flounder in the labor market after leaving school, unemployed or working jobs with little chance for advancement. An earlier GAO report (GAO/HRD-90-88, May 11, 1990) looked at strategies in foreign countries, such as apprenticeships in Germany, that help youths make the transition to work. In this report on high-quality cooperative education programs, GAO concludes that both students and employers can benefit from participating in such programs. Students obtain job skills and are frequently offered full-time employment. They are also more likely to stay in school and pursue further education. At the same time, employers gain access to a prescreened pool of employees. Essential elements of the high-quality cooperative education programs reviewed by GAO include training plans detailing specific, ambitious learning objectives for students and, for high school students, close supervision by school staff to ensure that training objectives are achieved. Efforts to expand participation in cooperative education are hindered by two main barriers: lack of awareness about programs and negative perceptions of cooperative education at the high school level. Specific industry-recognized skill standards and certification of mastery of these skills are an integral part of the German youth apprenticeship system. Similar standards in this country could improve cooperative education by providing a focus for training plans and a way to evaluate program achievements. The Departments of Labor and Education have started to develop skill standards and certification that may be applicable to cooperative education.

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## Employment

### **Employment Service: Improved Leadership Needed for Better Performance**

GAO/HRD-91-88, Aug. 6 (84 pages).

Through a network of over 1,700 Employment Service offices, the federal government tries to match qualified workers with job openings. The

performance of the Employment Service varies among different locales, however, with local offices placing anywhere between 10 percent to one-third of their job seekers. Variations in placement performance stem from differences in state management strategies and ways services are provided by local offices. For example, states with placement rates that were double those of other states had (1) set measurable performance goals reinforced by awards for achieving results and (2) assessed local office performance through annual on-site visits. GAO also found that offices with better placement performance were more responsive to client needs. The Department of Labor has played a limited role in helping states manage their Employment Service programs. Labor's annual program planning, review, and reporting activities focus on state compliance with basic federal requirements, rather than on program quality or effectiveness. Labor's "hands-off" approach arises from concern about balancing its Employment Service responsibilities against concerns about federal intrusion into state affairs.

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## Testimony

Labor's Child Labor Enforcement Efforts: Developments After Operation Child Watch, by Sarah F. Jaggar, Director for Operations in the Human Resources Division, before the Subcommittee on Employment and Housing, House Committee on Government Operations, in a field hearing in Redwood City, California. GAO/T-HRD-91-44, Aug. 7 (13 pages).

In 1990 the Department of Labor began Operation Child Watch, a national child labor initiative that has detected over 29,000 child labor violations. As part of fiscal year 1991 budget legislation, Congress gave Labor the authority to increase maximum penalties for nonwillful child labor violations from \$1,000 to up to \$10,000. GAO testified that while it is too soon to evaluate Labor's new strategy to deter child labor violations, it does have questions about how Labor will oversee and assess (1) regional education/outreach efforts, (2) the level of regional resources committed to ensure the success of the strategy, and (3) regional targeting of child labor violations. During the first six months of 1991, Labor conducted about 15,000 investigations, a 30-percent decline nationally from the same period in 1990 and a 24-percent decline from 1989. Labor detected 11,554 minors illegally employed in nonagriculture during the first half of 1991, a 52-percent drop from 1990. Although this total is also 14 percent below the levels of the first half of 1989, it represents an annualized rate slightly above that of fiscal year 1989, the fiscal year before Operation Child Watch began. Labor believes that staff reductions have contributed to the decline in

investigations but also that increased investigator training has contributed to higher quality but fewer inspections. As a result of Labor's new child labor penalty schedule, total national assessments rose 43 percent from fiscal year 1990 to 1991—from \$4.2 million to \$6 million.

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## Energy

### **Nuclear Waste: Extensive Process to Site Low-Level Waste Disposal Facility in Nebraska**

GAO/RCED-91-149, July 5 (36 pages).

States are required, either separately or in compacts of two or more, to dispose of commercial and certain federal low-level radioactive waste within their borders. Nebraska, as the host state for a compact of five states, underwent a site selection process that led to the choice of a site in Boyd County. US Ecology, a company experienced in low-level radioactive waste management and disposal, conducted an extensive site selection process to identify three candidate sites and select a preferred site. The process combined scientific assessments and judgments, subjective public involvement, and land availability. On the basis of its review, GAO concludes that (1) the site-screening and site-selection process was an extensive effort to comply with state law and policy in screening for such a facility, (2) the geologic and hydrologic assessments done at the three candidate sites appear to have been conducted in a technically correct way, and (3) the selection of the Boyd County site was supported by the information assembled from existing records and gathered during the on-site characterization of the three candidate sites. The site in Boyd County was preferable to the other two sites and the only candidate site with good potential to meet the state's licensing requirements. If licensing problems are encountered at the Boyd County site, however, no technically strong substitute site is readily available. In such a case, some reevaluation of potential areas would be necessary to find new candidate sites.

### **Nuclear Security: DOE Original Classification Authority Has Been Improperly Delegated**

GAO/RCED-91-183, July 5 (12 pages).

Despite an Executive Order limiting the authority to make original classification decisions to government officials, DOE has delegated this

authority to a number of contractor employees. Although the number of original classification decisions made by these contractors is small, this neither negates nor diminishes the significance of the improper delegation of authority. If misclassification were to occur, particularly at the Top Secret level, U.S. national security interests could potentially be seriously affected and threatened. DOE's argument that the delegation of such authority is a long-standing policy and done on a selective basis does not legitimize the practice and does not relieve DOE of its responsibility to meet the requirements of the Executive Order. DOE needs to independently assess all original classification determinations made by contractors; otherwise, it cannot be sure that U.S. national security interests have been or are being adequately protected.

**Uranium Enrichment:  
DOE Needs to Pursue Alternatives to AVLIS Deployment Options**

GAO/RCED-91-88, Aug. 8 (64 pages).

In 1990 the Department of Energy began a two-year project to illustrate the technical and economic feasibility of a new uranium enrichment technology—the atomic vapor laser isotope separation (AVLIS) process. GAO believes that completing the AVLIS demonstration project will provide valuable information about the technical viability and cost of building an AVLIS plant and will keep future plant construction options open. However, Congress should be aware that DOE still needs to adequately demonstrate AVLIS with full-scale equipment and develop convincing cost projects. Program activities, such as the plant-licensing process, that must be completed before a plant is built, could take many years. Further, an updated and expanded uranium enrichment analysis will be needed before any decision is made about building an AVLIS plant. GAO, which has long supported legislation that would restructure DOE's uranium enrichment program as a government corporation, encourages DOE's goal of transferring AVLIS to the corporation. This could reduce the government's financial risk and help ensure that the decision to build an AVLIS plant is based on commercial concerns. DOE, however, has no alternative plans should the government corporation not be formed. Further, by curtailing a planned public access program, which would have given private firms an opportunity to learn about the technology during the demonstration project, DOE may limit its ability to transfer AVLIS to the private sector.

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Testimony

DOE Management: DOE Needs to Improve Oversight of Subcontracting Practices of Management and Operating Contractors, by Victor S. Rezendes, Director of Energy Issues, before the Senate Committee on Governmental Affairs. GAO/T-RCED-91-79, Aug. 1 (14 pages).

GAO testified that the Department of Energy's management and operating subcontracts, totaling over \$5 billion in 1990, are vulnerable to waste, fraud, and abuse. Poor management of the contractors, coupled with inadequate DOE oversight, have led to contractors incurring excessive subcontract costs. GAO's work at the Lawrence Livermore National Laboratory uncovered problems similar to those identified in DOE reviews of contractors. For example, the Laboratory leased 58 vehicles on a sole-source basis from the University of California—the management and operating contractor—and has paid at least \$590,000 more than it would have if the vehicles had been obtained through the General Services Administration. GAO believes that DOE's Contractor Purchasing System Review Program provides a framework for DOE to identify and address procurement deficiencies; however, improvements are needed in program implementation. DOE's proposed actions should help address these problems.

DOE Management: Improvements Needed in Oversight of Procurement and Property Management Practices at the Lawrence Livermore National Laboratory, by Thomas P. McCormick, Regional Manager of GAO's San Francisco Office, before the Assembly Committee on Higher Education, California Legislature. GAO/T-RCED-91-88, Aug. 20 (21 pages).

The Department of Energy has decided to extend its contract with the University of California for operating the Lawrence Livermore National Laboratory. This testimony summarizes the weaknesses in Laboratory management that GAO has pointed out in three earlier reports. GAO believes that negotiations to extend the contract present an opportunity for DOE to take a firm stance on the need for management improvements, including obtaining a commitment for improved management by the University and obtaining agreement that the new contracts will contain clauses giving DOE clear authority to administer the contracts in a manner that will protect the government's interest.

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## Environmental Protection

### **Air Pollution: New Approach Needed to Resolve Safety Issues for Vapor Recovery Systems**

GAO/RCED-91-171, June 28 (26 pages).

Gasoline vapors from motor vehicles contribute to smog and can aggravate respiratory problems for millions of Americans. In 1987 the Environmental Protection Agency proposed a regulation requiring that motor vehicles be equipped with onboard systems to control about 90 percent of refueling vapors. The Department of Transportation's National Highway Traffic Safety Administration, however, raised concerns about the safety of these systems, thereby blocking approval of the regulation. EPA and the National Highway Traffic Safety Administration have not yet resolved their four-year impasse over whether onboard vapor recovery systems will increase the likelihood of vehicle crash fires and fuel spillage. As a result, no agreement has been reached on the data and analysis needed to address the safety risk of onboard systems. GAO recommends that EPA go forward with the onboard regulation by November 1991 as required by the Clean Air Act Amendments of 1990 unless EPA determines that onboard systems pose an unreasonable risk to public safety. To identify and correct any safety defects or flaws well in advance of the 1996 model year so that an orderly phase-in occurs, GAO also recommends that EPA and the National Highway Traffic Safety Administration develop a joint approach to safety evaluations of manufacturer's onboard systems.

### **Superfund: More Settlement Authority and EPA Controls Could Increase Cost Recovery**

GAO/RCED-91-144, July 18 (44 pages).

Billions of dollars will be required to clean up America's worst hazardous waste sites, which now number almost 1,200. In fiscal year 1990, the Environmental Protection Agency obtained settlements with responsible parties to perform \$731 million in cleanup work and to repay EPA \$87 million in costs. Since fiscal year 1987, EPA has increased the number and dollar value of its negotiated settlements; however, it lacks performance measures to show the extent to which its settlements achieve program goals. In all, GAO found that EPA had not obtained or recovered about 13 percent, or about \$89 million, of the total funds required or expended for cleanups, including related Superfund program

costs. While EPA may have valid reasons to substantiate its settlements, 19 of the settlements GAO reviewed had little or no documentation of significant events, such as negotiation sessions with responsible parties, or of key decisions on offers and counteroffers. The 1980 Superfund Act's interest rate provisions prevent EPA from seeking to recover hundreds of millions of dollars in interest. If EPA had been allowed to accrue interest from the date funds were expended and to charge a commercial interest rate, GAO estimates that \$105 million in interest could have been accrued in 1990 on the funds EPA expended in fiscal year 1989 alone. By increasing the Superfund costs that EPA can recover, these additional interest charges would provide further incentive for responsible parties to perform cleanups.

**Coast Guard:  
Oil Spill Liability Trust Fund Not Being Used to Pay All Allowable Costs**

GAO/RCED-91-204, Aug. 12 (12 pages).

In the wake of the Exxon Valdez oil spill in Alaska's Prince William Sound, Congress passed the Oil Pollution Act of 1990, thereby activating the Oil Spill Liability Trust Fund. This fund had been set up four years earlier with the proviso that no money could be spent until the enactment of comprehensive oil spill legislation. Passage of the Oil Pollution Act, which significantly expanded the nation's oil spill prevention and response activities, meant that funds became available to federal agencies for the cost of oil spill prevention and response activities. This report provides information on the fund's receipts and disbursements as of March 31, 1991, and the status of activities under way to fully implement the provisions of the Act concerning the fund, including the development of regulations.

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## Financial Institutions

**Financial Analysis:  
Short-Term Funding Needs of the Bank Insurance Fund and the Resolution Trust Corporation**

GAO/AFMD-91-90, Aug. 22 (10 pages).

In GAO's best judgment, the Bank Insurance Fund will probably be insolvent by the end of 1991—the exact date depends on the rate at which insolvent banks are identified and losses recognized. The Fund should have enough cash and borrowing resources to cover its cash needs

through the end of the year. If the Fund is insolvent as of December 31, 1991, however, its borrowing authority would be limited to \$5 billion available from the U.S. Treasury. Therefore, having new borrowing authority in place by the end of 1991 would help ensure that the Fund has resources available to resolve problem banks. If the Resolution Trust Corporation adheres to its June 17, 1991, resolution schedule, it will use \$79 billion of the \$80 billion loss funds already provided by September 30, 1991, and will exceed the total funds provided by \$8 billion by the end of the year. Although RTC should have enough borrowing authority for working capital to carry it through the end of 1991, some new financial arrangements will probably be required by September 30 to cover the shortfall in loss funds. GAO did not specifically examine whether forbearance is being used to conserve cash; however, its financial analysis of the Fund and RTC have identified a number of insolvent banks and thrifts that have not been closed. GAO has asked the regulators to explain and will consider their views and report to Congress at a later date.

**FDIC:**

**Loans Sales Jeopardized by Systems and other Internal Control Problems**

GAO/IMTEC-91-61, Aug. 21 (nine pages).

In response to a private investor's allegation that many of the failed bank loans he bought from the Federal Deposit Insurance Corporation had been misrepresented, GAO reviewed 25 of the 818 loans that he purchased from FDIC's Denver office. GAO discovered that management and sale of assets by FDIC's Denver office were in a state of neglect and disarray. Of 25 loans reviewed, five had been fully paid off years before the sale; six showed collateral that did not exist; four suggested that FDIC owned the entirety of the loan when, in fact, it shared ownership with other lenders; and eight loans had judgments against them or were in bankruptcy. None of these facts were made known to investors. As a result of basic internal control weaknesses, manual and automated records were not properly updated to reflect the actual status of loans. While it is unclear how widespread the problem is, GAO believes that FDIC should take prompt action to avoid eroding investor confidence in future FDIC offerings.

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**Failed Thrifts' Assets:  
RTC's Oversight of 1988 Deals Needs Improvement**

GAO/GGD-91-116, Aug. 21 (six pages).

GAO reviewed the oversight of the asset disposition plans submitted by institutions that acquired failed thrifts from the Federal Savings and Loan Insurance Corporation in 1988 under financial assistance agreements. GAO did not identify significant problems in the Division of FSLIC Operations' review and approval of the asset disposition plans. GAO did discover, however, that adequate management information systems for monitoring the implementation of the approved plans and tracking covered asset disposition are not yet fully operational.

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**Financial Management**

**Debt Management:  
More Aggressive Actions Needed to Reduce Billions in  
Overpayments**

GAO/HRD-91-46, July 9 (40 pages).

Over the past decade, both GAO and the Office of Management and Budget have pointed out serious, long-standing problems with the government's debt collection practices. Billions of dollars in overpayments have been delinquent, and millions have been written off as uncollectible. During the past four years, overpayment collections by the Social Security Administration have remained a constant 28 percent of outstanding debt. SSA has written off almost a billion dollars of debt as uncollectible, making little progress in increasing the percentage of debt collected. SSA lacks an organizational focus for debt management, has insufficient information to control and account for the more than \$2 billion in overpayments, does not adhere to debt collection policies, and has been legally restricted from using certain collection methods that have been successfully used by other agencies. GAO believes that if SSA's debt management program is to become more successful, program responsibility should be centralized in the office of the deputy commissioner for finance, assessment, and management. During each of the past four years, the Railroad Retirement Board collected about 55 percent of its total outstanding payments, the Office of Personnel Management about 55 percent, and the Department of Veterans Affairs about 30 percent. OPM and VA were not using all the collection methods required by law. In GAO's view, these methods should enable OPM and VA to increase their overpayment collections.

**Defense Contract Audits:  
Defense Contract Audit Agency's Staff Qualifications, Experience,  
Turnover, and Training**

GAO/AFMD-91-72, July 19 (14 pages).

During fiscal years 1986 through 1990, the Defense Contract Audit Agency recruited and hired over 4,600 auditors to fill new staff positions authorized by Congress and to replace staff who had left the agency. All meet or exceeded the Office of Personnel Management's minimum qualification standards for federal government auditors. The Agency accomplished this by expanding its recruitment program and by using direct hire authority delegated to it by OPM. The Agency also maintained a cadre of experienced auditors, as measured by their grade levels and years of experience at the Agency. Between fiscal years 1986 and 1990, the Agency's staff turnover rate was generally lower than that of other DOD audit organizations but somewhat higher than OPM's reported turnover rate for all federal government auditors. During this period, however, the Agency's staff turnover rates may have appeared higher to the contractors being audited because the Agency's auditor rotation policy results in the frequent movement of audit staff among contractor locations. The Defense Contract Audit Agency expanded its training program to meet the requirements of a larger audit staff by providing more contract auditing classes and by training more auditors. Moreover, the Agency's auditors met, and most exceeded, the minimum hours of training required by the Agency's training policy and applicable federal standards.

**Financial Audit:  
FSLIC Resolution Fund's 1989 Financial Statements**

GAO/AFMD-91-69, Aug. 2 (31 pages).

In auditing the financial statements of the FSLIC Resolution Fund for 1989, GAO discovered various factors that in combination raise questions about the Fund's ultimate cost of assistance provided to troubled thrift institutions and about the Fund's recoveries from the sales of its assets. Because GAO was unable to assess the reasonableness of the Fund's estimated liability for assisted institutions or its estimated recoveries from asset sales, it does not express an opinion on the Fund's statements of financial position. However, the Fund's statement of cash flows presents fairly, in all material respects, its cash flows for the latter half of 1989. GAO's report on the internal control structure discusses two conditions

that merit management's attention but do not materially affect FDIC's financial statements. These conditions involve improvements needed in FDIC's accounting system to facilitate the production of a statement of cash flows and in FDIC's documentation to support asset sales.

**Financial Audit:  
Department of Agriculture's Financial Statements for Fiscal Year  
1988**

GAO/AFMD-91-65, Aug. 13 (107 pages).

The report presents the results of GAO's audit of the U.S. Department of Agriculture's consolidated financial statements for fiscal year 1988. In general, these statements present fairly the results of the Department's 1988 operations, its cash flows and use of budgetary resources, and financial position for fiscal year 1988, in conformity with generally accepted accounting principles. The Forest Service's values for the cost of timber harvested and timber assets, however, were not developed in accordance with generally accepted accounting principles. In addition, because the related records were either unavailable or unreliable, GAO could not determine the original cost of USDA's fixed assets, such as land, buildings, and roads, or the value of property acquired by the Farmers Home Administration through foreclosure or conveyance. USDA and GAO identified many internal control and accounting system deficiencies that impeded the Department's prompt development of financial statements and that rendered unreliable much of the data it reports to the Office of Management and Budget and to the Department of the Treasury. GAO believes that USDA needs to place greater emphasis on corrective actions, particularly given that the Department deferred corrective action from two months to almost six years on four high-risk areas.

**Financial Audit:  
House Office Equipment Service Schedules for Fiscal Year 1990**

GAO/AFMD-91-75, Aug. 14 (19 pages).

GAO audited the schedule of Washington office purchased equipment accounts and the schedule of district office purchased furnishings and equipment accounts of the House Office Equipment Service for fiscal year 1990. In GAO's opinion, these schedules present fairly, in all material respects, the Washington office purchased equipment accounts and the district office purchased furnishings and equipment accounts of the

House Equipment Office for fiscal year 1990, and the Washington and district offices' receipts and costs for fiscal years 1990 and 1989.

**Financial Audit:  
First Audit of the Library of Congress Discloses Significant Problems**

GAO/AFMD-91-13, Aug. 22 (63 pages).

In its first attempt to audit the financial operations of the Library of Congress, GAO found the Library's financial and accounting records to be in such poor condition that GAO was unable to audit significant account balances. Because of weaknesses in the Library's financial management operations, its ability to account for and control its collection of an estimated 89 million books and other materials is limited. Further, the risk is high that (1) other assets could be lost or misappropriated, (2) material errors or irregularities could occur in the processing of the Library's financial transactions without being promptly detected, (3) appropriated funds could be used for purposes other than those intended by Congress, and (4) Library programs and activities could be run in a manner not intended by agency management or Congress.

**Financial Management:  
Actions Needed to Ensure Effective Implementation of NASA's Accounting System**

GAO/AFMD-91-74, Aug. 21 (27 pages).

NASA's current accounting and reporting systems are costly and outdated. While NASA's Accounting and Financial Information System is intended to standardize accounting systems at NASA headquarters and at its field offices, NASA's planning for the project does not identify all systems development costs, milestones, and related systems interfaces. In addition, NASA has not adequately done all analyses or finalized and approved a project plan to guide systems development, conversion, and implementation. To date, development of the system has been undertaken without the involvement of NASA's Office of Inspector General, thereby running the risk of quality assurance problems. Due to NASA's inadequate planning and analysis, the system will cost significantly more and will not meet the Office of Management and Budget's mandate for an integrated financial management system.

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**Financial Management:  
Air Force Systems Command Is Unaware of Status of Negative  
Unliquidated Obligations**

GAO/AFMD-91-42, Aug. 29 (19 pages).

This report focuses on negative unliquidated obligations for contracts jointly administered by the Air Force Systems Command's product division and the related Air Force payment activity, which is now handled by the Defense Finance and Accounting Service. It also assesses the adequacy of controls to ensure that any overpayments that may have caused negative unliquidated obligations are promptly recorded as receivable and collected. GAO found that the Command's two product divisions lacked information on the magnitude, age, and causes of negative unliquidated obligations. GAO's analysis of \$126 million of negative unliquidated obligations disclosed that the causes for \$69 million were unknown. Until action is taken, negative unliquidated obligations will continue to tie up Air Force funds that could be used for other purposes or increase the risk that obligations could exceed amounts appropriated by Congress. Resolving this problem will take a joint effort by the two organizations, and GAO believes that concentrating initial resolution efforts on overpayments to contractors will yield the most immediate benefit to the government.

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**Testimony**

Pension Benefit Guaranty Corporation: Weak Financial Condition Worsened by Serious Internal Control Weaknesses, by Donald H. Chapin, Assistant Comptroller General for Accounting and Financial Management Programs, before the Subcommittee on Oversight, House Committee on Ways and Means. GAO/T-AFMD-91-9, Aug. 1 (19 pages).

GAO testified on the results of its attempt to audit the Pension Benefit Guaranty Corporation's financial statements for fiscal year 1990. GAO discovered serious internal control and systems weaknesses that impair the Corporation's ability to (1) reliability account for and control assets acquired through plan termination and premium operations; (2) assess the adequacy of premium levels to meet future obligations; and (3) reliably report to Congress and the public on its financial condition. The recurring nature of these weaknesses demonstrates an ineffective commitment by the Corporation to establish and maintain effective internal controls and sound financial systems.

## Government Operations

### **Small Business: Improper Payments of Former Administrator's Expenses**

GAO/RCED-91-134, July 19 (30 pages).

The Small Business Administration paid for travel expenses incurred by its former Administrator that were improperly authorized and justified. It also paid for continuing legal education courses for the Administrator that had not been approved by the Office of Personnel Management, as required by law. SBA officials attributed this situation to improper advice rather than to wrongdoing by the Administrator. Subsequently, SBA requested and received postapproval from OPM for the law courses. GAO disagrees with OPM's decision because GAO believes that the courses did not meet the requirements for providing training to presidential appointees. Among the government-paid trips taken by the Administrator, 23 of 33 trips included stops in either Wisconsin or Minnesota; the Administrator's home is located in Somerset, Wisconsin, a suburb of Minneapolis. While GAO did not determine the need for or appropriateness of these trips, an SBA reexamination of all travel records could identify any improper payments requiring reimbursement from the former Administrator.

### **Procurement Reform: New Concepts Being Cautiously Applied at the Postal Service**

GAO/GGD-91-103, Aug. 6 (12 pages).

GAO reviewed the Postal Service's implementation of new procurement rules adopted in 1988 as part of an overall program to improve postal procurement. GAO (1) compared and contrasted federal and USPS procurement rules, (2) examined how USPS has used its authority to exercise more discretionary judgment than federal agencies when making purchases, and (3) assessed the effects of USPS purchases using the new rules. While contracts GAO examined as well as customer, contractor, and user views on the use of the new procurement rules were encouraging, the additional discretionary judgment has not been enough for GAO to conclude that the policy changes have proven their worth and warrant broader application in other contexts. USPS did not collect data that show the extent to which procurement personnel have used the added discretion permitted by the new rules. USPS also did not keep track of the specific advantages and disadvantages when contracting officers used increased discretionary judgment. This data would be useful not only to

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USPS but also to other members of the federal procurement community who are considering the adoption of similar techniques.

**1990 Census:  
Reported Net Undercount Obscured Magnitude of Error**

GAO/GGD-91-113, Aug. 22 (10 pages).

GAO estimates that the 1990 census contained a minimum of 14.1 million gross errors and perhaps as many as 25.7 million errors, depending on how broadly census error is defined. In either case, these are substantially more errors than indicated by the Census Bureau's widely reported 1990 census undercount of about 5.3 million persons. A focus on the net undercount obscures the true magnitude of the error in the census because, while millions of people were missed by the census, millions of other people were improperly counted. Examining the amount of gross error, therefore, provides a more complete picture of the quality of the census. In addition, the 1990 census contained proportionately more errors than the 1980 census. The estimated minimum number of errors in the 1980 census (7.8 million) represented about 3.4 percent of the 1980 count in contrast to 1990, when the minimum (14.1 million errors) represented about 5.7 percent of the count.

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Testimony

Long-Term Neglect of Federal Building Needs, by L. Nye Stevens, Director of Government Business Operations Issues, before the Subcommittee on Water Resources, Transportation, and Infrastructure, Senate Committee on Environment and Public Works. GAO/T-GGD-91-64, Aug. 1 (11 pages).

In March 1990 testimony before Congress, GAO noted that for nearly two decades the federal government has been neglecting capital investment in modern, quality facilities that would enable federal agencies to carry out their missions more effectively. In this testimony, GAO highlights (1) various consequences associated with the federal government's failure to invest sufficiently in the public buildings infrastructure and (2) the two key obstacles that most directly affect the General Service Administration's ability to meet federal space needs effectively—the Federal Building Fund's inadequacy in financing needed capital investment in new as well as existing federal buildings and GSA's lack of a strategic concept of its public buildings role.

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## Health

### **Medicare: Information Needed to Assess Payments to Providers**

GAO/HRD-91-113, Aug. 8 (eight pages).

Because of excessive tentative settlements made by Medicare contractors, Medicare providers may be receiving hundreds of millions of dollars each year above the amounts due them. These amounts can remain outstanding for up to two years before being recovered, and the Medicare trust fund could be losing about \$40 million annually in interest. Knowledge of the full extent of excessive tentative settlements and associated interest costs is limited by the incompleteness and inaccuracy of data in the Health Care Financing Administration's information systems. GAO believes that the completeness and accuracy of information entered into these systems needs to be improved. HCFA could then analyze these data to identify problems that consistently result in excessive tentative settlements. Also, HCFA could make more informed decisions on what type of corrective action is needed and use the Hospital Cost Report Information System data to monitor tentative settlements on a broad basis. If such monitoring spotted problems, HCFA could use the detailed System Tracking for Audit and Reimbursement data for an in-depth analysis.

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## Housing

### **Homelessness: Federal Personal Property Donations Provide Limited Benefit to the Homeless**

GAO/RCED-91-108, July 15 (39 pages).

The Federal Surplus Property Donation Program disposes of property no longer needed by federal agencies; items range from heavy equipment, like planes, ships, cars, and construction equipment, to more common domestic items, like clothing, kitchen equipment, hardware, furniture, and office equipment. Property not claimed by groups such as the Boy Scouts or the Red Cross is then made available to state agencies, which can distribute it to public and nonprofit private organizations, including homelessness assistance providers. Overall, GAO found that the program is not a significant source of aid to the homeless. In fiscal year 1990, according to General Services Administration estimates, only about one-twentieth as many providers obtained property directly from state agencies for surplus property as received assistance through the single largest McKinney Act program. The dollar value of the donations

these providers have received since 1987 has also been limited. The donation program is limited in its potential to help the homeless because of the types of items available for donation, the resources required for providers to obtain donated items, the priority assigned to providers in the distribution process, and an impractical reporting requirement. Neither the types of property available for donation nor the resources required for homelessness assistance providers to participate could be altered without changing the overall purpose and focus of the donation program. Providers could, however, be allowed to select surplus items earlier in the disposal process, and restrictions on the use of donated property could be modified to simplify providers' administrative tasks.

**Federal Agricultural Mortgage Corporation:  
Potential Role in the Delivery of Credit for Rural Housing**

GAO/RCED-91-180, Aug. 7 (44 pages).

The Federal Agricultural Mortgage Corporation, known as Farmer Mac, was created in 1988 to facilitate a secondary market for buying and selling agricultural real estate and rural housing loans. Congress hoped that a secondary market would make more long-term, fixed-rate loans available to rural borrowers. This report examines (1) Farmer Mac's actions to establish a secondary market for rural housing loans, including the development of standards to govern the quality of those loans; (2) Farmer Mac's potential role in facilitating the delivery of credit for rural housing, given the government-sponsored mechanisms already in place to serve rural areas; and (3) barriers Farmer Mac may face in facilitating the delivery of credit for rural housing.

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## Income Security

**Pension Plans:  
IRS Needs to Strengthen its Enforcement Program**

GAO/HRD-91-10, July 2 (22 pages).

Currently, about 76 million Americans count on private pension plans for retirement income. The Employee Retirement Income Security Act of 1974 established comprehensive standards to rid these employee benefit plans of mismanagement, fraud, and abuse, which can place plan assets at risk and threaten benefits. The Internal Revenue Service has increased the resources it devotes to examining pension plan operations, a key element in its enforcement strategy, but IRS has been less effective than expected in identifying plans in violation of the Act. IRS' criteria for

targeting plans with a high potential for violations are outdated, and most plans examined during the past three years were selected to train inexperienced staff, rather than because the plan was likely to have a violation. In addition, IRS has not maintained an adequate oversight program to ensure that examinations were thorough enough to detect violations. IRS intends to focus on small, underfunded plans whose sponsoring employers may have received excessive tax deductions for plan contributions. While these initiatives may raise significant revenues, it shifts IRS' limited enforcement resources away from examining plans in which participants' benefits and the government's insurance program may be at risk. Further, IRS may approve design changes to many plans without a detailed review to handle an anticipated large increase in approval requests resulting from the Tax Reform Act of 1986. This could diminish IRS' ability to ensure that plan designs comply with the Employee Retirement Income Security Act of 1974.

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## Information Management

### **Veterans Affairs IRM: Stronger Role Needed for Chief Information Resources Officer**

GAO/IMTEC-91-51BR, July 24 (36 pages).

The Department of Veterans Affairs' two reorganizations of its information resources management (IRM) went into effect in May 1991. In GAO's view, these reorganizations have left VA with a fragmented IRM planning and budgeting process that does not give the chief information resources officer the authority to manage the development of information technology VA-wide. Further, the chief information resources officer lacks adequate internal controls over VA's acquisition approval process for information resources. VA's two reorganizations do not provide, in themselves, a solid foundation for IRM management. Rather than elevating IRM to a place of prominence by increasing this office's responsibilities, VA has chosen to scale back and weaken the chief information resources officer's position. As a result, VA's long-standing information exchange and system integration deficiencies between its major components remain largely unresolved. GAO believes that the intent of the law is to align all agency IRM activities under a focal point so as to unify fragmented information resources management. Because the reorganizations fail to address this problem, GAO concludes that VA may not be meeting the spirit of the law, which is to provide for strong management of information resources by the chief information resources officer.

**ADP Procurement:  
FBI Addresses Risk to Its National Crime Information Center  
Acquisition**

GAO/IMTEC-91-60, Aug. 2 (12 pages).

The National Crime Information Center provides information on wanted or missing persons and stolen property to law enforcement officials in all 50 states and to other federal agencies. The system is over 20 years old, however, and has become hard to maintain or expand. As a result, the FBI plans to award a multimillion dollar contract to develop a new system that will take advantage of new technologies. The FBI has done an excellent job of mitigating certain risks of cost and schedule overruns and inadequate systems performance. Particularly noteworthy is the FBI's use of extensive technical support to supplement its in-house expertise and its involvement of potential system users to ensure that their needs would be met. Throughout GAO's audit, FBI officials moved quickly to address the areas of risk that GAO brought to their attention. This good start, however, does not guarantee an efficient and effective system. The FBI will need to continue managing the project carefully throughout the acquisition process to ensure a successful implementation.

**ADP Consolidation:  
Defense Logistics Agency's Implementation Approach Is Not  
Justified**

GAO/IMTEC-91-34, Aug. 6 (12 pages).

GAO concludes that the Defense Logistics Agency's decision to consolidate 23 DLA automated data processing facilities into six regional information processing centers was not adequately justified. The decision was made without an economic analysis of other competing alternative solutions. Furthermore, the cost and benefits analysis of the six-site alternative was incomplete and inadequately supported. Consequently, DLA does not know if the alternative it is implementing is the most cost effective. DLA needs to evaluate viable alternative before continuing its consolidation.

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**Financial Markets:  
Computer Security Controls at Five Stock Exchanges Need  
Strengthening**

GAO/IMTEC-91-56, Aug. 28 (15 pages).

GAO found that the six stock markets it reviewed all have controls in place to mitigate many of the risks associated with automation. However, GAO discovered 68 systems security and other control weaknesses at five stock markets: three at the New York Stock Exchange, five at the American Stock Exchange, 18 at the Pacific Stock Exchange, 18 at the Philadelphia Stock Exchange, and 24 at the Midwest Stock Exchange. No such weaknesses were found at the National Association of Securities Dealers. The lack of adequate controls at the five stock markets could impair their ability to maintain continuous service, protect critical computer equipment and operations, and process correct information.

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**International Affairs**

**Severance Pay:  
DOD Not Exempt From Paying Benefits to Greek Employees**

GAO/NSIAD-91-223, July 22 (eight pages).

This unclassified version of a classified report looks at severance payments for Greek nationals employed by the Department of Defense. GAO analyzed whether Section 311 of the National Defense Authorization Act of Fiscal Years 1990 and 1991 applies to the closure of two U.S. bases in Greece and determined the amount of severance and incentive pay for employees at both locations. GAO concludes that section 311, which prohibits severance payments if termination of employment results from the host government's request to close or curtail activities at a U.S. base, does not apply to the Greek base closures. Severance and incentive payments will total about \$7.2 million for local nationals employed at the two bases. GAO identified serious problems with the law that Congress could address by eliminating the section. Alternatively, if it wanted to effectively restrict severance pay, Congress could prohibit DOD from using appropriations for severance pay at specific bases.

**Cambodia:  
AID's Management of Humanitarian Assistance Programs**

GAO/NSIAD-91-260, Aug. 28 (10 pages).

The ability of the Agency for International Development to account for assistance to Cambodian noncommunist resistance groups has improved since 1990, but it still cannot attest to the end use of some of its assistance in many areas in Cambodia. AID continues to rely largely on reports from the resistance groups to determine what commodities are needed and how they are used in Cambodia, but the reports are largely unverifiable. AID has almost no oversight of the \$2 million in humanitarian assistance that Congress directed be provided to children in areas controlled by the Phnom Penh government. AID has been unable to observe or monitor how the United Nations Children's Fund is spending funds, and the program being implemented by World Vision is only now just beginning. There are indications that some patients are being inappropriately charged for AID-funded inoculations under the UNICEF program.

**Travel Advisories:  
State Needs Better Practices for Informing Americans of Dangers Overseas**

GAO/NSIAD-91-249, Aug. 28 (nine pages).

The State Department lacks an official written policy and procedures on issuing travel advisories and notices, especially those mentioning crime conditions. In practice, according to State officials, several factors are considered in issuing travel advisories. These include whether the crime is part of a pattern, how prevalent crime is against tourists, and whether economic and political concerns exist. Because of inconsistencies in reporting information on crime conditions in foreign countries and in distributing travel advisories and notices, State may not be adequately warning the public about the potential dangers of traveling to some foreign countries.

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**National Defense,  
Security, and Military  
Procurement**

**Electronic Warfare:  
Faulty Test Equipment Impairs Navy Readiness**

GAO/NSIAD-91-205, July 8 (25 pages).

The Navy equips its tactical aircraft with electronic warfare systems, like radar warning receivers and jammers, to protect them from hostile weapons. The Navy's ability to conduct sustained air combat with operable electronic warfare systems is degraded, however, because inadequate test equipment precludes timely detection of system defects and hampers verification of combat readiness. This situation stems from the Navy's failure to adhere to policies requiring that test equipment be developed and its adequacy verified before electronic warfare systems are deployed. Unless controls over the Navy's acquisition process are strengthened, this situation could recur on newer systems now being acquired.

**Defense Research:  
Protecting Sensitive Data and Materials at 10 Chemical and Biological Laboratories**

GAO/NSIAD-91-57, July 8 (32 pages).

This report examines security controls at five government and five contractor laboratories doing chemical and biological warfare research for DOD. GAO found that the security controls at the 10 laboratories and shipping procedures involving the laboratory were generally sufficient to protect sensitive materials and technical data. However, GAO did note some controls that should be improved to minimize the chance of compromising sensitive data or materials at the laboratories. These changes involve the advanced approval requirements for foreign visitors, screening and reporting in the chemical personnel reliability program, and classified document accountability.

**Coast Guard:  
Adequacy of the Justification for Heritage Patrol Boats**

GAO/RCED-91-188, July 12 (18 pages).

The Department of Transportation decided in the late 1970s to replace Coast Guard patrol boats nearing the end of their service lives. By 1987 the Coast Guard decided that—in addition to replacing these boats—it needed to increase its patrol boat fleet from 87 to 96 vessels by the year

2000. After assessing several patrol boat designs, the agency selected a 120-foot "Heritage Class" design. This report examines the adequacy of the Coast Guard's justification for the Heritage vessels. GAO discusses the agency's (1) justification for the type and number of patrol boats needed to carry out the agency's missions, (2) evaluation of alternatives to the Heritage design, and (3) support for production schedule and cost estimates for the Heritage vessel. GAO found that the Coast Guard's acquisition of Heritage vessels was not adequately justified and did not closely adhere to federal guidance for acquiring major systems. As a result, the acquisition has fallen behind schedule, and the vessels will not be available when needed, raising questions as to whether the Coast Guard will be able to effectively conduct its missions.

**Electronic Warfare:  
No Air Force Follow-Up on Test Equipment Inadequacies**

GAO/NSIAD-91-207, July 17 (30 pages).

In an earlier report (see GAO/NSIAD-89-137, Aug. 11, 1989), GAO found that faulty and unreliable test equipment used in maintaining electronic warfare systems had impaired the combat readiness of the Air Force's tactical aircraft and its ability to carry out combat missions. DOD has taken no corrective action in response to this report, however, and disputes most of the report's findings. After evaluating DOD's arguments, GAO maintains that its initial report is accurate.

**Inventory Management:  
Strengthened Controls Needed to Detect and Deter Small Arms  
Parts Thefts**

GAO/NSIAD-91-186, July 17 (50 pages).

While pursuing a tip about military clothing thefts in 1989, the Army discovered that members of the New York Army National Guard had been systematically pilfering small arms parts. Although the Army recognizes the vulnerability of these items, GAO found that small arms parts remain vulnerable to employee theft due to a combination of poor inventory controls, poor physical security, and inadequate oversight. Control weaknesses varied among the four Army depots GAO reviewed, but small arms parts were especially vulnerable at Red River, where GAO's inventory of small arms parts disclosed large and consistent losses.

**Naval Academy:  
Low Grades in Electrical Engineering Courses Surface Broader  
Issues**

GAO/NSIAD-91-187, July 22 (30 pages).

All Naval midshipmen must take electrical engineering courses, which have been characterized by a high percentage of poor grades for nearly a decade. The day after refusing to raise grades in an engineering course, the Chairman of the Engineering Department was removed. The next month, in March 1990, the offices of the engineering faculty were broken into. Because of concern that a final exam could have been compromised, the faculty wanted to delay the exam and come up with a new version. The Superintendent, citing his faith in the Navy's honor system, decided to give the original exam as scheduled. Several Naval Academy faculty members said that concerns about grading pressure have had a negative effect on morale. Faculty members have asked for and received assurances that in the future grading would be the responsibility of the faculty alone. Academy officials believe that they have effectively responded to the problems in the engineering courses by reducing the amount of material covered, changing the textbooks, and motivating students to complete homework problems. Grades in the introductory engineering courses have improved; however, it is unclear what this trend represents—real improvement in midshipmen performance, reduced course difficulty, more lenient grading practices, or some combination of factors. GAO cites several academic issues that merit further attention.

**Contract Pricing:  
DOD's Competition Reports to the Congress Could Be More Clear**

GAO/NSIAD-91-232, July 23 (six pages).

How accurate are the statistics that DOD reports to Congress on the extent of competition in defense procurement? While DOD has reported its competition statistics in accordance with Office of Federal Procurement Policy guidance, this guidance primarily focuses on the degree of competition sought through contract solicitation procedures. In its reports to Congress, DOD reported on follow-on and one-bid contracts as "associated with competitive actions" and included them in its competitive statistics. Although these contracts may be associated with competitive actions, they are not competitive when viewed in the context of

achieving actual competition between two or more responsive, responsible bidders. GAO's review of a sample of follow-on and one-bidder contracts showed that DOD contracting officers treated them as noncompetitive contracts and used appropriate safeguards designed to ensure the negotiation of fair and reasonable prices.

**Armored Systems Modernization:  
Program Inconsistent With Current Threat and Budgetary  
Constraints**

GAO/NSIAD-91-254, July 29 (28 pages).

As part of its Armored Systems Modernization program, the Army is proposing development of a new family of armored combat vehicles. The total cost of the program, which includes building the Army's next battle tank—the Block III—is estimated at \$59 billion. U.S. military planning for the last 40 years has responded to threats from the Soviet Union and the Warsaw Pact, and the Army used this scenario to justify the Armored Systems Modernization program. Military analysts believe that the Soviet threat has ebbed considerably over the past two years, however, and the affordability of a massive effort such as the Armored System Modernization program is questionable at a time when Army procurement funds are expected to be constrained for the foreseeable future. The Army considers the Block III tank a top priority, despite delays in the production of the Soviet Union's future main battle tank. If the Army outfitted existing tanks with new electrothermal technology, GAO believes that these tanks could probably defeat the future Soviet tank. GAO recommends that Congress not provide additional funding for the Armored Systems Modernization program until DOD reassesses (1) the justification and affordability of the program and (2) the priority of vehicles within the program.

**Battlefield Automation:  
Army Tactical Command and Control System Development  
Problems**

GAO/NSIAD-91-172, July 31 (32 pages).

In an earlier report (see GAO/NSIAD-91-118BR, Apr. 15, 1991), GAO discussed the status of the Army Tactical Command and Control System's cost, schedule, testing, and performance. The system has been plagued by technical problems, schedule slippages, and cost increases throughout its approximate five-year life. This report focuses on weaknesses in the

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Army's efforts to develop three segments of the Army Tactical Command and Control System—All Source Analysis System, Maneuver Control System, and Common Hardware and Software.

**Contract Pricing:  
Defense Contract Audit Agency's Estimating Reports Can Be Improved**

GAO/NSIAD-91-241, Aug. 1 (14 pages).

To evaluate the adequacy of DOD controls for preventing fraud, waste, and mismanagement, GAO reviewed 101 reports issued by the Defense Contract Audit Agency dealing with defense contractor cost-estimating systems. GAO found that the reports that identified subcontract-estimating deficiencies did not always demonstrate and emphasize to administrative and contracting officers the need to correct these deficiencies. This shortcoming occurred because the reports were often not prepared in accordance with two of the agency's reporting procedures. Specifically, many of the reports did not illustrate the potential cost impact of the identified deficiencies or contain appropriate recommendations for disapproving inadequate systems.

**Acquisition Reform:  
Implementing Defense Management Review Initiatives**

GAO/NSIAD-91-269, Aug. 8 (13 pages).

DOD has made several changes to its acquisition system that were recommended by the Packard Commission. For example, DOD has streamlined the acquisition management structure, established the position of Under Secretary of Defense for Acquisition, and limited formal reporting requirements. It is unclear, however, whether these initiatives alone will bring about the cultural transformation envisioned by the Packard Commission. The success of these changes will also depend on strong central leadership from the Secretary of Defense, strengthened internal controls in the acquisition decision-making process, and the free flow of information both up and down the organization.

**Government Contracting:  
Using Cost of Capital to Assess Profitability**

GAO/NSIAD-91-163, Aug. 16 (27 pages).

DOD is required to report annually to Congress on the financial health of the defense industrial base. Traditionally, the financial impact of U.S. government policies on defense contractor profitability has been measured by comparing defense contractors' profitability with that of various groups of non-defense durable goods manufacturers. Defense contractors have objected to this comparison, arguing that it fails to accommodate accurately the differing levels of risk. This report (1) evaluates the effectiveness of the government's current method of assessing contractors' profitability levels and (2) identifies other methods that might better identify appropriate levels of defense contractors' profitability.

**Munitions Procurement:  
Resolve Questions Before Proceeding With Sensor Fuzed Weapon  
Production**

GAO/NSIAD-91-235, Aug. 16 (13 pages).

For fiscal year 1991, the Air Force has requested about \$109 million for the low-rate initial production of the Sensor Fuzed Weapon, which is designed to strike enemy tanks and armored vehicles during a single aircraft pass. The program's ultimate cost is pegged at about \$3.5 billion. In June 1990, GAO reported that the program had been restructured for a second time because of test failures that caused schedule slips and major cost increases. Although tests indicate that technical problems have been overcome and the weapon can now damage or destroy tanks and other targets as intended, GAO believes that a comprehensive cost and operational effectiveness analysis is needed because the Warsaw Pact, the primary threat for which the weapon was developed, has disintegrated. GAO recommends that Congress deny production funds for the weapon until DOD reassesses the weapon's cost and operational effectiveness in relation to other interdiction weapons in DOD's arsenal. Such action is especially important given that DOD is confronting declining budgets and competing needs among weapons systems.

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**Military Presence:  
U.S. Personnel in the Pacific Theater**

GAO/NSIAD-91-192, Aug. 20 (147 pages).

With the end of the Cold War, the United States is in a position to reassess its threats and reshape its military presence abroad. This report describes the U.S. military presence in the Pacific theater—more than 516,000 service members, U.S. civilian employees, and dependents in 21 countries, six territories, two freely associated states, one protectorate, Alaska, and Hawaii. Additionally, the Defense Department employs more than 49,000 foreign national civilians to support its presence in the Pacific theater. GAO addresses the following questions: What are the missions, military command structure, and reporting channels of the service and DOD organizations located in the region? How many military and civilian personnel are assigned to the Pacific theater, and how many dependents live with them? What is the cost to staff, maintain, and run facilities in the theater and the cost of equipment assigned to the theater?

**Combat Systems:  
Status of the Navy's Airborne Low Frequency Sonar Program**

GAO/NSIAD-91-208, Aug. 21 (15 pages).

The Navy is developing the Airborne Low Frequency Sonar system to enhance the ability of its SH-60F and SH-60B submarine warfare helicopters to identify enemy submarine threats. The Navy is in the process of increasing the SH-60B helicopter's maximum weight limit to compensate for the added weight of the Airborne Low Frequency Sonar and other systems. This weight increase, however, will affect the helicopter's effectiveness in carrying out its mission and can limit the potential for adding future systems to the helicopter. In contrast, the weight of the SH-60F helicopter is not expected to change significantly because the sonar system will replace an existing dipping sonar system. The Airborne Low Frequency Sonar program is more than a year behind schedule. The Navy has delayed awarding the sonar system's full-scale engineering development contract until officials decide whether to use the Navy's standard signal processor or a commercially designed signal processor for the system. The \$1.2 billion program cost estimate will be revised once the Navy has decided which signal processor to use and the contract has been awarded.

**Military Construction:  
Response to Funding Questions**

GAO/NSIAD-91-251, Aug. 23 (23 pages).

In response to congressional concern that DOD may not have been using the proper appropriation accounts to fund military construction, GAO reviewed DOD's construction activities. This report responds to the following four questions: (1) How much facility financing, by funding category, was requested for fiscal year 1991, and how does this compare to the amount cited by DOD? (2) What laws and DOD regulations address construction financing and do DOD regulations comply with applicable statutes? (3) What is the background of the requested funding for the large blast thermal simulator at White Sands and the climatic laboratory at Elgin? (4) Is the funding classification proper for selected repair projects estimated to cost over \$500,000 each?

**U.S.S. Iowa Explosion:  
Sandia National Laboratories' Final Technical Report**

GAO/NSIAD-91-4S, Aug. 28 (95 pages).

In assessing the Navy's technical investigation of the April 1989 explosion aboard the U.S.S. Iowa, GAO enlisted the assistance of the Department of Energy's Sandia National Laboratories. This report contains Sandia's final report, which concludes that it is unclear whether the turret explosion that killed 47 sailors was due to sabotage or an accident. In fact, Sandia suggests as a possible cause the excessive speed of ramming powder bags into the chamber of a 16-inch gun.

**Army Reserve Forces:  
Applying Features of Other Countries' Reserves Could Provide Benefits**

GAO/NSIAD-91-239, Aug. 30 (49 pages).

Given the changed security environment and significantly reduced defense spending, the Army plans to cut its active and reserve forces by about 250,000 over three years. To reduce costs, the Army is considering whether to rely more heavily on reserves to meet its needs, as many other countries do. This report examines how Germany, the Netherlands, Norway, the United Kingdom, and the Soviet Union

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organize and train their army reserves and identifies features that the U.S. Army might consider as it restructures its forces.

**Defense Contracting:  
Terminating Major Weapons Contracts for the Government's  
Convenience**

GAO/NSIAD-91-255, Aug. 30 (14 pages).

In reviewing DOD's procedures for terminating contracts for the convenience of the government, GAO found that federal regulations governing such contracts, including termination clauses and allowable costs, have changed very little over the past decade. The termination procedures of DOD and each of its agencies implement and supplement federal regulations or satisfy particular needs of the specific military service and do not conflict with federal regulations. Termination for convenience procedures are unique to the government; private industry does not have comparable procedures. Changes to its termination for convenience procedures are planned by DOD and are generally intended to address administrative matters and to streamline existing regulations. DOD does not have specific criteria for identifying potential candidates for termination or for determining which weapons systems, if any, should be terminated. However, DOD uses an approach in evaluating weapon system progress that helps identify systems experiencing problems. Modifications to DOD's existing cost reporting system could be made to provide more reliable termination cost estimates for major weapon systems. Modifications to DOD's existing cost reporting system could be made to provide more reliable termination cost estimates for major weapon systems.

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**Testimony**

U.S.-Korea Fighter Coproduction Program—the F-16 Version, by Joseph E. Kelley, Director of Security and International Relations Issues, before the Subcommittee on Arms Control, International Security and Science, and before the Subcommittee on Asian and Pacific Affairs, House Committee on Foreign Affairs. GAO/T-NSIAD-91-53, Aug. 1 (13 pages).

In December 1989, Korea selected the F/A-18 for the Korean Fighter Program, and in October 1990, the U.S. and Korean governments initiated a Memorandum of Understanding on the program. In November 1990, however, Korea said that it was reevaluating its decision on the F/A-18, and in March 1991 announced its selection of the F-16 instead. In this testimony, GAO discusses (1) the events and factors leading to the

reevaluation of the F/A-18 decision and selection of the F-16; (2) the government-to-government and commercial agreement provisions; (3) technology transfer decisions, (4) interagency meetings and reviews; (5) U.S. government assessments of the program's impact on the U.S. industrial base; (6) U.S., Korean, and other countries' work shares; and (7) commercial offsets being proposed, including codevelopment of a trainer aircraft.

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## Natural Resources

### **Trans-Alaska Pipeline: Regulators Have Not Ensured That Government Requirements Are Being Met**

GAO/RCED-91-89, July 19 (110 pages).

The Trans-Alaska Pipeline System transports nearly 25 percent of the nation's domestically produced crude oil. Since operations began in 1977, the system has delivered over 8 billion barrels of oil to Port Valdez for shipment. Concerns have been raised about whether the system is meeting special engineering design and operations requirements imposed by federal and state regulators. GAO found that the five principal federal and state regulatory agencies have not pursued a systematic, disciplined, and coordinated approach to regulating the Trans-Alaska Pipeline System. Instead, these agencies have relied on the Alyeska Pipeline Service Company, which runs the system, to police itself. It was only after the Exxon Valdez spill and the discovery of corrosion that the regulators began to reevaluate their roles and focus on issues such as whether Alyeska's operating and maintenance procedures meet the pipeline's special engineering design and operating requirements, or whether Alyeska can adequately respond to a large oil spill. In January 1990, the regulators established a joint office to provide more effective oversight of the system. GAO believes that central leadership and a secured funding source may help ensure that this office provides adequate oversight.

### **Rangeland Management: Comparison of Rangeland Condition Reports**

GAO/RCED-91-191, July 18 (eight pages).

Two recent studies—one issued in 1989 by the Natural Resources Defense Council/National Wildlife Federation and the other in 1990 by the Bureau of Land Management—reached very different conclusions

about the condition of public rangeland under the jurisdiction of BLM. The former asserted that much of BLM's rangeland was in unsatisfactory condition, while the latter concluded that its public rangeland is improving and in better condition than ever before in this century. While these conclusions differ, they are not necessarily inconsistent with one another and can be attributed more to the context in which the available data on rangeland conditions were interpreted and presented than to differences in the data themselves. In fact, the 1989 data that both reports relied on were produced by BLM. BLM placed the data in a historical context and concluded that conditions were improving; in contrast, the Natural Resources Defense Council/National Wildlife Federation viewed the data in a current context and found the conditions to be unsatisfactory. Because the studies that BLM used to support its view lack supporting documentation and were produced using different methodologies, GAO believes that BLM's conclusion is of questionable validity. BLM agrees that the use of different methodologies makes it hard to track trends and says that it intends to collect data on a consistent basis in the future. Nonetheless, BLM continues to believe that a trend toward improved rangeland management is discernable.

**Surface Mining:  
Management of the Abandoned Mine Land Fund**

GAO/RCED-91-192, July 25 (11 pages).

GAO examined the Abandoned Mine Land program, which funds the reclamation of eligible mine sites abandoned before passage of the Surface Mining Control and Reclamation Act of 1977. Concerns had been raised about excessive program funds being used for administrative and overhead expenses instead of actual reclamation and that available funds might not be used for the most pressing reclamation projects. This report discusses (1) the amount of program funds expended for administrative costs for fiscal years 1985 through 1990 and (2) whether reclamation projects are being funded in accordance with the priorities set forth in the 1977 act.

**Water Resources:  
Corps' Management of 1990 Flooding in the Arkansas, Red, and  
White River Basins**

GAO/RCED-91-172BR, Aug. 1 (47 pages).

This briefing report examines how the U.S. Army Corps of Engineers operated its flood control structures (reservoirs) in the Arkansas, Red, and White River basins during the May 1990 flooding that caused severe damage in Arkansas, Texas, and Oklahoma. GAO found that the Corps generally operated the nine reservoirs in accordance with its operating procedures before, during, and after the flooding. In the case of six reservoirs, GAO found no evidence that the Corp released water contrary to its procedures, and most of the releases from the other three reservoirs also complied with Corps procedures. However, in two instances—one at the Tenkiller Ferry reservoir and the other at the Texoma and Hugo reservoirs—the Tulsa District released water contrary to its operating procedures. GAO believes that the releases prolonged the flooding of rural lands in Texas and Oklahoma.

**Water Resources:  
Corps Lacks Authority for Water Supply Contracts**

GAO/RCED-91-151, Aug. 20 (13 pages).

Various laws have authorized the U.S. Army Corps of Engineers to build and operate 497 reservoirs nationwide for everything from flood control to hydroelectric power generation. GAO looked at nine reservoirs run by the Corps—two in Alabama, three in Georgia, two on the Alabama/Georgia border, one in North Dakota, and one on the Oklahoma/Texas border—and concludes that, with one exception, the Corps has the legal authority to operate the nine reservoirs for the multiple purposes for which they are now being managed. The exception is that at two of the reservoirs the Corps has inappropriately used the Water Supply Act of 1958 to permanently reallocate existing storage capacity to municipal and industrial water supply and to enter into long-term contracts to supply water to municipal and industrial users. The Corps' incorrect use of the Act to reallocate existing storage capacity extends beyond the two reservoirs included in GAO's review. The Corps has used the Act to enter into 38 water supply contracts nationwide, and it plans to enter into similar contracts in the future.

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## Science, Space, and Technology

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### Testimony

Management Issues at the National Aeronautics and Space Administration, by Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs Programs, before the Subcommittee on Investigations and Oversight, House Committee on Science, Space, and Technology. GAO/T-NSIAD-91-48, Aug. 1 (18 pages).

In this testimony on management reviews done at NASA over the past four years, GAO discusses basic management activities at the agency. These include developing strategic planning systems to prepare NASA for future challenges; dealing with leadership problems that arise from a high turnover rate and lack of accountability; addressing long-standing problems involving information resources management, financial management, and internal controls; and focusing on how managers and workers are recruited and trained. GAO is encouraged by high-level NASA interest in identifying and implementing management improvements. In general, NASA has been receptive to GAO's suggestions. At the same time, however, significant management problems exist at NASA, and that agency faces a formidable task for the foreseeable future.

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## Social Services

### **Older Americans Act: Promising Practice in Information and Referral Services**

GAO/PEMD-91-31, Aug. 8 (46 pages).

The Older Americans Act of 1965 sought to improve the lives of older Americans through income, health, nutrition, employment, and long-term care programs. Promising practices in information and referral services provided under the Act include (1) providing information and referral where elderly persons live or frequently visit, (2) using automated information resources and telephone technology, (3) hiring minorities to serve diverse cultural populations, and (4) publicizing services through active outreach by mass media and presentations. All the programs GAO reviewed used multiple outreach methods, conducted some follow-up with clients or service providers, and provided training to program staff or volunteers. However, GAO's ability to evaluate success was hampered by data problems. The Administration on Aging's data

collection instrument and methodology contained several flaws that raise questions about the accuracy and reliability of the national data; local data were also problematic. No formal mechanisms exist for the Administration on Aging to disseminate information about exemplary programs to other providers. Staff of these programs do sometimes exchange information through local workshops and conferences, but these methods are neither systematic nor viewed as effective by program officials.

**Services for the Elderly:  
Longstanding Transportation Problems Need More Federal  
Attention**

GAO/HRD-91-117, Aug. 29 (23 pages).

Three long-standing barriers—fragmentation of service delivery among multiple providers, confusion about program requirements, and inadequacies in data needed to manage and evaluate programs—impede effective delivery of special transportation services for the elderly in many communities. These barriers result in duplication of service in some localities at the expense of little or no service in others and higher unit costs per trip than necessary. Lower service quality could also occur for some clients. Some communities have been able to overcome special transportation barriers but many have not. Much is known about how to reduce barriers, yet many communities are poorly informed. Without improvements in the dissemination of information on how to successfully run programs and more technical help in applying this information to local circumstances, special transportation barriers will likely remain.

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**Tax Policy and  
Administration**

**Tax Policy:  
Issues and Policy Proposals Regarding Tax Treatment of Intangible  
Assets**

GAO/GGD-91-88, Aug. 9 (44 pages).

One of the oldest controversies between taxpayers and IRS centers on the extent to which taxpayers can deduct the price they pay for intangible assets, such as customer or subscription lists. GAO analyzed tax data IRS gathered in 1989 on all its unresolved, or open, purchase of intangible asset cases. Taxpayers in nine industry groups had claimed deductions

for 175 types of purchased intangible assets that they identified as different from goodwill and valued at \$23.5 billion. IRS most often challenged the classifications rather than the useful lives and/or values that taxpayers assigned to these intangible assets. The disagreements occurred in most industries and primarily stemmed from differences in the tax treatment of goodwill, which is never amortizable, and other intangible assets that are amortizable. GAO believes that the disagreements between IRS and taxpayers over which intangible assets may be amortized will continue unless the current rules are changed. Recognition of all intangible assets that waste away over time and the development of guidelines for their amortization would help to prevent such disputes and provide uniform treatment for all taxpayers.

**Tax Administration:  
Efforts to Prevent, Identify, and Collect Employment Tax  
Delinquencies**

GAO/GGD-91-94, Aug. 28 (37 pages).

Considering the significance of employment tax delinquencies and the quickness with which large employment tax delinquencies can accumulate, the prevention, early identification, and collection of these delinquencies are critical. GAO found, however, that IRS lacks a centralized system for preventing, identifying, or collecting delinquent employment taxes. Because efforts are scattered throughout the agency, IRS cannot ensure that its resources are being effectively allocated to address the employment tax problem. Moreover, IRS has not developed all the information necessary to (1) target employers most likely to be delinquent or (2) evaluate the effectiveness of its employment tax delinquency efforts. Limited staff resources have constrained IRS efforts to identify employment tax delinquencies through audit and information matching. In addition, IRS has stopped investigating many of the leads and cases brought to its attention, and the number of IRS employment tax audits fell from over 100,000 in 1979 to a low of 24,000 in 1988. GAO believes that IRS must develop a comprehensive plan to deal with employment tax delinquencies. This plan should designate an official to coordinate employment tax activities and to develop the information needed to better target employment tax efforts.

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## Transportation

### **Bridge Infrastructure: Matching the Resources to the Need**

GAO/RCED-91-167, July 22 (35 pages).

The Department of Transportation's current approach to determining the need for replacing or rehabilitating the nation's bridges does not effectively set priorities among deficient bridges. The methodology does not adequately consider a bridge's location, traffic volume, and detour length—important measures of how well a bridge serves public needs. As a result, many local bridges that are structurally sound and adequately serve existing traffic conditions are eligible for federal funds. Several states have been using variations of an alternative methodology based on "level-of-service" criteria. This methodology overcomes limitations of DOT's current approach because it rates bridges on criteria established for different types of highways and measures differences in traffic volumes and detour lengths. GAO's analysis showed that DOT's proposal to require states to spend at least 10 percent of their bridge funds on local bridges would divert federal dollars from those highway systems with the most critically deficient bridges. GAO believes that states should not be required to spend more than one percent of the proposed bridge funds on local bridges. While DOT has proposed using a level-of-service methodology to determine whether a bridge is deficient and warrants federal funds, DOT will use this approach only to categorize a bridge as adequate or deficient and not to measure the magnitude of deficiency. Consequently, DOT will be unable to provide Congress with the information needed to target bridge funds to highway systems with the most critically deficient bridges.

### **Transportation Infrastructure: Highway Program Consolidation**

GAO/RCED-91-198, Aug. 16 (25 pages).

In 1987 Congress authorized a demonstration to test the feasibility of transferring more responsibility to the states for administering portions of the federal-aid highway program. The demonstration gives five participants—California, Minnesota, New York, Rhode Island, and Texas—greater flexibility in targeting federal-aid funds toward specific highway and bridge needs and also allows them to assume certain program functions usually done at the federal level. In a preliminary report (GAO/RCED-90-126, June 8, 1990), GAO discussed how the five states initially benefited from the demonstration. This report includes a final

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evaluation of the demonstration as well as a review of the administration's reauthorization proposal as it relates to (1) defining highways of national significance and (2) funding the National Highway Program and the Urban/Rural Program.

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## Veterans Affairs

### **Veterans' Benefits: VA Needs to Verify Medical Expenses Claimed by Pension Beneficiaries**

GAO/HRD-91-94, July 29 (11 pages).

In the eligibility verification report they file annually with the Department of Veterans Affairs, veterans and their survivors who receive pension benefits are allowed to claim certain out-of-pocket medical expenses to offset countable income that would otherwise reduce their pension benefits. For the year ended January 26, 1990, these beneficiaries claimed over \$1.6 billion in medical expenses, resulting in income offsets of \$762 million. This meant that VA paid out an equal amount in increased pension benefits. Most of these expenses were claimed by beneficiaries in nursing homes. VA does not know whether these claimed expenses are valid, however, because it does not systematically verify or request "proof of payment" for these expenses. Because of the significant dollars involved, VA should establish procedures to validate these expenses. The need for such procedures is underscored by IRS' discovery that similar medical deductions were overstated by about 23 percent on individual tax returns.

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## Testimony

Health Care for Hawaii Veterans, by David P. Baine, Director of Federal Health Care Delivery Issues, before the Subcommittee on Oversight and Investigations, House Committee on Veterans' Affairs. GAO/T-HRD-91-45, Aug. 16 (11 pages).

VA has plans to build a medical center in Hawaii, one of two states—Alaska is the other—lacking a VA hospital. Acute patient care in Hawaii is now provided through a sharing agreement with Tripler Army Medical Center and through community and municipal hospitals. GAO testified that additional acute care capacity to care for Hawaii veterans is not needed since 69 beds were recently added at Tripler to handle acute care for veterans. Further, considerable unused acute care capacity exists at Tripler. Construction costs might be justified if the project increased veterans' access to health care; however, veterans living on

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the outer islands who now use municipal hospitals closer to home would be forced to travel to the new hospital. GAO believes that other ways exist to establish a separate and visible VA presence in Hawaii that will complement rather than duplicate the acute care capability already in existence. By exploring these options, VA can improve health services to Hawaii veterans sooner, at lower cost, and without harming access to care for veterans on the outer islands.



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