

GAO

Annual Report to the Chairmen and  
Ranking Minority Members, House and  
Senate Committees on Appropriations

---

January 1995

# STATUS OF OPEN RECOMMENDATIONS

## Improving Operations of Federal Departments and Agencies





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

---

Comptroller General  
of the United States

B-205879

January 30, 1995

The Honorable Mark O. Hatfield  
Chairman, Committee on Appropriations  
United States Senate

The Honorable Robert C. Byrd  
Ranking Minority Member  
Committee on Appropriations  
United States Senate

The Honorable Robert L. Livingston  
Chairman, Committee on Appropriations  
House of Representatives

The Honorable David R. Obey  
Ranking Minority Member  
Committee on Appropriations  
House of Representatives

This is our annual report on the status of open recommendations resulting from our audits, evaluations, and other review work in federal departments and agencies. To encourage prompt, responsive actions on our recommendations, we systematically follow up on them and annually report on their status.

We are sending copies of this report to the Office of Management and Budget and federal departments and agencies so that they may respond to inquiries about these issues during appropriations and oversight hearings. We are also sending copies to Chairs and Ranking Minority Members of all House and Senate committees and subcommittees to better inform them of our open recommendations.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher  
Comptroller General  
of the United States

---

B-205879

---

# Preface

---

Each year, GAO's work contributes to many legislative and executive branch actions that result in significant financial savings and other improvements in government operations. Some, but not all, are identified through GAO's system for periodically following up to determine the status of actions taken on the recommendations made in its audit and evaluation reports. In fiscal year 1994, GAO made 1,450 recommendations, but, more importantly, about 4,400 GAO recommendations made over the past 5 years have been implemented.

This report includes summary information on the status of all GAO recommendations that have not been fully implemented and highlights some of the key ones. This information should help congressional and agency leaders prepare for upcoming appropriations and oversight activities and stimulate further actions to achieve the desired improvements in government operations.

In addition to including printed issue area summaries highlighting the impact of GAO's work and the key open recommendations, this volume includes a set of computer diskettes with details on all open recommendations.

The diskettes have several menu options to help users find information easily. For example, a user may search for an open recommendation by using product numbers, titles, dates, names of federal entities, congressional committees as they existed in the 103rd Congress, or any other word or phrase that may appear in the report. Instructions for operating the electronic edition have been enclosed with the disks to the back of the front cover and are also listed in appendix I of this publication.

The name and the telephone number of the GAO manager to contact for information or assistance about a product is included on the diskettes. Information or questions not related to a specific product or recommendation should be referred to GAO's Office of Congressional Relations on 202/512-4400.

Copies of complete GAO printed products may be ordered by calling 202/512-6000 or by facsimile at 301/258-4066.



---

# Contents

<b>Preface</b>		<b>7</b>
<b>Chapter 1</b>		<b>10</b>
<b>Improving National Security and International Affairs Programs</b>	Acquisition, Policy, Technology, and Competitiveness Issue Area (Budget Function 050)	10
	Defense and NASA Management Issue Area (Budget Functions 050 and 250)	16
	International Affairs Issue Area (Budget Function 150)	22
	International Trade, Finance, and Competitiveness Issue Area (Budget Function 150)	26
	Military Operations and Capabilities Issue Area (Budget Function 050)	31
	National Security Analysis Issue Area (Budget Function 050)	36
	Systems Development and Production Issue Area (Budget Function 050)	40
<b>Chapter 2</b>		<b>44</b>
<b>Improving Resources, Community, and Economic Development Programs</b>	Energy and Science Issue Area (Budget Function 270)	44
	Environmental Protection Issue Area (Budget Function 270)	55
	Food and Agriculture Issue Area (Budget Function 350)	68
	Housing and Community Development Issue Area (Budget Functions 370 and 450)	79
	Natural Resources Management Issue Area (Budget Function 300)	89
	Transportation and Telecommunications Issue Area (Budget Function 400)	96
<b>Chapter 3</b>		<b>109</b>
<b>Improving Human Resources Programs</b>	Education and Employment Issue Area (Budget Function 500)	109
	Federal Health Programs—Direct Delivery Issue Area (Budget Function 550)	117
	Income Security Issue Area (Budget Functions 600, 650, and 700)	130
	Medicare and Medicaid Issue Area (Budget Function 570)	138
	National and Public Health Issue Area (Budget Function 550)	146

<b>Chapter 4</b> <b>Improving Justice and</b> <b>General Government</b> <b>Programs</b>	Administration of Justice Issue Area (Budget Function 750) Federal Human Resources Management Issue Area (Budget Function 800) Federal Management Issue Area (Budget Function 800) Financial Institutions and Markets Issue Area (Budget Function 800) Government Business Operations Issue Area (Budget Function 800) Tax Policy and Administration Issue Area (Budget Function 800)	150 150 157 167 174 181 188
<b>Chapter 5</b> <b>Financial and</b> <b>Information</b> <b>Management and</b> <b>Evaluation Programs</b>	Budget Issue Area (Budget Function 990) Civil Audits Issue Area (Budget Function 990) Corporate Audits Issue Area (Budget Function 990) Defense Financial Audits Issue Area (Budget Function 990) Information Resources Management—General Government Division Issue Area (Budget Function 990) Information Resources Management—Health, Education, and Human Services Division Issue Area (Budget Function 990) Information Resources Management—National Security and International Affairs Division Issue Area (Budget Function 990) Information Resources Management—Policy and Issues Area (Budget Function 990) Information Resources Management—Resources, Community, and Economic Development Division Issue Area (Budget Function 998) Legislative Reviews and Audit Oversight Issue Area (Budget Function 990) Program Evaluation and Methodology Issue Area (Budget Function 990)	198 198 206 214 223 229 233 238 243 246 251 256
<b>Appendix I</b> <b>Quick Reference—</b> <b>Electronic Edition</b>	Introduction: How to Install: How to Start: How to Search: Notes on Figure 1 Search Options: How to Refine Searches:	262 262 262 262 264 264 265

How to Quit:	265
Local Area Networks (LAN)	265
How to Get Help:	265

**Table**

Figure 1. Output Menu Options	263
-------------------------------	-----

**Abbreviations**

ACS	Automated Commercial System
ACWA	Administrative Careers With America
ADMS	Alcohol, Drug Abuse, and Mental Health Services
ADP	automatic data processing
AFDC	Aid to Families With Dependent Children
AHCPR	Agency for Health Care Policy and Research
AICPA	American Institute of Certified Public Accountants
AID	Agency for International Development
AIF	Army's Industrial Fund
AOC	Architect of the Capitol
ATC	air traffic control
BIA	Bureau of Indian Affairs
BIF	Bank Insurance Fund
BIS	Bank for International Settlements
BLM	Bureau of Land Management
BOP	Bureau of Prisons
CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
CCDBG	Child Care and Development Block Grant
CDBG	Community Development Block Grant
CFO	Chief Financial Officers
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHCS	Composite Health Care System
CIM	corporate information management
COEA	cost and operational effectiveness analysis
COSO	Committee of Sponsoring Organizations
CPA	certified public accountant
CRADA	cooperative research and development agreement
CRS	Congressional Research Service
DBOF	Defense Business Operations Fund
DCAA	Defense Contract Audit Agency
DFAS	Defense Finance and Accounting Service
DI	Disability Insurance
DOD	Department of Defense

DOE	Department of Energy
DOT	Department of Transportation
EDI	Electronic Data Interchange
EEO	equal employment opportunity
EEOC	Equal Employment Opportunity Commission
EPA	Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
ESEA	Elementary and Secondary Education Act
FAA	Federal Aviation Administration
FAAD	forward area defense
FASB	Financial Accounting Standards Board
FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FDA	Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
FDICIA	Federal Deposit Insurance Corporation Improvement Act
FEMA	Federal Emergency Management Agency
FERC	Federal Energy Regulatory Commission
FFELP	Federal Family Education Loan Program
FHA	Federal Housing Administration
FWHA	Federal Highway Administration
FLA	Financial Integrity Act
FmHA	Farmers Home Administration
FRB	Federal Reserve Board
FTA	Federal Transit Administration
FTD	federal tax deposit
FY	fiscal year
FYDP	future years defense plan
GAO	General Accounting Office
GDP	gross domestic product
GNMA	Government National Mortgage Association
GPRA	Government Performance and Results Act
GSA	General Services Administration
GSE	government-sponsored enterprise
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HMO	health maintenance organizations
HPCC	High Performance Computing and Communications
HRM	human resources management
HRSA	Health Resources and Services Administration
HUD	Department of Housing and Urban Development

IG	Inspector General
IHS	Indian Health Service
IME	impartial medical examinations
INS	Immigration and Naturalization Service
IRM	information resources management
IRS	Internal Revenue Service
ISTEA	Intermodal Surface Transportation Efficiency Act
JOBS	Job Opportunities and Basic Skills Training Program
MCCR	medical care cost recovery
MTS	Medicare Transaction System
NAC	National Advisory Council on International Monetary and Financial Policies
NAEP	National Assessment of Educational Progress
NAGB	National Assessment Governing Board
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
NCIC	National Crime Information Center
NEH	National Endowment for the Humanities
NIH	National Institutes of Health
NOAA	National Oceanic and Atmospheric Administration
NPR	National Performance Review
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OCC	Office of the Comptroller of the Currency
OIG	Office of the Inspector General
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
OTS	Office of Thrift Supervision
OWCP	Office of Workers' Compensation Programs
PBGC	Pension Benefit Guaranty Corporation
PME	personnel management evaluation
PRO	Peer Review Organizations
QMB	Qualified Medicare Beneficiary
R&D	research and development
RSA	Rehabilitation Services Administration
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SBA	Small Business Administration
SEC	Securities and Exchange Commission

---

## Contents

---

SES	Senior Executive Service
SIP	state implementation plan
SOP	Statement of Position
SRO	self-regulating organizations
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	nuclear-powered attack submarine
STWT	school-to-work transition
TPCC	Trade Promotion Coordinating Committee
TSM	Tax Systems Modernization
UMTA	Urban Mass Transportation Administration
USDA	United States Department of Agriculture
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
WIC	Women, Infants, and Children

# Improving National Security and International Affairs Programs

---

## Acquisition, Policy, Technology, and Competitiveness Issue Area (Budget Function 050)

GAO Contact: David E. Cooper, 202/512-4587

---

### Impact of GAO's Work

With the end of the Cold War, the nation began to reassess the threats to U.S. security interests and restructure its military capabilities. While the reassessment continues, two key trends have emerged:

- U.S. military forces and the defense industrial base that supports them have been significantly reduced.
- The economic dimension of national security is commanding increased attention.

These trends have resulted in a wide range of legislative and executive branch actions—all aimed at preserving a healthy and efficient defense industrial base and enhancing U.S. competitiveness. Among the more significant actions are efforts to reform defense acquisition, encourage the use of commercial products and dual-use technologies, convert defense firms to commercial work, and promote defense exports.

We have continued to focus on the major issues related to this changing relationship. In our work, we addressed the following questions: Is the defense industrial base being restructured to best serve U.S. security interests? Is defense technology being effectively maintained and protected? Is the Department of Defense (DOD) reforming its acquisition process to address longstanding management problems? Do DOD contracting policies and practices ensure the proper spending of public funds?

In our reports and testimonies, we highlighted areas where DOD's and defense contractors' controls had not protected against the improper use of government funds. As part of a review of DOD's and defense contractors' efforts to ensure the integrity of the procurement system, we are examining defense contractors' voluntary disclosure programs.

Another area that is becoming increasingly important is defense contractors' mergers and acquisitions and the potentially significant costs

associated with them. The pace of consolidations in the U.S. defense industry has recently increased sharply and appears likely to continue. This dramatic reshaping of the industry involves extraordinarily complex transactions with potentially significant cost, benefit, and risk implications for corporate bottom lines, taxpayers' expenditures, and national security capabilities. Therefore, the issues surrounding the allowance of restructuring costs incident to mergers and acquisitions are important and deserve careful consideration and deliberation. We will be giving this area increased attention.

With the passage of the Federal Acquisition Streamlining Act of 1994, the Congress set the stage for improving the way DOD purchases goods and services. The success of the reform movement now depends largely on the effective implementation of the legislative and other reform initiatives. Over the next few years, we will be focusing on how well DOD has converted the legislative requirements into implementing regulations and the extent to which implementation of reforms has improved the acquisition process.

---

## Key Open Recommendations

Sound financial controls are critical to ensuring that DOD effectively manages its contracts and that taxpayers' funds are disbursed properly. A dramatic indicator of the adverse effects of poor controls over the disbursement process is the dollar value of payments defense contractors return to the government. Our work has shown that during a 6-month period, the Defense Finance and Accounting Service (DFAS) in Columbus, Ohio—the principal DOD contract-paying activity—processed \$751 million in checks from defense contractors. Our examination of \$392 million of the \$751 million disclosed that about \$305 million, or about 78 percent, represented overpayments by the government. DFAS-Columbus overpaid contractors principally because it (1) paid invoices without considering previous progress payments or (2) made duplicate payments.

Underscoring our concern about the amount of overpayments is the fact that the majority of the overpayments we examined were detected by contractors, rather than by DFAS through its own controls. When the government must rely on contractors rather than its own controls to detect and collect overpayments, the risk is greater that losses will result from undetected or unreturned overpayments.

We recommended that DOD mobilize available DOD contract, financing, and audit resources to identify, verify, and correct payment discrepancies



identified in contractors' records. Using contractor records, DOD can research the payment status of contracts and use this information, along with government records, as a basis for further actions to reconcile payment discrepancies. (GAO/NSIAD-94-245)

Foreign governments often require or request offsets to reduce the financial impact of their purchases, obtain valuable technology and manufacturing know-how, support domestic employment, create or expand their defense industries, and make use of their national funds for offshore purchases more politically palatable. Offsets are industrial and commercial compensations provided to foreign governments and firms as inducements or conditions for the purchase of military goods and services. They are considered an important competitive tool for U.S. contractors, particularly when selling to countries making purchases with their national funds and when foreign competition is involved.

Offsets are not now prohibited and are being required and requested by recipients of funds from the Foreign Military Financing Program. Because of the impacts on U.S. business and other factors, we questioned whether the United States should provide funding through the Foreign Military Financing Program and also allow offsets. We recommended that the Congress amend the Foreign Assistance Act and the Arms Export Control Act to prohibit the use of Foreign Military Financing grants to pay for or request, require, obtain, or provide offsets in connection with the sales of U.S. military goods and services. (GAO/NSIAD-94-127)

---

Related Products With  
Open Recommendations:  
Acquisition, Policy,  
Technology, and  
Competitiveness

Product Title

Air Force Procurement: Current Plans May Provide More Ground-Attack Capability Than Needed (GAO/NSIAD-92-137)

AV-8B Program: Aircraft Sales to Foreign Government to Fund Radar Procurement (GAO/NSIAD-93-24)

Contractor Overhead Costs: Money Saving Reviews Are Not Being Done As Directed (GAO/NSIAD-94-205)

**Contract Pricing: DCAA's Audit Coverage Lowered by Lack of Subcontract Information (GAO/NSIAD-92-173)**

**Contract Pricing: DOD Management of Contractors With High-Risk Cost-Estimating Systems (GAO/NSIAD-94-153)**

**Contract Pricing: Economy and Efficiency Audits Can Help Reduce Overhead Costs (GAO/NSIAD-92-16)**

**Contract Pricing: Unallowable Costs Charged to Defense Contracts (GAO/NSIAD-93-79)**

**Defense Communications: Defense's Program to Improve Telecommunications Management Is at Risk (GAO/IMTEC-93-15)**

**Defense Contracting: Implementation of the Pilot Mentor-Protege Program (GAO/NSIAD-94-101)**

**Defense Contracting: Interim Report on Mentor-Protege Program for Small Disadvantaged Firms (GAO/NSIAD-92-135)**

**Defense Industrial Base: An Overview of an Emerging Issue (GAO/NSIAD-93-68)**

**Defense Production Act: Foreign Involvement and Materials Qualification in the Title III Program (GAO/NSIAD-94-74)**

**DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245)**

**Energy Management: Inadequate DOE Monitoring of Contractors' Acquisitions From Affiliates (GAO/RCED-94-83)**

**Export Controls: License Screening and Compliance Procedures Need Strengthening (GAO/NSIAD-94-178)**

**Federal Research: Lessons Learned From SEMATECH (GAO/RCED-92-283)**

**Foreign Technology: Collection and Dissemination of Japanese Information Can Be Improved (GAO/NSIAD-93-251)**

**High Performance Computing: Advanced Research Projects Agency Should Do More to Foster Program Goals (GAO/IMTEC-93-24)**

**International Air and Trade Shows: DOD Increased Participation, but Its Policies Are Not Well-Defined (GAO/NSIAD-93-96)**

**International Procurement: NATO Allies' Implementation of Reciprocal Defense Agreements (GAO/NSIAD-92-126)**

**Medicare: Better Guidance Is Needed To Preclude Inappropriate General and Administrative Charges (GAO/NSIAD-94-13)**

**Military Coproduction: U.S. Management of Programs Worldwide (GAO/NSIAD-89-117)**

**Military Exports: Concerns Over Offsets Generated With U.S. Foreign Military Financing Program Funds (GAO/NSIAD-94-127)**

**Minority Contracting: DOD's Reporting Does Not Address Legislative Goal (GAO/NSIAD-93-167)**

**NASA Aeronautics: Impact of Technology Transfer Activities Is Uncertain (GAO/NSIAD-93-137)**

**Overhead Costs: Costs Charged by McDonnell Douglas Aerospace's Space Station Division (GAO/NSIAD-94-150)**

**Technology Transfer: Barriers Limit Royalty Sharing's Effectiveness (GAO/RCED-93-6)**

**Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers (GAO/RCED-92-30)**

**Test and Evaluation: DOD Has Been Slow in Improving Testing of Software-Intensive Systems (GAO/NSIAD-93-198)**

**Test and Evaluation: Little Progress in Consolidating DOD Major Test Range Capabilities (GAO/NSIAD-93-64)**

**Unallowable Costs and Penalties (GAO/NSIAD-94-204R)**

---

**University Research: Controlling Inappropriate Access to Federally  
Funded Research Results (GAO/RCED-92-104)**

**U.S.-Israel Arrow/Aces Program: Cost, Technical, Proliferation, and  
Management Concerns (GAO/NSIAD-93-254)**

---

## Defense and NASA Management Issue Area (Budget Functions 050 and 250)

GAO Contact: Donna M. Heivilin, 202/512-8412

---

### Impact of GAO's Work

Significant challenges face the Department of Defense (DOD) and the National Aeronautics and Space Administration (NASA) as they chart a course for their agencies in the post-Cold War era with decreasing budgets.

Though DOD has recognized the need to reengineer and streamline its operations, it continues to have difficulty implementing effective and efficient programs. Changes in DOD's management practices, procedures, and cultures are necessary to overcome longstanding problems. In addition, as DOD closes and realigns military bases as part of its efforts to downsize and restructure its forces and reduce defense spending, it will need to increase spending in other areas, for example, for environmental cleanups at bases and the destruction of chemical weapons. A key to providing management leadership during this period of enormous change is convincing managers that they must discard old ways of doing business and adopt practices that are more proactive and less costly but that meet the readiness and capability needs of U.S. fighting forces.

NASA also faces a major restructuring of its programs and activities. The overcommitment of the agency's past budgets created funding uncertainty and the need to restructure some of its largest programs. The primary management challenge facing NASA today is to develop and implement improved management and financial controls. With such controls in place, NASA could achieve a realistic balance between its programs within a constrained budget and at the same time increase its attention to emerging areas of emphasis, such as advanced technology development, aeronautical research and development, and technology transfers.

Key areas we focused on in fiscal year 1994 included reducing the defense infrastructure and excess inventory; identifying opportunities to save money and achieve management efficiencies through new processes; quantifying the unfunded liabilities facing DOD, such as environmental cleanups; and improving NASA's program management and its oversight of procurement activities and contractors.

---

**Key Open  
Recommendations**

To achieve management improvements, operational efficiencies, and dollar savings, DOD and NASA need to take action on the following key recommendations.

We recommended several actions to improve the implementation of DOD's processes for selecting bases for closure and realignment, including taking advantage of cross-service opportunities that could result in a more efficient realignment of support facilities and additional cost savings. (GAO/NSIAD-93-173)

On the basis of our review of DOD's progress in reducing its inventory, we recommended that DOD make better use of training to help change its inventory management culture. We also recommended that DOD adopt the commercial practice of using prime vendors to provide needed clothing and textiles quickly. (GAO/NSIAD-94-193 and GAO/NSIAD-94-64)

We recommended also that, to achieve economies, DOD develop sound management strategies for improving the oversight of the construction and capital improvement investments in its morale, welfare, and recreation program. We recommended also changes to DOD's transportation management and processes that would reduce costs and improve service. (GAO/NSIAD-94-120 and GAO/NSIAD-94-26)

In addition, we recommended pilot programs and projects to demonstrate the applicability of commercial practices in two areas—military industrial centers and food distribution. Such actions could improve management and reduce costs by eliminating unnecessary processes and functions. (GAO/NSIAD-93-110 and GAO/NSIAD-93-155)

We recommended that, to improve DOD's management of the high-cost environmental cleanups and destruction of chemical weapons, DOD revise its system for designating high-priority sites, improve the operations of plants designed to destroy chemical munitions, upgrade underground storage tanks to avoid costly cleanups, and obtain better data on the amount of funds paid to DOD contractors for cleanups. (GAO/NSIAD-94-133, GAO/NSIAD-93-50, GAO/NSIAD-93-77, and GAO/NSIAD-92-117)

We recommended that NASA take a series of actions designed to reduce the amount of equipment provided to contractors; improve contractors' compliance with requirements on the acquisition and the use of government property, as well as reporting requirements; and regain proper

control over the equipment-lending practices of one of its largest contractors. (GAO/NSIAD-93-191 and GAO/NSIAD-94-116)

We recommended that, to further improve NASA's management of procurement activities, some of the procurement improvement initiatives under way throughout the agency be enhanced to, among other things, provide more consistent ways to measure progress toward meeting goals and ensure adequate implementation of minimum training requirements. We recommended also a series of actions to improve NASA's planning, monitoring, and use of both preaward and postaward audits of its contractors' systems and costs. (GAO/NSIAD-94-179)

---

Related Products With  
Open Recommendations:  
Defense and NASA  
Management

Product Title

Chemical Weapons Destruction: Issues Affecting Program Cost, Schedule, and Performance (GAO/NSIAD-93-50)

Chemical Weapon Stockpile: Army's Emergency Preparedness Program Has Been Slow to Achieve Results (GAO/NSIAD-94-91)

Commercial Practices: DOD Could Save Millions by Reducing Maintenance and Repair Inventories (GAO/NSIAD-93-155)

Commercial Practices: Leading-Edge Practices Can Help DOD Better Manage Clothing and Textile Stocks (GAO/NSIAD-94-64)

Commercial Practices: Opportunities Exist to Enhance DOD's Sales of Surplus Aircraft Parts (GAO/NSIAD-94-189)

Defense Inventory: DOD Actions Needed to Ensure Benefits From Supply Depot Consolidation Efforts (GAO/NSIAD-92-136)

Defense Transportation: Commercial Practices Offer Improvement Opportunities (GAO/NSIAD-94-26)

Defense Transportation: Ineffective Oversight Contributes to Freight Losses (GAO/NSIAD-92-96)

**DOD Food Inventory: Using Private Sector Practices Can Reduce Costs and Eliminate Problems (GAO/NSIAD-93-110)**

**Environmental Cleanup: Better Data Needed for Radioactively Contaminated Defense Sites (GAO/NSIAD-94-168)**

**Environmental Cleanup: Inconsistent Sharing Arrangements May Increase Defense Costs (GAO/NSIAD-94-231)**

**Environmental Cleanup: Observations on Consistency of Reimbursements to DOD Contractors (GAO/NSIAD-93-77)**

**Environmental Cleanup: Too Many High Priority Sites Impede DOD's Program (GAO/NSIAD-94-133)**

**Environmental Compliance: DOD Needs to Better Identify and Monitor Equipment Containing Polychlorinated Biphenyls (GAO/NSIAD-94-243)**

**Financial Management: NASA's Financial Reports Are Based on Unreliable Data (GAO/AFMD-93-3)**

**Government Printing: Legal and Regulatory Framework Is Outdated for New Technological Environment (GAO/NSIAD-94-157)**

**Hazardous Materials: Upgrading of Underground Storage Tanks Can Be Improved to Avoid Costly Cleanups (GAO/NSIAD-92-117)**

**Hazardous Waste: Management Problems Continue at Overseas Military Bases (GAO/NSIAD-91-231)**

**Information Security: Disposition and Use of Classified Documents by Presidential Appointees (GAO/NSIAD-90-195)**

**Inventory Management: Handheld Missiles Are Vulnerable to Theft and Undetected Losses (GAO/NSIAD-94-100)**

**Military Bases: Analysis of DOD's Recommendations and Selection Process for Closures and Realignments (GAO/NSIAD-93-173)**

**Military Small Arms Parts: Poor Controls Invite Widespread Theft (GAO/T-NSIAD-94-79)**



**Morale, Welfare, and Recreation: Declining Funds Require DOD to Take Action (GAO/NSIAD-94-120)**

**NASA Aeronautics: Impact of Technology Transfer Activities Is Uncertain (GAO/NSIAD-93-137)**

**NASA Procurement: Challenges Remain in Implementing Improvement Reforms (GAO/NSIAD-94-179)**

**NASA Property: Improving Management of Government Equipment Provided to Contractors (GAO/NSIAD-93-191)**

**NASA Property: Poor Lending Practices and Controls at the Jet Propulsion Laboratory (GAO/NSIAD-94-116)**

**Natural Resources: Defense and Interior Can Better Manage Land Withdrawn for Military Use (GAO/NSIAD-94-87)**

**Navy Inventory: Better Controls Needed Over Planned Program Requirements (GAO/NSIAD-93-151)**

**Organizational Culture: Use of Training to Help Change DOD Inventory Management Culture (GAO/NSIAD-94-193)**

**Ozone-Depleting Chemicals: Increased Priority Needed If DOD Is to Eliminate Their Use (GAO/NSIAD-92-21)**

**Personnel Security: Efforts by DOD and DOE to Eliminate Duplicative Background Investigations (GAO/RCED-93-23)**

**Property Disposal: DOD Is Handling Large Amounts of Excess Property in Europe (GAO/NSIAD-93-195)**

**Security Clearances: Due Process for Denials and Revocations by Defense, Energy, and State (GAO/NSIAD-92-99)**

**Small Arms Parts: Poor Controls Invite Widespread Theft (GAO/NSIAD-94-21)**

**Technology Development: Future Use of NASA's Large Format Camera Is Uncertain (GAO/NSIAD-90-142)**

---

**The U.S. Nuclear Triad: GAO's Evaluation of the Strategic Modernization**  
**Program (GAO/T-PEMD-93-5)**

---

## International Affairs Issue Area (Budget Function 150)

GAO Contact: Joseph E. Kelley, 202/512-4128

---

### Impact of GAO's Work

U.S. national security and foreign affairs policies and objectives have come under increased scrutiny in recognition of the changing world order and the corresponding need to reassess U.S. military, political, and economic interests. Federal budget constraints have further reinforced the need to reexamine foreign policy objectives, program priorities, and management performance. Policy and program shifts are under way to (1) downsize U.S. military forces, (2) place greater emphasis on strengthening U.S. economic security, (3) promote democracy around the world, (4) address worldwide arms control and proliferation concerns, and (5) restructure U.S. foreign assistance programs.

Much of our work in 1994 continued to concentrate on changes needed to redirect and better manage foreign affairs and bilateral assistance programs and priorities and provide increased oversight of expenditures of international organizations to which the United States is a major contributor. Our work has had a significant impact on the management of major aspects of the U.S. government's foreign policy and economic assistance organizations.

We completed several reviews to determine whether arms control and nonproliferation programs were achieving their objectives. For example, we examined implementation of the Cooperative Threat Reduction Program, a priority U.S. effort to help the former Soviet Union dismantle weapons of mass destruction; arms control and nonproliferation initiatives relating to conventional forces in Europe; chemical weapons agreements with Russia; and licensing procedures for dual-use nuclear exports. We found implementation weaknesses in each and made recommendations to the agencies and the Congress to bring about improvements. The Cooperative Threat Reduction Program, which could amount to \$3.5 billion, suffers from poor long-range planning and a lack of project prioritization. As a result of our work, the Congress directed the Department of Defense (DOD) to develop a long-range plan and prioritize projects so that the Congress would have better information for making budget decisions and for assessing the program's progress.

Regarding controls over nuclear exports, we found that the U.S. government had approved a significant number of dual-use nuclear

licenses to 36 countries identified as posing concerns about potential proliferation. We also found weaknesses in U.S. agencies' reviews of these licenses and in methods used to detect or deter diversions of dual-use items.

Our reports and the determination that these problems were areas of high risk led the State Department to improve its management of overseas real properties. State's Office of Foreign Buildings Operations has added trained staff, improved its monitoring and operating procedures, and increased its maintenance capabilities. Although more needs to be done, management of government properties worth over \$12 billion is much better than it was 5 years ago. In addition, partly as a result of our work, State sought and obtained authority to establish and collect tourist visa fees. As of June 1994, State had collected \$600,000; it expects to collect \$6 million for fiscal year 1994 and \$50 million to \$60 million in fiscal year 1995. These fees will augment consular affairs resources to pay for improved visa-processing facilities.

Our continuing examinations of U.S. bilateral assistance programs have identified management weaknesses and served as a basis for improved congressional oversight and greater public accountability. For example, during our review of the foreign military financing program, which provides billions of dollars in grants to foreign countries to purchase U.S. military items, we found a number of management and control weaknesses that make the program vulnerable to abuse. In addition, our work on U.S. counternarcotics programs in Central and South America has shown that overseas law enforcement efforts have had limited demonstrative impact and suffer from management weaknesses. For Colombia, which has the largest U.S. counternarcotics programs, the Department of State and DOD developed a mission plan and created an interagency committee to improve human rights oversight of the country's response to abuse and end-use monitoring of U.S. narcotics aid to ensure that it is used as intended and not used to commit human rights violations.

The Agency for International Development has acted on our recommendation to set a strategic direction for the U.S. foreign aid program and develop a supporting planning process that articulates policy direction and ensures accountability for results. A major step has been the establishment of a work force planning office, which has developed an automated work force information system. The agency will use this system in its fiscal year 1996 budgeting process. Our work has also led to stronger accountability procedures for donor contributions to the World Food

Program. Further, our review of the Peace Corps' health care system for volunteers serving overseas revealed that the system was inadequate to ensure an appropriate level of care for volunteers. In response, the Peace Corps made numerous improvements in its health care delivery system and commissioned an independent organization to evaluate its procedures.

Similarly, our work on United Nations organizations has led to needed improvements in their management—a key U.S. government objective. Our recent assessment of the United Nations Educational, Scientific, and Cultural Organization formed the basis for resumed U.S. participation in that organization. At the request of the Senate Foreign Relations and House Foreign Affairs Committees, we conducted a comprehensive study of peacekeeping issues and completed a report on lessons learned in peacekeeping. On March 14, 1994, the United Nations Secretary General announced peacekeeping reforms that recognized several of the lessons learned and, on May 3, 1994, the President of the Security Council issued a statement that included reforms in many of the areas we had cited.

---

### Key Open Recommendations

We made several recommendations to the Departments of Commerce, Energy, State, and DOD and to the Arms Control and Disarmament Agency to improve their review of dual-use nuclear licenses and strengthen methods used to deter or detect diversions of such items for unauthorized uses. (GAO/NSIAD-94-119)

In several reviews of the Department of State's management of its overseas posts, we concluded that posts did not have sufficient management controls to ensure full compliance with applicable regulations and minimize their vulnerability to fraud, waste, and abuse. We recommended that posts adopt a more proactive approach to identifying opportunities for management improvement and cost reductions. (GAO/NSIAD-93-88)

---

### Related Products With Open Recommendations: International Affairs

#### Product Title

Drug Control: Communications Network Funding and Requirements  
Uncertain (GAO/NSIAD-92-29)

**Drug Control: Inadequate Guidance Results in Duplicate Intelligence Production Efforts (GAO/NSIAD-92-153)**

**Financial Management: Inadequate Accounting and System Project Controls at AID (GAO/AFMD-93-19)**

**Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9)**

**Nuclear Nonproliferation: Better Controls Needed Over Weapons-Related Information and Technology (GAO/RCED-89-116)**

**Nuclear Nonproliferation: DOE Needs Better Controls to Identify Contractors Having Foreign Interests (GAO/RCED-91-83)**

**Nuclear Nonproliferation: Export Licensing Procedures for Dual-Use Items Need to Be Strengthened (GAO/NSIAD-94-119)**

**Radon Testing in Federal Buildings Needs Improvement and HUD's Radon Policy Needs Strengthening (GAO/T-RCED-91-48)**

**State Department: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico (GAO/NSIAD-93-88)**

---

International Trade,  
Finance, and  
Competitiveness Issue  
Area (Budget  
Function 150)

GAO Contact: Allan I. Mendelowitz, 202/512-4812

---

Impact of GAO's Work

The strength of the U.S. economy in the new global marketplace is the dominant theme of domestic and international economic policy. Defined as U.S. "competitiveness," the core concern is that the federal and subfederal governments can help sustain a high and rising standard of living for U.S. citizens. Though the economy showed signs of improvement this past year, concerns remain that U.S. firms are not competing well enough in international markets and that the overall standard of living of many Americans is not improving, despite improvements in worker productivity and despite the fact that new jobs are being created. We have looked at these issues in three ways:

- Reviewing multilateral and bilateral agreements and relations, such as the North American Free Trade Agreement and the Uruguay Round Agreement of the General Agreement on Tariffs and Trade, looking at their effects on U.S. businesses and workers and reviewing the effects of foreign policies, such as protection of intellectual property rights.
- Evaluating programs aimed at helping U.S. businesses better participate in global markets, such as export promotion programs.
- Looking at U.S. programs (such as business assistance programs), policies, and procedures to see how they affect overall economic development and standards of living and comparative business and market practices.

---

Key Open  
Recommendations

In January 1992, we reported that federal export promotion programs lacked organization and funding cohesiveness. As a result, the federal government did not have reasonable assurance that its export promotion resources, which totaled \$2.7 billion in fiscal year 1991, were being used most effectively. We recommended that the Secretary of Commerce, as chair of the 19-member Interagency Trade Promotion Coordinating Committee (TPCC), work with other member agencies and the Office of Management and Budget Director to (1) develop a governmentwide strategic plan for carrying out federal export promotion programs and

(2) ensure that the budget requests for these programs were consistent with their relative strategic importance. While a strategic plan has been created, budget priorities based on relative program import have not yet been established. (GAO/NSIAD-92-49)

In September 1992, we assessed the Small Business Administration's (SBA) export promotions designed to encourage U.S. companies to sell goods and services abroad. We found that SBA had devoted little money to export promotion relative both to governmentwide spending and to SBA's own budget. Therefore, SBA had not consistently emphasized export promotion. SBA disagreed with our conclusions, so we believe that the Congress might wish to require that SBA more fully identify which export-related needs of small businesses it could best meet and work with the TPCC to refocus, if necessary, its export promotion efforts. We also believed that the Congress might wish to consider requiring that TPCC's strategic plan clearly define a role for SBA. (GAO/GGD-92-77)

In December 1992, we examined program costs of the Commodity Credit Corporation's (CCC) Export Credit and Intermediate Credit Guarantee Programs in the U.S. Department of Agriculture (USDA). We estimated that, as of June 30, 1992, CCC had cumulative program costs of about \$6.5 billion, or about 48 percent of their total cost of \$13.5 billion, if they were terminated. Past operations of the programs had incurred high costs because CCC had provided a large amount of guarantees to high-risk countries, such as Iraq and the former Soviet Union. Because the additional costs of increasing loan guarantee exposure to current participants or adding new participants would be high and because program officials could not give us estimates of meaningful benefits that would accrue from increased expenditures, we believe that the Congress might wish to consider whether to limit future program cost increases. (GAO/GGD-93-45)

In October 1993, we reported on our examination of how the National Advisory Council on International Monetary and Financial Policies (NAC) had advised USDA on its agricultural export guarantee programs for Iraq. We concluded that (1) NAC's voting procedures and use of approval letters had left no publicly available record of dissent on issues raised by NAC; (2) while USDA had represented NAC review as a financial analysis, it could not be construed as such; and (3) NAC's role had been diminished after decisions regarding Iraq and NAC had not been consulted by the Bush administration before it announced guarantees to the former Soviet Union. We recommended that the Assistant to the President for Economic Policy,



as head of staff of the National Economic Council, evaluate the usefulness of the NAC review process and generally assess the need for NAC. We also recommended that, if NAC were retained, the Secretary of the Treasury, as its chair, develop a method for conveying NAC views that would include the full range of concerns raised by its members. (GAO/GGD-94-24)

In March 1994, we reported on efforts to increase the international coordination and quality of bank supervision worldwide. We found that, although a committee of the Bank for International Settlements (BIS) had established recognized standards that had led to improved bank supervision and regulation, recent banking problems had demonstrated the need for better adherence to those standards. The BIS committee had no legal authority to compel adherence, and few members wanted to give it more authority. Therefore, we recommended that the Chair of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Chair of the Federal Deposit Insurance Corporation seek an expanded role for the committee to ensure better adherence without the imposition of a new legal framework or interference with the sovereignty of national regulators. (GAO/GGD-94-68)

In May 1994, we reported on U.S. competitors' use of tied aid and the effects on U.S. exports. "Tied aid" is foreign assistance linked to the purchase of exports from the country extending the assistance. We found that the United States, which historically has opposed trade-distorting tied aid, had negotiated to establish successively stronger international agreements to restrict it. It remained difficult, however, to identify projects receiving trade-distorting aid from other countries—chiefly capital projects as opposed to basic human needs aid—in time for U.S. firms to bid on them. In addition, the U.S. Export-Import Bank maintains a "war chest" (the equivalent to other countries' tied aid funds). But the Bank uses the war chest primarily to police a 1992 international agreement on the use of tied aid, and it is not available to U.S. firms to counter other nations' tied aid activities. We therefore recommended that the Secretary of Commerce, as TPCC chair, work with other TPCC members to ensure that the budget was sufficient for countering other nations' trade-distorting tied aid when U.S. economic interests were adversely affected. (GAO/GGD-94-81)

**Related Products With  
Open Recommendations:  
International Trade,  
Finance, and  
Competitiveness**

**Product Title**

**Agricultural Loan Guarantees: National Advisory Council's Critical Views on Loans to Iraq Withheld (GAO/GGD-94-24)**

**Border Management: Dual Management Structure at Entry Ports Should End (GAO/T-GGD-94-34)**

**Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215)**

**Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123)**

**Export Controls: Issues In Removing Militarily Sensitive Items From the Munitions List (GAO/NSIAD-93-67)**

**Export Promotion: Federal Efforts to Increase Exports of Renewable Energy Technologies (GAO/GGD-93-29)**

**Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49)**

**Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77)**

**Federal Research: Lessons Learned From SEMATECH (GAO/RCED-92-283)**

**Foreign Direct Investment: Assessment of Commerce's Annual Report and Data Improvement Efforts (GAO/NSIAD-92-107)**

**General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains (Volume 1) (GAO/GGD-94-83A)**

**International Banking: Strengthening the Framework for Supervising International Banks (GAO/GGD-94-68)**

**International Trade: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65)**

**International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125)**

**International Trade: Competitors' Tied Aid Practices Affect U.S. Exports (GAO/GGD-94-81)**

**Loan Guarantees: Export Credit Guarantee Programs' Costs are High (GAO/GGD-93-45)**

**Measuring U.S.-Canada Trade: Shifting Trade Winds May Threaten Recent Progress (GAO/GGD-94-4)**

**Metric Conversion: Future Progress Depends Upon Private Sector and Public Support (GAO/RCED-94-23)**

**Nuclear Nonproliferation: Better Controls Needed Over Weapons-Related Information and Technology (GAO/RCED-89-116)**

**Nuclear Nonproliferation: DOE Needs Better Controls to Identify Contractors Having Foreign Interests (GAO/RCED-91-83)**

**Technology Transfer: Barriers Limit Royalty Sharing's Effectiveness (GAO/RCED-93-6)**

**Technology Transfer: Improving the Use of Cooperative R&D Agreements at DOE's Contractor-Operated Laboratories (GAO/RCED-94-91)**

---

## Military Operations and Capabilities Issue Area (Budget Function 050)

GAO Contact: Mark E. Gebicke, 202/512-5140

---

### Impact of GAO's Work

The Department of Defense (DOD) faces many personnel and mobilization issues as it downsizes and pursues new strategies for maintaining the readiness of its active, reserve, and National Guard forces.

During fiscal year 1994, we reported on personnel and mobilization issues that had surfaced during Operations Desert Shield and Desert Storm, explored efficiencies that DOD might achieve as it downsizes (including more efficient use of mobility assets), and identified ways to improve inventory management. We also continued work related to gender and racial compositions and students' treatment at the service academies; assessed the status of war reserve, afloat, and land prepositioned materials; and evaluated service training programs, including pilot training.

As new areas of focus, we examined DOD's systems for capturing data signaling impending changes in readiness and began to measure trends in personnel staffing and operational tempo as key readiness indicators. We also began to examine DOD's actions to prepare for joint operations by assessing joint training programs.

Both DOD and the Congress have taken actions to correct some of the reported deficiencies and to capitalize on new opportunities for improved efficiency and effectiveness in military operations. For example, to improve inventory management, DOD adopted recommended procedural changes that should enable it to reduce inventories and better use commercial sources. These actions should result in several hundred million dollars in savings. DOD, the Office of Management and Budget, and the administration issued new policies and regulations concerning government employees' use of DOD's 89th Military Airlift Wing aircraft.

DOD also (1) issued additional guidance to the services on its recycling program to ensure compliance with program requirements and DOD policies and to curb abuses; (2) initiated a construction program to improve mobilization by rail from Fort Campbell, Kentucky; (3) increased its oversight of the service academies and, as a result, improved its

capacity to identify and assess racial and gender disparities; and (4) decided to lease, sell, or grant to foreign countries its fast frigates, including eight reserve frigate trainer ships. DOD took the latter action in response to our recommendation that the reserve frigate trainer ship program be canceled because of its high cost and the changed security threat.

The Congress has been especially receptive to our recommendations and has included several provisions directly related to our findings and recommendations in defense program authorization legislation. For example, in fiscal year 1994, the Congress (1) reduced the services' budget requests by about \$600 million on the basis of our annual review of DOD's operation and maintenance budget requests; (2) extended DOD's authorization to offer financial incentives for personnel leaving the government because of downsizing; and (3) required DOD to reduce its operation and maintenance account by \$50 million and to reimburse this account with \$30 million from its morale, welfare, and recreation account. The Congress took the latter action as a result of our finding that the services had overcharged personnel for transit lodging and then inappropriately diverted these funds to the recreational account.

In our review of the services' fiscal year 1995 operation and maintenance budget requests, we identified \$4.5 billion of potential budget reductions. Although DOD maintained that any reduction to its operation and maintenance requests would adversely affect the readiness of the forces, over \$2.7 billion of our proposed reductions related to accounts that do not directly affect force readiness. For example, the services included in their budget requests (1) funds for training that they could not realistically use and were planned for transfer to base operations; (2) funds that they did not expect to receive because of anticipated congressional reductions; and (3) funds for civilian personnel when, in fact, the number of civilian personnel on board at the time of the budget submission was already below the planned level for the end of fiscal year 1995. The Congress used our work extensively and reduced the services' requests by over \$1.2 billion. (GAO/NSIAD-94-246BR)

In response to our recommendations, the Congress, through its fiscal year 1995 defense authorization legislation, has required DOD to take other actions. For example, because of our concerns about the readiness of South Korean forces to meet their ground defense mission, the Congress is requiring DOD to report on this issue by January 1995. Also, because we concluded that DOD had been lax in overseeing the services'

---

implementation of its medical and physical fitness programs for reservists, the Congress now requires DOD to separate military personnel with medical conditions that would preclude their being assigned worldwide. This provision should enhance readiness and improve DOD's flexibility in deploying reserve military personnel.

---

Key Open  
Recommendations

In September 1994, we recommended that DOD extend the service lives of the C-5 and C-141 airlifters by (1) using commercial and tanker aircraft whenever possible for routine scheduled cargo deliveries, (2) increasing the use of flight simulators for local proficiency pilot training, and (3) adopting a companion trainer aircraft program that included using far less expensive aircraft to fulfill some pilot flying-hour requirements. A reduction in the amount of flying hours during which the C-5 and C-141 are used in peacetime would extend the aircraft's service lives and protect their unique capabilities for military emergencies. (GAO/NSIAD-94-222)

As noted above, the Congress has acted to require DOD to separate reserve military personnel who cannot be deployed on a worldwide basis because of permanent medical conditions. But DOD has been less receptive to our recommendations aimed at improved testing of the physical fitness of reserve personnel. DOD needs to act on these other recommendations to ensure that reserve personnel are physically fit to perform their military duties. Gaining assurance that reserve forces are physically fit is particularly important in view of the problems DOD faced with nondeployable reserve personnel during the Gulf War and DOD's increasing reliance on reserve forces for critical missions. (GAO/NSIAD-94-36)

---

Related Products With  
Open Recommendations:  
Military Operations and  
Capabilities

Product Title

Aerial Refueling Initiative: Cross-Service Analysis Needed to Determine Best Approach (GAO/NSIAD-93-186)

Air Force Academy: Gender and Racial Disparities (GAO/NSIAD-93-244)

Air Force Depot Maintenance: Status of Safety Initiatives (GAO/NSIAD-94-37)

**Air Force Logistics: Improved Backorder Validation Procedures Will Save Millions (GAO/NSIAD-94-103)**

**Air Force Training: Delaying Pilot Training Could Avert Unnecessary Costs (GAO/NSIAD-94-38)**

**Army Housing: Overcharges for On-Base Lodging Have Not Been Repaid (GAO/NSIAD-93-188)**

**Army Inventory: Changes to Stock Funding Reparables Would Save Operations and Maintenance Funds (GAO/NSIAD-94-131)**

**Army Inventory: More Effective Review of Proposed Inventory Buys Could Reduce Unneeded Procurement (GAO/NSIAD-94-130)**

**Army Inventory: Unfilled War Reserve Requirements Could Be Met With Items From Other Inventory (GAO/NSIAD-94-207)**

**Army Maintenance: Strategy Needed to Integrate Military and Civilian Personnel Into Wartime Plans (GAO/NSIAD-93-95)**

**Army Training: Commanders Lack Guidance and Training for Effective Use of Simulations (GAO/NSIAD-93-211)**

**Army Training: Expenditures for Troop Schools Have Not Been Justified (GAO/NSIAD-93-172)**

**Army Training: Longstanding Control Problems Hinder the CAPSTONE Program (GAO/NSIAD-92-261)**

**Contract Maintenance: Improvements Needed in Air Force Management of Interim Contractor Support (GAO/NSIAD-92-233)**

**Department of Defense: Widespread Abuse in Recycling Program Increases Funds for Recreation Activities (GAO/NSIAD-94-40)**

**Household Goods: Administrative Changes Would Improve DOD's Do-It-Yourself Moving Program (GAO/NSIAD-94-226)**

**Household Goods: Competition Among Commercial Movers Serving DOD Can Be Improved (GAO/NSIAD-90-50)**

**Military Aircraft: Policies on Government Officials' Use of 89th Military Airlift Wing Aircraft (GAO/NSIAD-92-133)**

**Navy Housing: Transient Lodging Operations Need Effective Management Control (GAO/NSIAD-92-27)**

**Navy Maintenance: Improved Labor Estimates Can Reduce Shipyard Costs (GAO/NSIAD-93-199)**

**Navy Supply: Improved Material Management Can Reduce Shipyard Costs (GAO/NSIAD-94-181)**

**Operation Desert Shield: Problems in Deploying by Rail Need Attention (GAO/NSIAD-93-30)**

**Operation Desert Storm: An Assessment of Aerial Refueling Operational Efficiency (GAO/NSIAD-94-68)**

**Operation Desert Storm: Army Not Adequately Prepared to Deal With Depleted Uranium Contamination (GAO/NSIAD-93-90)**

**Operation Desert Storm: Full Army Medical Capability Not Achieved (GAO/NSIAD-92-175)**

**Operation Desert Storm: Limits on the Role and Performance of B-52 Bombers in Conventional Conflicts (GAO/NSIAD-93-138)**

**Operation Desert Storm: Questions Remain on Possible Exposure to Reproductive Toxicants (GAO/PEMD-94-30)**

**Reserve Forces: DOD Policies Do Not Ensure That Personnel Meet Medical and Physical Fitness Standards (GAO/NSIAD-94-36)**

**Simulation Training: Management Framework Improved, but Challenges Remain (GAO/NSIAD-93-122)**

**Strategic Airlift: Further Efforts Can Be Taken to Extend Aircraft Service Life (GAO/NSIAD-94-222)**



---

## National Security Analysis Issue Area (Budget Function 050)

GAO Contact: Richard A. Davis, 202/512-3504

---

### Impact of GAO's Work

The Department of Defense (DOD) faces many critical issues as the nation begins to build and support a smaller, yet effective, fighting force that can respond to post-Cold War national security needs. DOD's forces must be restructured in an environment of tight budgets and new and different threats. DOD must overcome diverse obstacles as it seeks the right balance. Our reports and testimonies have been used extensively by the Congress in its oversight of budget, force structure, peacekeeping, modernization, and intelligence issues.

We helped the Congress evaluate the DOD budget process and the reasonableness of the future years defense plan (FYDP). For example, we examined the major funding assumptions underlying DOD's fiscal years 1995-1999 FYDP and concluded that a substantial amount of cost risk associated with the FYDP had resulted in overprogramming in excess of \$150 billion. In April, we testified on a number of alternatives to Navy programs that we believe could effectively protect national security at a significantly lower cost. These alternatives include using less costly means to provide an overseas presence, using existing aircraft and missiles for deep attack, and changing shipbuilding industrial base-related decisions. In addition, we reviewed the Marine Corps' tank requirements and determined that the overall military capability would be enhanced if the Army transferred tanks to the Marine Corps instead of the National Guard as planned.

We helped the Congress evaluate DOD's downsizing plans by analyzing the assumptions underlying force structure decisions and assessing alternative ways to accomplish missions. For example, we reviewed the basis for the planned size and composition of U.S. military forces in Europe by the end of fiscal year 1996 and the major military capabilities that will be affected by force reductions in Europe. We concluded that a restructuring of Army forces that reduced heavy divisions might be appropriate given the changes in Europe and other considerations. We also reported to the Congress that a dedicated force might no longer be needed to fulfill the continental air defense mission to detect and intercept Soviet bombers attacking North America.

Our reviews of peacekeeping issues have contributed to congressional debates on how these types of operations affect DOD's planned military operations and resources. For example, we reported on the cost of DOD operations in Somalia and reimbursements received from the United Nations for support provided to that organization and other nations. We also reported on the withdrawal of U.S. troops from Somalia and equipment left behind for use by the United Nations and the financial arrangements made to pay for this equipment. Since these types of operations can have a major impact on DOD's annual spending plans, we reported on options for paying for peacekeeping operations.

We have provided information to the Congress on modernization of weapon systems. For example, we reviewed the development of the Navy's V-22 tilt-rotor aircraft and concluded that the contractor had experienced difficulty resolving deficiencies that had affected the aircraft's operation and safety. Also, we concluded that the development schedule and cost would more than double the original estimate and that performance levels would be less than anticipated. In addition, we testified about the Navy's inability to afford some of its modernization programs and offered more affordable alternatives for the F-14 upgrades, SSN (nuclear-powered attack submarine) force structure, and the Tomahawk missile. We reviewed DOD's acquisition regulations to determine whether they permitted classification of the F/A-18E/F program as a major modification rather than a new program and determined that the regulations allowed management discretion in these matters.

Though much of our work in the intelligence arena cannot be discussed in this report, we have assisted the Congress in its decisionmaking on intelligence issues. For example, we identified problems involving law enforcement agencies' support to the EMERALD counterdrug program, which led the Congress to restrict funding in the 1995 Defense Authorization Act until the Secretary of Defense reported that progress had been made. In addition, our report on DOD linguist training is leading to changes in the way linguists are provided proficiency pay and improvements in linguists' training.

---

Key Open  
Recommendations

We made several recommendations to the Secretary of Defense to overcome the agency's budgetary and force structure problems.

We recommended that he direct the Secretary of the Navy to terminate the MK-48 advanced capability propulsion system upgrade program.  
(GAO/NSIAD-92-191)

We recommended also that the Secretary of Defense not approve the Air Force's continental air defense plan unless it was modified to (1) eliminate or sharply reduce the dedicated air defense force and (2) reassign the air defense mission to active and reserve general purpose and training units.  
(GAO/NSIAD-94-76)

Furthermore, we recommended that the Secretary of Defense direct the Special Operations Command and the military services to consistently use and apply the Joint Publication 3-05 definitions of "items" and "services" peculiar to special operations. (GAO/NSIAD-94-105)

Finally, we recommended that, to the extent that future defense plans permitted a change in the Army's active and reserve force mix, the Secretary of the Army consider restructuring one or more of the latest deploying National Guard combat divisions to provide additional personnel spaces to (1) round out active divisions at the battalion and company levels and (2) add reserve support units to the Army's force.  
(GAO/NSIAD-93-80)

---

## Related Products With Open Recommendations: National Security Analysis

### Product Title

Air Force Fighters: More Reliance on Reserves Increases the Need to Know Their Capabilities (GAO/NSIAD-94-86)

Army Force Structure: Future Reserve Roles Shaped by New Strategy, Base Force Mandates, and Gulf War (GAO/NSIAD-93-80)

Army Reserve Forces: Process for Identifying Units for Inactivation Could Be Improved (GAO/NSIAD-93-145)

Continental Air Defense: A Dedicated Force Is No Longer Needed  
(GAO/NSIAD-94-76)

**DOD Training: Many DOD Linguists Do Not Meet Minimum Proficiency Standards (GAO/NSIAD-94-191)**

**Future Years Defense Program: Optimistic Estimates Lead to Billions in Overprogramming (GAO/NSIAD-94-210)**

**NATO Nuclear Bases: U.S. Should Seek Needs Reassessment and Increased Alliance Contributions (GAO/NSIAD-94-84)**

**Navy Carrier Battle Groups: The Structure and Affordability of the Future Force (GAO/NSIAD-93-74)**

**Navy Torpedo Program: MK-48 ADCAP Propulsion System Upgrade Not Needed (GAO/NSIAD-92-191)**

**Roles and Functions: Assessment of the Chairman of the Joint Chiefs of Staff Report (GAO/NSIAD-93-200)**

**Special Operations Forces: Force Structure and Readiness Issues (GAO/NSIAD-94-105)**

**U.S. Corps of Engineers: Better Management Needed for Mobilization Support (GAO/NSIAD-93-116)**

**Warfighting Capability: Some Army Tanks Should Be Transferred to the Marine Corps (GAO/NSIAD-94-93)**

---

## Systems Development and Production Issue Area (Budget Function 050)

GAO Contact: Louis J. Rodrigues, 202/512-4841

---

### Impact of GAO's Work

The military services' technologically advanced weapon systems have been viewed as a major factor in the success of the U.S. armed forces. This technological superiority was consistently emphasized as the strength that the United States needed to meet the numerically superior Warsaw Pact forces. The need to maintain this edge even after the collapse of the Soviet Union and the dissolution of the Warsaw Pact has been a constant theme of the military services and the Department of Defense (DOD). But the long-range cost of acquiring the advanced systems that the services believe are needed is staggering—especially as defense budgets continue to shrink. DOD is proposing to spend several hundred billion dollars through the 1990s on developing and procuring weapon systems and related items.

In response to congressional interest in reducing unneeded expenditures, we have continued our evaluations of the requirements for and the economy, the efficiency, and the effectiveness of planned acquisitions of major air; sea; ground; space; missile; electronic warfare; and command, control, communication, and intelligence systems. In addition, to assist the Appropriations and Armed Services Committees, we have conducted specific budget analyses that have resulted in \$3.4 billion of reductions in the fiscal year 1995 and prior years' procurement and research, development, test, and evaluation budgets.

We provided information during congressional deliberations on a proposal to extend the production capability for the B-2 and identified over \$90 million in program savings that could be achieved by reducing planned military construction. The Air Force agreed with our suggestions and took actions to achieve these savings. We also determined that the F-22 aircraft was being developed faster than the threat justified. The Congress agreed and reduced the F-22 budget \$163 million. In addition, we found that DOD could save up to \$10.7 billion by buying a mixed fleet of C-17 aircraft and commercial freighters.

We have continued our work on military satellite communications and have expanded our efforts to include other aspects of DOD space programs.

Our work has resulted in budget reductions of about \$100 million in space programs.

We have also continued our work on missiles, providing information and recommending improvements in the management of the acquisition of a number of systems, including the Tri-Service Standoff Attack Missile, the Theater High Altitude Area Defense System, and the Advanced Cruise Missile.

---

**Key Open  
Recommendations**

In August 1993, we reported on the Army's planned procurement of medium tactical trucks—the 2-1/2-ton and 5-ton payload class trucks. In the original plan, the Army was to replace over 120,000 trucks over 15 years at a cost of over \$17 billion. We concluded that the plan to stretch out the procurement over 30 years was not practical. We recommended that the Secretary of the Army not proceed with full-rate production of the medium tactical vehicles until a reassessment was complete. The Army is now planning to update its cost and operational effectiveness analysis (COEA) for the medium truck program and perform a full program assessment during fiscal year 1996. (GAO/NSIAD-93-232)

From our analysis of the C-17 COEA, we determined that DOD could achieve significant savings through acquisition of a mixed fleet of C-17 aircraft and commercial freighters rather than the planned purchase of 120 C-17s. We recommended that the Congress not fund additional C-17s until the Air Force determined how many C-17s it needed to fulfill militarily unique missions. (GAO/NSIAD-94-209)

Our work on unmanned aerial vehicles identified significant performance deficiencies, inadequate testing, and an unwillingness to defer production decisions. We recommended that obligational authority be restricted to prevent the premature expenditure of funds. We estimated that adopting this recommendation could save almost \$90 million in the near term and, that if testing indicated that the program should be canceled, \$2 billion could be saved. (GAO/NSIAD-94-65)

In our work on battlefield automation, we found that the Army had not redefined its requirements for its forward area defense (FAAD) command, control, and intelligence system to reflect changes in the threat and in the FAAD weapon systems—two of four had been canceled and one was not to be produced after fiscal year 1995. We recommended that the Army defer production until it updated the requirement and selected the best solution

---

on the basis of a COEA of the options for satisfying that requirement.  
(GAO/NSIAD-94-213)

---

**Related Products With  
Open Recommendations:  
Systems Development and  
Production**

**Product Title**

**Airlift Requirements: Commercial Freighters Can Help Meet Requirements at Greatly Reduced Costs (GAO/NSIAD-94-209)**

**Antiarmor Weapons Acquisitions: Assessments Needed to Support Continued Need and Long-Term Affordability (GAO/NSIAD-93-49)**

**Army Acquisition: Medium Truck Program Is Not Practical and Needs Reassessment (GAO/NSIAD-93-232)**

**B-2 Bomber: Assessment of DOD's Response to Mandated Certifications and Reports (GAO/NSIAD-94-75)**

**B-2 Bomber: Cost to Complete 20 Aircraft Is Uncertain (GAO/NSIAD-94-217)**

**Battlefield Automation: Requirements Need to Be Updated Before the Air Defense System Is Produced (GAO/NSIAD-94-213)**

**Comanche Helicopter: Program Needs Reassessment Due to Increased Unit Cost and Other Factors (GAO/NSIAD-92-204)**

**Defense Support Program: Ground Station Upgrades Not Based on Validated Requirements (GAO/NSIAD-93-148)**

**Drug Control: Communications Network Funding and Requirements Uncertain (GAO/NSIAD-92-29)**

**Drug Control: Inadequate Guidance Results in Duplicate Intelligence Production Efforts (GAO/NSIAD-92-153)**

**Electronic Warfare: Laser Warning System Production Should Be Limited (GAO/NSIAD-93-14)**

**Military Airlift: C-17 Settlement Is Not a Good Deal (GAO/NSIAD-94-141)**

**Military Satellite Communications: DOD Needs to Review Requirements and Strengthen Leasing Practices (GAO/NSIAD-94-48)**

**Missile Development: TSSAM Production Should Not Be Started as Planned (GAO/NSIAD-94-52)**

**Navy Shipbuilding: Allegations of Mischarging at Bath Iron Works (GAO/NSIAD-91-85)**

**Tactical Aircraft: F-15 Replacement Is Premature as Currently Planned (GAO/NSIAD-94-118)**

**Tactical Intelligence: Army Needs to Reconsider and Test All-Source Analysis System Alternative (GAO/NSIAD-94-49)**

**Trident II: Reductions to MK-6 Guidance System Inventory Objectives May Be Possible (GAO/NSIAD-94-192)**

**Undersea Surveillance: Navy Continues to Build Ships Designed for Soviet Threat (GAO/NSIAD-93-53)**

**Unmanned Aerial Vehicles: Performance of Short-Range System Still in Question (GAO/NSIAD-94-65)**



# Improving Resources, Community, and Economic Development Programs

---

## Energy and Science Issue Area (Budget Function 270)

GAO Contact: Victor S. Rezendes, 202/512-3841

---

### Impact of GAO's Work

With an annual budget of \$18.5 billion and a capital investment of \$30 billion in laboratories, such as Lawrence Livermore and Los Alamos, originally created and operated to work on the nation's critical defense mission, the Department of Energy's (DOE) focus has turned toward new goals—fueling a competitive economy, improving the environment through waste management and pollution prevention, and reducing the nuclear danger. Critical to DOE's success, however, will be its ability to change its mission and realign its human resources, as well as to institute better management practices, including controls over its many contractors, to enable DOE and its laboratories to operate more efficiently and effectively.

Our work continued to help the Congress address and propose actions to deal with these and related issues.

We consistently recommended ways to improve DOE's management and oversight of its contractors, which operate DOE's nuclear weapons complex and other facilities at a cost of over \$16 billion a year. Our recommendations ranged from identifying better ways to administer the contractor performance award fee process to reducing the number of nonstandard contract clauses (which have allowed contractors to virtually ignore DOE direction). In June 1993, in response, in part, to our audit findings, the Secretary of Energy established a Contract Reform Team to evaluate DOE's contracting practices and formulate specific proposals for improving them. As a result, some of the boldest and most broad sweeping changes in DOE's history are about to be approved.

Also, savings of close to \$450 million in fiscal years 1993 and 1994 resulted from our recommendation to improve controls over funds obligated to major contractors. Relatedly, we recommended that DOE eliminate unneeded "prefinancing" funds maintained by contractors to ensure that operations continued in the event of a funding lapse. In response, DOE virtually eliminated the \$218 million of prefinancing funds.

And, as a result of issues we raised during congressional hearings, DOE (1) developed and implemented universal cost criteria to prevent unnecessary outside litigation expenses, (2) developed an agencywide

audit function to ensure that outside legal bills were properly reviewed and costs reimbursed by DOE were reasonable, and (3) initiated efforts to consolidate many third-party class action suits against present and former contractors. These actions will result in DOE savings of at least \$5 million to \$7 million a year, projected to be tens of millions of dollars over the life of these cases.

We continued to review the broad range of technical and managerial issues critical to the successful and safe cleanup of the nuclear weapons complex. For example, we recommended that DOE consider alternatives for preparing mixed-waste treatment plans and compliance orders required by the Federal Facility Compliance Act. We also addressed the issue of protecting the safety and the health of cleanup workers and of those living near DOE facilities through reviews of DOE's Environment, Safety, and Health Office. Specifically, we recommended improvements in programs for analyzing data about workers' health and workplace exposures, as well as overseeing nuclear safety performance at DOE facilities.

Beginning in 1991, we issued several reports questioning DOE's priorities in its program for disposing of highly radioactive waste. Our work helped elevate questions about the pace and the direction of the program to the attention of the Congress, the administration, and the parties interested in program progress and should contribute to legislative changes expected in the next Congress. Examples of our findings include the following:

- Although DOE was spending tens of millions of dollars on efforts to begin accepting and storing nuclear waste in 1998, it is unlikely that DOE would have a facility available to store waste until after the turn of the century. The funds used for these activities could have been more productively used on the investigation of the candidate repository site at Yucca Mountain, Nevada.
- DOE spent only a small percentage of funds for the program directly on the scientific investigation of Yucca Mountain. Most funds allotted to this project were used to develop and maintain a large infrastructure of contractors, facilities, and equipment.

Our work also assisted the Congress in other specific ways. For example, our testimony contributed to the congressional debate on several key issues involved in reauthorizing the Energy Policy and Conservation Act, including (1) readiness and expansion issues related to the Strategic

Petroleum Reserve, (2) the evolving mission and role of the International Energy Agency, and (3) opportunities to increase revenue from Naval Petroleum Reserve oil sales. Our work also alerted the Congress that the Superconducting Super Collider was over budget and behind schedule and would cost more than \$11 billion. The Congress later voted to terminate the project.

On the science and technology front, our work identifying abuses in charges for indirect, or overhead, costs by universities involved in federally sponsored research led to savings totaling about \$220 million for fiscal years 1993 and 1994. In addition, the National Science Foundation and the National Institutes of Health implemented our recommendations to better manage potential conflicts of interest at universities and other organizations carrying out federal research.

---

## Key Open Recommendations

### Energy Plan

In April 1993, we reported that it was an opportune time for the Congress to consider strengthening national energy planning. DOE had long struggled to develop a comprehensive energy plan but is now working on such a plan, which will link domestic and international issues and deal with both energy use and environmental concerns under the theme of "Sustainable Development." The plan is expected to be completed by April 1995.  
(GAO/RCED-93-29)

### Information Resources Management

In September 1992, we recommended that DOE, among other things, more closely link its information resources management (IRM) planning with strategic mission planning; give managers more authority to plan for their information needs on a departmentwide basis; and identify IRM activities as a material internal control weakness, under the Federal Managers' Financial Integrity Act, until IRM resources were being applied efficiently and were applied in accordance with laws, regulations, and policies. On the basis of a Contract Reform Team recommendation, DOE is exploring ways to achieve an integrated management information system.  
(GAO/IMTEC-92-53)

### Pension Fund Payments

In August 1994, we reported that DOE could not recover unneeded payments made to the University of California pension plan for employees at the three national laboratories managed by the university. Alternatives, such as plan termination, however, would allow recovery of surplus

pension funds. We recommended that DOE evaluate the advantages and the disadvantages for all alternatives and take action to recover these funds if it were to the government's advantage. We recommended also that DOE review ongoing contracts and revise them as necessary to ensure that DOE approval was needed for changes to the pension benefits and DOE's contribution was limited to that needed to maintain an equilibrium between assets and liabilities. DOE had not responded to our recommendation as of late September 1994. (GAO/RCED-94-201)

#### Property Management

In March 1994, we found that more than \$12 million in equipment was missing from DOE's Rocky Flats Plant. We recommended that DOE take various actions to improve property management at the plant, including ensuring that the property-tracking data base was accurate and complete and that property retirements were proper. DOE has begun taking steps to implement the recommendations; additional time will be required to determine if these steps will be adequate, however. (GAO/RCED-94-77)

#### Hanford Tank Waste Program

In March 1993, we recommended that DOE postpone construction of the Hanford vitrification plant and renegotiate the Tri-Party Agreement with the state of Washington and the Environmental Protection Agency (EPA) to establish a more realistic program schedule. In addition, we recommended that DOE develop life-cycle cost estimates for the program and report these to the Congress. DOE agreed with these recommendations and, in January 1994, successfully renegotiated a new Tri-Party Agreement, which, among other things, established a comprehensive program for managing and disposing of Hanford's high- and low-level radioactive waste. DOE also is developing a plan for life-cycle cost estimates, which are expected to be the basis for future annual appropriation requests. (GAO/RCED-93-99)

#### Contractor Indemnification

In July 1993, we recommended that DOE develop a consistent policy for indemnifying its contractors against liabilities that could arise from the cleanup of the nation's nuclear weapons complex and that the policy reflect existing statutory requirements for indemnifying Superfund cleanup contractors. DOE concurred in these recommendations and has taken action. DOE's Contract Reform Team report, issued in February 1994, contains action items that will address these recommendations. Actions to implement these action items are to be completed in early 1995. (GAO/RCED-93-167)

#### Safety and Health Oversight

In May 1993, we recommended that DOE take various steps to strengthen a key headquarters program that maintained representatives at DOE sites to independently monitor field office and contractor performance in

protecting workers' safety and health. In response, DOE reinstituted the program's coverage of occupational health, started hiring actions aimed at doubling the size of the program, established minimum training requirements for the site representatives, and greatly increased the amount of time the site representatives spend observing work practices in DOE facilities. DOE has also begun to act on our remaining recommendations, which call for development of procedures to strengthen the program. (GAO/RCED-93-85)

#### Mixed-Waste Management

In May 1994, we recommended that DOE consider and implement, if appropriate, alternative strategies for complying with the Federal Facility Compliance Act that could improve the likelihood that DOE, the states, and EPA would complete mixed-waste treatment plans and enter into compliance orders before the act's October 1995 deadline. We recommended that these alternatives include preparing treatment plans for well-characterized mixed-waste streams and beginning negotiations on these plans with the states and EPA before preparing treatment plans for streams that were not well-characterized. (GAO/RCED-94-179)

#### Worker Health Protection

In December 1993, we recommended that DOE take actions to better manage its Health Surveillance Program, which is designed to analyze data about workers' health and workplace exposures in order to prevent work-related illnesses. In response, DOE took steps to correct data collection problems. DOE is reorganizing the program and is delaying the development of an implementation plan until the data collection problems have been implemented. (GAO/RCED-94-47)

#### Nuclear Safety Oversight

In June 1994, we recommended that DOE take steps to increase the authority, the independence, and the staffing of its office responsible for independent oversight of nuclear safety and enforcement of nuclear safety standards at the department's facilities. DOE agreed with this recommendation. To date, the agency has drafted a reorganization plan aimed at maintaining the independence of this office's oversight functions and has started to hire more oversight staff. (GAO/RCED-94-129)

#### Metric Conversion

In January 1994, we reported that the federal government by itself could not achieve the goal of metric conversion and that future progress depended upon private sector and public support. We therefore recommended that the Secretary of Commerce, as head of the lead agency for metric conversion, explore ways for bringing together the government, the private sector, and the public to discuss the next steps in decisionmaking about metric conversion. We recommended also that, to

assist in this effort, the Secretary prepare and implement a detailed plan for encouraging this broader national dialogue. In response, the Department of Commerce has prepared a draft Metric Conversion Initiative. The draft plan focuses on developing closer links between the federal government and three industry sectors to be used as models in forging links with additional sectors. Funding limitations may prevent the implementation of the whole plan. (GAO/RCED-94-23)

#### Technology Transfer

In July 1994, we recommended that DOE review its strategy and policy for entering into a "cooperative R&D [research and development] agreement" (CRADA) and, in this connection, establish a visiting committee composed of industry, academic, and government agencies to study and report on ways to improve the selection and the funding of CRADAs. In response, the Secretary of Energy has directed the Energy Advisory Board to examine DOE's CRADA implementation process and suggest improvements. (GAO/RCED-94-91)

---

#### Related Products With Open Recommendations: Energy and Science

##### Product Title

Alternative-Fueled Vehicles: Progress Made in Accelerating Federal Purchases, but Benefits and Costs Remain Uncertain (GAO/RCED-94-161)

Biotechnology: Managing the Risks of Field Testing Genetically Engineered Organisms (GAO/RCED-88-27)

Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53)

Department of Energy: Cleaning Up Inactive Facilities Will Be Difficult (GAO/RCED-93-149)

Department of Energy: Management Changes Needed to Expand Use of Innovative Cleanup Technologies (GAO/RCED-94-205)

Department of Energy: The Property Management System at the Rocky Flats Plant Is Inadequate (GAO/RCED-94-77)

DOE Management: Better Planning Needed to Correct Records Management Problems (GAO/RCED-92-88)

DOE Management: Consistent Cleanup Indemnification Policy Is Needed (GAO/RCED-93-167)

DOE Management: Contract Provisions Do Not Protect DOE From Unnecessary Pension Costs (GAO/RCED-94-201)

DOE Management: Funds for Maintaining Contractors' Operations Could Be Reduced and Better Controlled (GAO/RCED-94-27)

DOE Management: Impediments to Environmental Restoration Management Contracting (GAO/RCED-92-244)

DOE's Property Management (GAO/RCED-94-249R)

Drug Abuse Research: Federal Funding and Future Needs (GAO/PEMD-92-5)

Electricity Regulation: Factors Affecting the Processing of Electric Power Applications (GAO/RCED-93-168)

Energy Conservation: Appliance Standards and Labeling Programs Can Be Improved (GAO/RCED-93-102)

Energy Information: Department of Energy Security Program Needs Effective Information Systems (GAO/IMTEC-92-10)

Energy Management: Additional Uncosted Balances Could Be Used to Meet Future Budget Needs (GAO/RCED-94-26)

Energy Management: Controls Over the Livermore Laboratory's Indirect Costs Are Inadequate (GAO/RCED-94-34)

Energy Management: Department of Energy's Efforts to Manage Overtime Costs Have Been Limited (GAO/RCED-94-282)

Energy Management: Inadequate DOE Monitoring of Contractors' Acquisitions From Affiliates (GAO/RCED-94-83)

Energy Management: Modest Reforms Made in University of California Contracts, but Fees Are Substantially Higher (GAO/RCED-94-202)

**Energy Management: Payments in Lieu of Taxes for DOE Property May Need to Be Reassessed (GAO/RCED-94-204)**

**Energy Policy: Changes Needed to Make National Energy Planning More Useful (GAO/RCED-93-29)**

**Federal Research: Additional Funds for Terminating the Super Collider Are Not Justified (GAO/RCED-94-153)**

**Federal Research: Lessons Learned From SEMATECH (GAO/RCED-92-283)**

**Financial Management: Energy's Material Financial Management Weaknesses Require Corrective Action (GAO/AIMD-93-29)**

**Foreign Technology: Collection and Dissemination of Japanese Information Can Be Improved (GAO/NSIAD-93-251)**

**Fossil Fuels: Improvements Needed in DOE's Clean Coal Technology Program (GAO/RCED-92-17)**

**Fossil Fuels: Ways to Strengthen Controls Over Clean Coal Technology Project Costs (GAO/RCED-93-104)**

**Geothermal Energy: Outlook Limited for Some Uses but Promising for Geothermal Heat Pumps (GAO/RCED-94-84)**

**Health and Safety: DOE's Implementation of a Comprehensive Health Surveillance Program Is Slow (GAO/RCED-94-47)**

**High Performance Computing: Advanced Research Projects Agency Should Do More to Foster Program Goals (GAO/IMTEC-93-24)**

**Medical Technology: For Some Cardiac Pacemaker Leads, the Public Health Risks Are Still High (GAO/PEMD-92-20)**

**Metric Conversion: Future Progress Depends Upon Private Sector and Public Support (GAO/RCED-94-23)**

**NASA Aeronautics: Impact of Technology Transfer Activities Is Uncertain (GAO/NSIAD-93-137)**



**National Science Foundation: Better Use of Existing Resources Could Improve Program Administration (GAO/RCED-94-95)**

**Natural Gas: Factors Affecting Approval Times for Construction of Natural Gas Pipelines (GAO/RCED-92-100)**

**Natural Gas: FERC's Compliance and Enforcement Programs Could Be Further Enhanced (GAO/RCED-93-122)**

**Naval Petroleum Reserve: Limited Opportunities Exist to Increase Revenues From Oil Sales in California (GAO/RCED-94-126)**

**Nuclear Cleanup: Completion of Standards and Effectiveness of Land Use Planning Are Uncertain (GAO/RCED-94-144)**

**Nuclear Health and Safety: Consensus on Acceptable Radiation Risk to the Public Is Lacking (GAO/RCED-94-190)**

**Nuclear Health and Safety: More Can Be Done to Better Control Environmental Restoration Costs (GAO/RCED-92-71)**

**Nuclear Nonproliferation and Safety: Challenges Facing the International Atomic Energy Agency (GAO/NSIAD/RCED-93-284)**

**Nuclear Nonproliferation: Better Controls Needed Over Weapons-Related Information and Technology (GAO/RCED-89-116)**

**Nuclear Nonproliferation: Concerns With U.S. Delays in Accepting Foreign Research Reactors' Spent Fuel (GAO/RCED-94-119)**

**Nuclear Nonproliferation: DOE Needs Better Controls to Identify Contractors Having Foreign Interests (GAO/RCED-91-83)**

**Nuclear Regulation: Action Needed to Control Radioactive Contamination at Sewage Treatment Plants (GAO/RCED-94-133)**

**Nuclear Regulation: Better Criteria and Data Would Help Ensure Safety of Nuclear Materials (GAO/RCED-93-90)**

**Nuclear Regulation: NRC's Decommissioning Procedures and Criteria Need to Be Strengthened (GAO/RCED-89-119)**

**Nuclear Safety: Unresolved Issues Could Impair DOE's Oversight Effectiveness (GAO/RCED-94-129)**

**Nuclear Science: More Planning Needed to Support Future Needs for Electric Power in Space (GAO/RCED-94-6)**

**Nuclear Security: Safeguards and Security Planning at DOE Facilities Incomplete (GAO/RCED-93-14)**

**Nuclear Waste: Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65)**

**Nuclear Waste: Hanford Tank Waste Program Needs Cost, Schedule, and Management Changes (GAO/RCED-93-99)**

**Nuclear Waste: Hanford's Well-Drilling Costs Can Be Reduced (GAO/RCED-93-71)**

**Nuclear Waste: Improvements Needed in Monitoring Contaminants in Hanford Soils (GAO/RCED-92-149)**

**Nuclear Waste: Much Effort Needed to Meet Federal Facility Compliance Act's Requirements (GAO/RCED-94-179)**

**Nuclear Waste: Operation of Monitored Retrievable Storage Facility Is Unlikely by 1998 (GAO/RCED-91-194)**

**Nuclear Waste: Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165)**

**Nuclear Waste: Yucca Mountain Project Behind Schedule and Facing Major Scientific Uncertainties (GAO/RCED-93-124)**

**Nuclear Weapons: Safety, Technical, and Manpower Issues Slow DOE's Disassembly Efforts (GAO/RCED-94-9)**

**Offshore Oil and Gas Resources: Interior Can Improve Its Management of Lease Abandonment (GAO/RCED-94-82)**

**Peer Review: Reforms Needed to Ensure Fairness in Federal Agency Grant Selection (GAO/PEMD-94-1)**

**Personnel Security: Efforts by DOD and DOE to Eliminate Duplicative Background Investigations (GAO/RCED-93-23)**

**Precollege Math and Science Education: Department of Energy's Precollege Program Managed Ineffectively (GAO/HEHS-94-208)**

**Radioactive Waste: EPA Standards Delayed by Low Priority and Coordination Problems (GAO/RCED-93-126)**

**Safety and Health: Key Independent Oversight Program at DOE Needs Strengthening (GAO/RCED-93-85)**

**Technology Development: Future Use of NASA's Large Format Camera Is Uncertain (GAO/NSIAD-90-142)**

**Technology Transfer: Barriers Limit Royalty Sharing's Effectiveness (GAO/RCED-93-6)**

**Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers (GAO/RCED-92-30)**

**Technology Transfer: Improving the Use of Cooperative R&D Agreements at DOE's Contractor-Operated Laboratories (GAO/RCED-94-91)**

**Trans-Alaska Pipeline: Regulators Have Not Ensured That Government Requirements Are Being Met (GAO/RCED-91-89)**

**University Research: Controlling Inappropriate Access to Federally Funded Research Results (GAO/RCED-92-104)**

---

## Environmental Protection Issue Area (Budget Function 270)

GAO Contact: Peter G. Guerrero, 202/512-6111

---

### Impact of GAO's Work

Environmental regulation significantly affects the nation's economy, costing upwards of \$115 billion annually, and directly touches the lives of all citizens. Although the Congress and the public have traditionally supported strong environmental protection laws, the rising costs of environmental protection programs to state and local governments, in the face of dwindling federal financial assistance, has caused environmental protection programs to be identified as "unfunded mandates." Industry's compliance costs are also rising. But, by far, the largest growth in environmental costs will be for the federal government itself. Between fiscal years 1989 and 1995, the Department of Defense's and the Department of Energy's federal facilities' cleanup and compliance costs tripled from \$2.9 billion to \$8.7 billion and currently exceed the Environmental Protection Agency's (EPA) entire budget.

Our work was in the forefront in highlighting the nation's recurring environmental problems and recommending ways in which the Congress and EPA could effectively address them. We continued to recommend that EPA, to seek a more realistic balance between environmental expectations and available resources, incorporate strategic planning to help ensure that its limited resources were targeted to high-risk environmental and public health problems. We recommended also that the agency, so that program success could be better measured, develop performance indicators based on environmental outcomes rather than activities taken by the agency. In addition, we made some recommendations to address problems in the Superfund contract management and settlement areas. Finally, our work over the past several years stressed to EPA and the Congress the need to adequately fund programs addressing high risks to the public and to adopt more cost-effective methods of achieving environmental results through alternatives and supplements to traditional regulatory approaches, such as pollutant trading, public disclosure of emissions, and pollution prevention.

EPA has started to implement these key recommendations—several of which will require years to fully put in place—and the agency and the Congress appear increasingly open to alternatives to traditional regulatory approaches as the key environmental statutes go through the reauthorization process.

---

## Key Open Recommendations

### Air Quality

Our work highlighted the visibility problems brought by air pollution to our national parks and wilderness areas. A significant amount of this pollution originates from regional sources for which EPA has not issued regulations or initiated other control measures. We recommended that EPA, to remedy this situation, develop a strategy for addressing visibility impairment caused by regional sources. After our report was issued, EPA announced its intention to issue, in early 1996, regional haze regulations to protect visibility in national parks and wilderness areas. (GAO/T-RCED-94-102)

The Clean Air Act Amendments of 1990 (1) required states to significantly revise their state implementation plans (SIP), the key documents setting forth their strategies and schedules for improving air quality, and (2) established deadlines for the states' submission and EPA's approval of the revisions. We found that, despite efforts by EPA and the Congress to address longstanding problems, delays continued in the states' submission and EPA's review and approval of SIPs. We recommended a number of actions to EPA to address these delays; EPA agreed with our recommendations and has a number of initiatives under way to implement them. (GAO/RCED-93-113)

Given the priorities of federal agencies other than EPA that have roles in addressing indoor air pollution and the increasing competition for limited funding, we recommended that the Congress consider giving these agencies more specific mandates. Since our report, the Congress has considered, but has not yet passed, such legislation. (GAO/RCED-92-8)

### Water Quality

Several of our reports highlighted serious shortcomings in EPA's drinking water protection program. In 1990, we reported that many water systems, particularly small systems, had violated monitoring requirements and drinking water standards and that enforcement actions had done little to stop violators or increase compliance. In 1992 and 1993, we reported funding shortages at the federal, state, and other levels to correct these problems and disparities between EPA's low funding and the high health and environmental risks from drinking water contamination.

Because small communities' financial problems are particularly acute, this year we reported on cost-effective management and technology alternatives that could be used to improve these communities' compliance with drinking water regulations. One option holding particular promise is

the restructuring of systems, such as consolidating nonviable small systems with viable ones. We recommended that EPA, among other things, (1) work with the cognizant committees of the Congress to develop a detailed funding strategy to accompany the EPA proposed requirement that states develop viability programs for small systems and (2) revise drinking water program requirements to place greater emphasis on developing and implementing viability programs.

In response, EPA has (1) worked with the Congress to address funding for the development of viability programs (such as establishment of user fees), (2) recommended to the Congress that the Safe Drinking Water Act be amended to require that viability be a condition of delegating authority to states for managing drinking water programs, and (3) agreed to make viability program development a priority following reauthorization of the act. The Congress is considering these issues but has not yet enacted legislation. (GAO/RCED-94-40)

Also, EPA made limited progress in developing water quality criteria—the technical information that states consider in adopting water quality standards and setting pollutant limits in facilities' discharge permits. We recommended that EPA, to ensure that it was focusing its limited resources on the most important elements of water criteria development, prepare an implementation plan identifying its top priorities and the bases for them and establishing a timetable for addressing them. We recommended also that EPA regularly solicit input from interested parties when the implementation plan was being developed and when specific regulatory actions were being considered. EPA agreed that it should prepare an implementation plan setting priorities but wished to have the Congress direct the agency (through amendments to the Clean Water Act) to develop such a plan and to require EPA to solicit input from interested parties. (GAO/RCED-94-117)

## Pesticides and Toxic Substances

In 1972, EPA was given the formidable task of reassessing all older pesticides on the basis of current scientific standards, including those pertaining to cancer, reproductive disorders, and birth defects. Disappointed with EPA's progress, the Congress, in 1988, provided funds for additional resources and mandated that the reassessment be essentially completed by 1998. Our review of the program disclosed that despite increased progress, EPA might not complete this process until 2006. More importantly, EPA did not assess the high-risk pesticides—those used in high volumes or on food—and they will continue to be used until a risk assessment is completed.

We recommended that the Congress amend the Federal Insecticide, Fungicide, and Rodenticide Act to require that, except in unusual circumstances, EPA focus on completing reregistration of the highest priority food-use pesticides first. (GAO/RCED-93-94)

EPA, in the past, assumed low exposure to lawn care pesticides but now is concerned that they may persist in the environment, resulting in higher exposure. We recommended that before reregistering these pesticides, EPA fully explore the health effects of such exposure. Although EPA is reviewing the health effects of lawn care pesticides, it is using methods developed for assessing health effects of postapplication exposure to agricultural workers. These methods may not be sufficient for assessing direct contact exposure (e.g., children playing, rolling, and lying on lawns). (GAO/RCED-93-80)

Our work also showed that about one-third of pesticide-tainted shipments of imported food had ended up on grocery shelves. We reported similar findings in 1979 and again in 1986. We recommended that the Food and Drug Administration take stronger prevention actions, including targeting repeat offenders for penalties, applying more stringent control over suspect shipments, and using its program resources more effectively. We recommended that, to better achieve this, the Congress authorize the agency to pursue civil penalties against violators. The Congress has considered, but has not yet enacted, such legislation. (GAO/RCED-92-205)

We recently made a number of recommendations to help strengthen EPA's ability to regulate chemicals. We asked the Congress to consider, among other things, (1) allowing the Toxic Substances Control Act to be used in preference to other laws, when appropriate, and establishing a framework for taking action that was less burdensome for EPA; (2) requiring industry to submit additional data on new chemicals and shifting to industry some of the burden for compiling data on existing chemicals; and (3) giving states access to confidential data and limit confidentiality claims. (GAO/RCED-94-103)

## Hazardous and Solid Waste Management

The Congress, in 1976, tried to encourage new markets for recovered materials by directing federal agencies to purchase items composed of such materials. Our work disclosed, however, that the agencies had made little progress. Although the President issued an executive order in 1993 providing additional direction to federal agencies, we believe that it would be useful for the Congress to clarify agencies' authority to give products

containing recovered materials price preferences while avoiding unreasonable prices. (GAO/RCED-93-58)

EPA's 1992 data showed that owners and operators of hazardous waste treatment, storage, and disposal facilities had begun cleaning up only 5 percent of the more than 3,400 sites that were potentially threatening human health and the environment and that EPA had scarce resources to oversee the cleanup. EPA began a new cleanup approach, called stabilization, that more quickly mitigates the threats from waste facilities. We recommended that EPA ensure that the agency had a management information system to capture data to measure the effectiveness of the new initiative to stabilize contamination at facilities. Although EPA now has data management tools in place that enable it to determine when facilities have become stabilized, the agency still lacks the means to identify all cases where only some stabilization actions have been taken. EPA plans to address this problem in the future. (GAO/RCED-93-15)

## Hazardous Waste Cleanup

Debate over the Superfund program's reauthorization comes at a time when cost estimates to clean up the nation's hazardous waste problem are growing at an alarming rate. The Congressional Budget Office has projected that ultimately the nation could need \$75 billion to clean up a total of 4,500 Superfund sites. EPA recovered only a limited portion of its costs from parties responsible for the problem. In part, because of limitations on the interest and indirect costs EPA can recover, the agency has a low rate of recovery for Superfund expenditures. Because of these limitations, EPA, through 1993, excluded from its recovery efforts about \$3.3 billion of its program-related costs.

We, therefore, recommended that the Congress encourage cost-recovery efforts by authorizing EPA to apply market rates to, and accrue interest on, its expenditures earlier in the process and by requiring EPA to more broadly define which costs were recoverable. The Congress considered but has not yet enacted an amendment to the reauthorization bill that would implement our recommendations. (GAO/T-RCED-94-274)

## Information Resources Management

We recommended that, to improve the agency's management of information, EPA appoint a Chief Information Officer who would report to the Administrator, have full-time information resources management (IRM) responsibilities, and could effectively influence IRM investments at all levels to meet agency goals. (GAO/AIMD-93-8)



We recommended also that EPA, to strengthen its overall ability to accomplish its cross-media mission, complete the agency's IRM strategy and plan and coordinate and budget for cross-media information resources and activities. (GAO/IMTEC-92-14)

We recommended further that EPA conform with generally accepted IRM practices for developing automated systems supporting its Office of Pesticide programs. (GAO/IMTEC-93-5)

---

## Related Products With Open Recommendations: Environmental Protection

### Product Title

Air Pollution: Difficulties in Implementing a National Air Permit Program  
(GAO/RCED-93-59)

Air Pollution: Regional Approaches Are Needed to Protect Visibility in  
National Parks and Wilderness Areas (GAO/T-RCED-94-102)

Air Pollution: State Planning Requirements Will Continue to Challenge EPA  
and the States (GAO/RCED-93-113)

Air Pollution: Unresolved Issues May Hamper Success of EPA's Proposed  
Emissions Program (GAO/RCED-92-288)

Coast Guard: Coordination and Planning for National Oil Spill Response  
(GAO/RCED-91-212)

Coast Guard: Program to Inspect Intermodal Containers Carrying  
Hazardous Materials Can Be Improved (GAO/RCED-94-139)

Coastal Barriers: Development Occurring Despite Prohibition Against  
Federal Assistance (GAO/RCED-92-115)

Department of Defense: Widespread Abuse in Recycling Program  
Increases Funds for Recreation Activities (GAO/NSIAD-94-40)

Department of Energy: Cleaning Up Inactive Facilities Will Be Difficult  
(GAO/RCED-93-149)

**Department of Energy: Management Changes Needed to Expand Use of Innovative Cleanup Technologies (GAO/RCED-94-205)**

**Disinfectants: EPA Lacks Assurance They Work (GAO/RCED-90-139)**

**DOE Management: Consistent Cleanup Indemnification Policy Is Needed (GAO/RCED-93-167)**

**DOE Management: Impediments to Environmental Restoration Management Contracting (GAO/RCED-92-244)**

**Drinking Water: Consumers Often Not Well-Informed of Potentially Serious Violations (GAO/RCED-92-135)**

**Drinking Water: Inadequate Regulation of Home Treatment Units Leaves Consumers at Risk (GAO/RCED-92-34)**

**Drinking Water: Key Quality Assurance Program Is Flawed and Underfunded (GAO/RCED-93-97)**

**Drinking Water: Projects That May Damage Sole Source Aquifers Are Not Always Identified (GAO/RCED-93-4)**

**Drinking Water: Safeguards Are Not Preventing Contamination From Injected Oil and Gas Wastes (GAO/RCED-89-97)**

**Drinking Water: Stronger Efforts Essential for Small Communities to Comply with Standards (GAO/RCED-94-40)**

**Electricity Regulation: Factors Affecting the Processing of Electric Power Applications (GAO/RCED-93-168)**

**Environmental Cleanup: Inconsistent Sharing Arrangements May Increase Defense Costs (GAO/NSIAD-94-231)**

**Environmental Cleanup: Observations on Consistency of Reimbursements to DOD Contractors (GAO/NSIAD-93-77)**

**Environmental Cleanup: Too Many High Priority Sites Impede DOD's Program (GAO/NSIAD-94-133)**

**Environmental Enforcement: EPA Cannot Ensure the Accuracy of Self-Reported Compliance Monitoring Data (GAO/RCED-93-21)**

**Environmental Enforcement: EPA Needs a Better Strategy to Manage Its Cross-Media Information (GAO/IMTEC-92-14)**

**Environmental Enforcement: Penalties May Not Recover Economic Benefits Gained by Violators (GAO/RCED-91-166)**

**Environmental Protection Agency: Plans in Limbo for Consolidated Headquarters Space (GAO/GGD-93-84)**

**Environmental Protection Agency: Protecting Human Health and the Environment Through Improved Management (GAO/RCED-88-101)**

**Environmental Protection: EPA's Plans to Improve Longstanding Information Resources Management Problems (GAO/AIMD-93-8)**

**Environmental Regulation: Differences Remain Between EPA and OMB Over Paperwork Requirements (GAO/RCED-94-254)**

**EPA Toxic Substances Program: Longstanding Information Planning Problems Must Be Addressed (GAO/AIMD-94-25)**

**Federal Facilities: Agencies Slow to Define the Scope and Cost of Hazardous Waste Site Cleanups (GAO/RCED-94-73)**

**Financial Audit: EPA's Financial Statements for Fiscal Years 1988 and 1987 (GAO/AFMD-90-20)**

**Fossil Fuels: Improvements Needed in DOE's Clean Coal Technology Program (GAO/RCED-92-17)**

**Fossil Fuels: Ways to Strengthen Controls Over Clean Coal Technology Project Costs (GAO/RCED-93-104)**

**Hazardous Materials: Upgrading of Underground Storage Tanks Can Be Improved to Avoid Costly Cleanups (GAO/NSIAD-92-117)**

**Hazardous Waste: Data Management Problems Delay EPA's Assessment of Minimization Efforts (GAO/RCED-91-131)**

**Hazardous Waste Exports: Data Quality and Collection Problems Weaken EPA Enforcement Activities (GAO/PEMD-93-24)**

**Hazardous Waste: Impediments Delay Timely Closing and Cleanup of Facilities (GAO/RCED-92-84)**

**Hazardous Waste: Issues Pertaining to an Incinerator in East Liverpool, Ohio (GAO/RCED-94-101)**

**Hazardous Waste: Management Problems Continue at Overseas Military Bases (GAO/NSIAD-91-231)**

**Hazardous Waste: Much Work Remains to Accelerate Facility Cleanups (GAO/RCED-93-15)**

**Hazardous Waste: U.S. and Mexican Management of Hazardous Waste From Maquiladoras Hampered by Lack of Information (GAO/T-RCED-92-22)**

**Highway Planning: Agencies Are Attempting to Expedite Environmental Reviews, but Barriers Remain (GAO/RCED-94-211)**

**Indoor Air Pollution: Federal Efforts Are Not Effectively Addressing a Growing Problem (GAO/RCED-92-8)**

**International Environment: Improved Procedures Needed for Environmental Assessments of U.S. Actions Abroad (GAO/RCED-94-55)**

**International Environment: Strengthening the Implementation of Environmental Agreements (GAO/RCED-92-188)**

**Lawn Care Pesticides: Reregistration Falls Further Behind and Exposure Effects Are Uncertain (GAO/RCED-93-80)**

**Lead-Based Paint Poisoning: Children in Public Housing Are Not Adequately Protected (GAO/RCED-93-138)**

**Lead-Based Paint Poisoning: Children in Section 8 Tenant-Based Housing Are Not Adequately Protected (GAO/RCED-94-137)**

**Medical Waste Regulation: Health and Environmental Risks Need to Be Fully Assessed (GAO/RCED-90-86)**

**Natural Resources Restoration: Use of Exxon Valdez Oil Spill Settlement Funds (GAO/RCED-93-206BR)**

**Nonagricultural Pesticides: Risks and Regulation (GAO/RCED-86-97)**

**Nuclear Health and Safety: More Can Be Done to Better Control Environmental Restoration Costs (GAO/RCED-92-71)**

**Nuclear Regulation: Action Needed to Control Radioactive Contamination at Sewage Treatment Plants (GAO/RCED-94-133)**

**Nuclear Waste: Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65)**

**Nuclear Waste: Improvements Needed in Monitoring Contaminants in Hanford Soils (GAO/RCED-92-149)**

**Nuclear Waste: Much Effort Needed to Meet Federal Facility Compliance Act's Requirements (GAO/RCED-94-179)**

**Nuclear Waste: Operation of Monitored Retrievable Storage Facility Is Unlikely by 1998 (GAO/RCED-91-194)**

**Nuclear Waste: Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165)**

**Ozone-Depleting Chemicals: Increased Priority Needed If DOD Is to Eliminate Their Use (GAO/NSIAD-92-21)**

**Peer Review: EPA Needs Implementation Procedures and Additional Controls (GAO/RCED-94-89)**

**Pesticide Monitoring: FDA's Automated Import Information System Is Incomplete (GAO/RCED-92-42)**

**Pesticides: A Comparative Study of Industrialized Nations' Regulatory Systems (GAO/PEMD-93-17)**

**Pesticides: Adulterated Imported Foods Are Reaching U.S. Grocery Shelves (GAO/RCED-92-205)**

**Pesticides: EPA's Formidable Task to Assess and Regulate Their Risks**  
(GAO/RCED-86-125)

**Pesticides: Food Consumption Data of Little Value to Estimate Some Exposures** (GAO/RCED-91-125)

**Pesticides: Information Systems Improvements Essential for EPA's Reregistration Efforts** (GAO/IMTEC-93-5)

**Pesticides: Issues Concerning Pesticides Used in the Great Lakes Watershed** (GAO/RCED-93-128)

**Pesticides: Limited Testing Finds Few Exported Unregistered Pesticide Violations on Imported Food** (GAO/RCED-94-1)

**Pesticides: Need to Enhance FDA's Ability to Protect the Public From Illegal Residues** (GAO/RCED-87-7)

**Pesticides on Farms: Limited Capability Exists to Monitor Occupational Illnesses and Injuries** (GAO/PEMD-94-6)

**Pesticides: Pesticide Reregistration May Not Be Completed Until 2006**  
(GAO/RCED-93-94)

**Pollution Prevention: EPA Should Reexamine the Objectives and Sustainability of State Programs** (GAO/PEMD-94-8)

**Radioactive Waste: EPA Standards Delayed by Low Priority and Coordination Problems** (GAO/RCED-93-126)

**Radon Testing in Federal Buildings Needs Improvement and HUD's Radon Policy Needs Strengthening** (GAO/T-RCED-91-48)

**Solid Waste: Federal Program to Buy Products With Recovered Materials Proceeds Slowly** (GAO/RCED-93-58)

**Superfund: Cleanups Nearing Completion Indicate Future Challenges**  
(GAO/RCED-93-188)

**Superfund: EPA Cost Estimates Are Not Reliable or Timely** (GAO/AFMD-92-40)

**Superfund: EPA Has Opportunities to Increase Recoveries of Costs**  
(GAO/RCED-94-196)

**Superfund: EPA's Community Relations Efforts Could Be More Effective**  
(GAO/RCED-94-156)

**Superfund: Further EPA Management Action Is Needed to Reduce Legal Expenses** (GAO/RCED-94-90)

**Superfund: Improved Reviews and Guidance Could Reduce Inconsistencies in Risk Assessments** (GAO/RCED-94-220)

**Superfund: Problems With the Completeness and Consistency of Site Cleanup Plans** (GAO/RCED-92-138)

**Superfund: Reauthorization and Prioritization Issues** (GAO/T-RCED-94-274)

**Superfund: Status, Cost, and Timeliness of Hazardous Waste Site Cleanups**  
(GAO/RCED-94-256)

**Sustainable Agriculture: Program Management Accomplishments and Opportunities** (GAO/RCED-92-233)

**Toxic Chemicals: EPA's Toxic Release Inventory Is Useful but Can Be Improved** (GAO/RCED-91-121)

**Toxic Substances Control Act: Legislative Changes Could Make the Act More Effective** (GAO/RCED-94-103)

**Toxic Substances: EPA Needs More Reliable Source Reduction Data and Progress Measures** (GAO/RCED-94-93)

**Toxic Substances: Status of EPA's Efforts to Develop Lead Hazard Standards** (GAO/RCED-94-114)

**Water Pollution: EPA Needs to Set Priorities for Water Quality Criteria Issues** (GAO/RCED-94-117)

**Water Pollution: Pollutant Trading Could Reduce Compliance Costs If Uncertainties Are Resolved** (GAO/RCED-92-153)

**Water Pollution: Poor Quality Assurance and Limited Pollutant Coverage Undermine EPA's Control of Toxic Substances (GAO/PEMD-94-9)**

**Water Pollution: State Revolving Funds Insufficient to Meet Wastewater Treatment Needs (GAO/RCED-92-35)**

**Wetlands: The Corps of Engineers' Administration of the Section 404 Program (GAO/RCED-88-110)**

**Workplace Accommodation: EPA's Alternative Workspace Process Requires Greater Managerial Oversight (GAO/GGD-92-53)**



---

## Food and Agriculture Issue Area (Budget Function 350)

GAO Contact: John W. Harman, 202/512-5138

---

### Impact of GAO's Work

With the third largest civilian agency budget in the federal government, the U.S. Department of Agriculture (USDA) affects the lives of all Americans and millions of people around the world. USDA oversees a food and agriculture sector of major importance to the nation's economy, accounting for 17 percent of the gross national product, 20 million jobs, and 10 percent of export dollars. To carry out its missions in 1993, USDA spent about \$63 billion. USDA controlled assets of about \$140 billion and employed about 130,000 employees in about 15,000 locations worldwide.

In 1994, congressional committees used our work extensively and, partly on the basis of our recommendations, USDA made a number of program changes that resulted in more effective use of federal food and agriculture funds.

### USDA Management

One of our major efforts over the past 4 years was participating in the ongoing congressional and administration efforts to reinvent government. Our management review of USDA and followup work contributed to helping the administration frame the debate for reforming, streamlining, and reinventing USDA and, more specifically, to the Secretary's proposals to create a single farm service agency and significantly reduce the field office structure. Our work contributed to the Congress enacting legislation to restructure USDA.

### Farm Programs

Our analyses of farm program flexibility provisions adopted in the 1990 farm bill contributed to a \$1 billion annual savings. Our work contributed to the Congress eliminating price supports for wool, mohair, and honey, which will save taxpayers over \$200 million a year. Our analysis of the Farmers Home Administration's (FmHA) farm loan programs warned the Congress that billions of federal dollars were at risk if current lending practices continued. As a result of our analyses of the crop insurance and disaster assistance programs, improvements were made to both programs, which will save taxpayers about \$100 million annually. Our work also contributed to recent congressional action to integrate both programs, which will save \$1.3 billion over the next 2 years.

### Agriculture Markets

Analyses of milk-pricing mechanisms, the livestock markets, and the safety and the quality of agriculture products and food resulted in

proposed legislation and agency actions to improve the overall equity of the markets and attention to the need to reform the fragmented food inspection system. Our analyses of the federal food safety inspection system found that it was inconsistent, inefficient, and ineffective. We advised the Congress that after nearly a century of piecemeal fixes, a major restructuring—a uniform, risk-based system—of the fragmented inspection system was needed.

---

## Key Open Recommendations

### Problems With USDA's Structures, Systems, and Mission

The 1994 USDA is largely the product of 1930s programs, structures, and management systems. It is an organizational behemoth that is ill-suited to confronting today's issues. A fundamental reevaluation and wholesale revamping is in order. The starting point in this reinvention process is consensus agreement on USDA's primary mission.

In a series of reports on USDA management, we noted structural problems that, if addressed, could lead to greater efficiency, effectiveness, and cost savings. A key issue is the independence of the major component agencies of USDA, each established in response to a separate legislative mandate. Because these agencies have historically established their own information, financial, and human resources management systems to address legislative mandates, efficiencies have not been achieved departmentwide. With these systems, the department is data rich but information poor, making it difficult for the Secretary to make informed decisions. Furthermore, weaknesses in financial management systems and internal and accounting controls substantially increase the risk of mismanagement, fraud, waste, and abuse in department programs.

Nowhere is the struggle to get a handle on the structural and management systems problems more apparent than in the operations of USDA's farm service agencies' field offices. Multiple agencies operate independent field offices all over the country, often right next door to each other. Weaknesses in information systems—different and incompatible hardware, software, telecommunications, and data bases—are important obstacles to any reform of the farm service agencies.

We made a number of recommendations specific to departmental structures and strategies that would result in needed improvement. We also recommended that farm agencies' field structure be given a major

overhaul; management of cross-cutting agricultural issues be improved; management systems—financial, information, and human resources—be strengthened; and USDA be revitalized to meet new challenges and increased responsibilities in nutrition, international trade, and resource conservation issues.

Recent progress toward streamlining the USDA field structure is very encouraging, and cost savings should be significant. In October 1994, the Congress enacted legislation to restructure USDA. On December 6, 1994, USDA Secretary Mike Espy announced the closing of over 1,100 field offices and the consolidation of the remaining field offices into a single farm service agency. The Secretary plans to restructure USDA around 6 key missions, thereby reducing the number of agencies from 43 to 29.

Even with this restructuring and field office realignment, the fundamental problem remains: How to revitalize USDA so that it is efficient and effective into the 21st century. To achieve this goal, a thorough review of USDA's mission is necessary. The Congress and the administration need to develop a statement on USDA's mission. Once developed, the statement must be continually updated to address changing conditions and the Secretary will need to develop measurable departmental goals. (GAO/RCED-91-49, GAO/RCED-91-41, and GAO/RCED-91-9)

### Challenges Facing USDA in Shifting Farm Programs Toward More Market Orientation

USDA's commodity programs need to move toward a global market orientation. Our work focused on revamping the agricultural farm, export, and market development programs to help make them more competitive in the global marketplace. Our analyses of farm program flexibility provisions adopted in the 1990 farm bill contributed to \$900 million savings in 1992 and \$1.25 billion a year in fiscal years 1993-1995.

A reevaluation of USDA's support programs in several areas is needed because current subsidies provide incentives to serve relatively rigid government objectives rather than leverage flexible sector development of new products, services, and markets. Our analysis also shows that flex acres have generally had a positive impact on farmers' operations and are projected to reduce government spending. We recommended that the Congress reauthorize or expand the flex acres provisions in the 1995 farm bill. Although the Congress has made progress in eliminating some subsidy payments, changes are still needed to address our recommendations on the rice, dairy, sugar, and peanut programs. The rice program continues to be costly for the government and for rice buyers. Between 1986 and 1992, rice program support costs averaged \$863 million annually. We

recommended that the Congress consider ways to move rice producers toward greater market orientation and reduce their dependency on government support. The Congress could, among other things, lower the target price and reduce export assistance. To give producers time to adjust to these changes, the Congress could, for example, phase out payments over a number of years. (GAO/RCED-94-88)

In addition, the dairy industry is not taking full advantage of what could be an expanding international market. The federal price support programs are partly the reason why U.S. dairy products do not meet global market needs and their costs exceed world prices. We recommended the development of a long-range dairy policy that better recognized the importance of dairy exports for the continued viability of the U.S. dairy industry. (GAO/RCED-94-19)

We recommended also that the Congress consider legislation that would move the sugar industry toward a more open market. As part of this transition, the market price for sugar should be lowered. To facilitate this process, the Congress could gradually lower the loan rate for sugar and direct USDA to adjust import quotas accordingly. (GAO/RCED-93-84)

Finally, economic studies and our analysis show that the peanut program added \$314 million to \$513 million each year to consumers' costs of buying peanuts. At the same time, USDA spends tens of millions of dollars each year to run the peanut program, make mandatory payments to producers, and cover the high cost of peanut products it buys under various food assistance programs. Finally, the program, by boosting the volume of U.S. peanuts available for export, may be lowering prices paid for peanuts abroad. GAO has recommended that the Congress restructure the peanut support program to make it more responsive to market forces. The Congress should provide for a period of transition to allow producers to make adjustments to their investment decisions. (GAO/RCED-93-18)

## Problems Facing the Farmers Home Administration

FmHA<sup>1</sup> is not adequately protecting the multibillion dollar federal investment in farmer loan programs. In April 1992, we reported that, as of September 1990, more than two-thirds of the outstanding \$19.5 billion direct loan portfolio was at risk because it was held by delinquent borrowers or borrowers whose debts had been restructured in response to past repayment difficulties. This high level of risk existed even though FmHA had forgiven \$4.5 billion in direct loan debt during 1989 and 1990. By

---

<sup>1</sup>Within USDA, farm loans have been historically administered by FmHA. In October 1994, the responsibility was transferred to the newly created Consolidated Farm Service Agency.

June 1992, FmHA had forgiven an additional \$3.1 billion in direct loan obligations. As these large loan losses have accumulated, FmHA has evolved into a continuous source of subsidized credit for nearly half of its borrowers. Ironically, the financial condition of some of these borrowers has actually deteriorated because of repeated loan servicing, which has increased their debt and reduced their equity. As we reported in February 1994, problems with FmHA's portfolio and losses have continued.

A number of factors have contributed to FmHA's problems. Although some of these factors, such as the decline of the agricultural economy, are beyond the immediate control of either the Congress or FmHA, two are not. First, lending officials in FmHA's field offices often fail to follow agency standards for making loans, servicing loans, and managing property. For example, FmHA requires that a borrower's existing debts be verified during the approval process for direct loans. During the first three quarters of fiscal year 1992, however, FmHA internal reviews showed that debts had not been verified for 20 percent of the loans sampled.

Second, certain FmHA or congressionally authorized loan-making, loan-servicing, and property management policies themselves increase the agency's vulnerability to loss. More specifically:

- Borrowers who have defaulted on past loans are free to obtain new loans.
- Under a congressionally directed policy, borrowers may obtain new FmHA direct loans for operating expenses without demonstrating the ability to repay their existing debts.
- Private lenders may use guaranteed loans to refinance existing customers' debts, thereby shifting to the federal government most of the risk of their loans to financially stressed borrowers.
- The servicing policies of the Agricultural Credit Act of 1987 run counter to principles of sound financial management. The act allows debt write-down for borrowers whose loans are restructured and debt write-off for those whose loans do not qualify for restructuring. These policies have cost taxpayers billions of dollars over the last several years and provide incentives for farmers to default intentionally on their loans in order to qualify for debt reduction.
- Legislation requiring FmHA to sell acquired properties at fixed prices, rather than to the highest bidder, and to a selected group of potential purchasers,

often the previous owners, has limited FmHA's return on these properties and increased its holding costs.

We made numerous recommendations to the Congress and the Secretary of Agriculture aimed at (1) improving compliance with loan standards and (2) strengthening policies and program design for direct loans, guaranteed loans, and acquired farm property.

More broadly, we recommended that the Congress clarify FmHA's role and mission, noting that FmHA's attempts to operate simultaneously as a fiscally prudent lender and as a temporary assistance agency were not working. (GAO/RCED-93-28 and GAO/RCED-92-86)

## Problems Facing the Federal Food Safety System

The federal system to ensure the safety and the quality of the nation's food—at an annual cost of \$1 billion a year—is inefficient and outdated and does not adequately protect the consumer against food-borne illness. The food safety inspection system suffers from overlapping and duplicative inspections, poor coordination, inefficient allocation of resources, and outdated inspection procedures. As many as 12 different agencies administering over 35 different laws oversee food safety inspection.

The federal meat and poultry inspection system follows procedures that are no longer appropriate for today's food safety risks. The system relies on inspectors' sense of sight, smell, and touch to ensure wholesome products, but inspectors cannot see, smell, or feel microbial pathogens, which are widely regarded as the principal risk associated with meat and poultry. We recommended modernizing inspection procedures and tying resource allocations to health risks, including development of preventative systems that provide specific microbial testing standards. (GAO/RCED-94-110, GAO/RCED-93-142, and GAO/RCED-92-152)

The federal programs in place to ensure that foods are not contaminated with unsafe chemicals also need fundamental changes. Longstanding structural weaknesses continue to limit federal agencies' ability to reduce the risk of unsafe chemicals in food. Many of these problems are the result of the very laws and regulations that support the food safety system. (GAO/RCED-94-192 and GAO/RCED-94-158)

The effectiveness, the efficiency, and the uniformity in the federal food safety system could be improved by creating a single food safety agency to administer a uniform set of food safety laws based on the principle that

the objective of an inspection system is to protect the public from the most serious health risks, both microbial and chemical, associated with food-borne hazards. In 1994, we testified on the need for such an independent agency and the limitations of housing a food safety agency at USDA or the Food and Drug Administration. (GAO/RCED-94-192, GAO/RCED-94-158, GAO/RCED-94-110, GAO/RCED-93-142, and GAO/RCED-92-152)

## Problems Facing Rural America

Billions of federal dollars are spent every year for rural America, but these funds are not addressing the problems of rural areas in a coherent, responsive manner.

Our work in this area identified several basic problems in the federal approach to rural America. First, many rural federal assistance programs target agriculture, which is no longer the principal economic base of most rural communities. Second, many federal programs that could benefit rural communities do not because they require coordination of expertise and resources, which are often not available in rural communities. Third, federal programs do not adequately distinguish between communities of different population densities. And finally, federal programs focus on process rather than effectiveness—they tend to measure effectiveness by numbers served or dollars spent rather than achievement of program goals. This does not contribute to an efficient use of resources.

Many factors influence a rural area's economic success or failure and no single factor or combination can guarantee success, but effective local leadership and long-range planning are critical in solving an area's economic problems. In addition, the web of federal programs, policies, and regulations that accompanies federal funding makes the delivery of assistance inefficient. We recommended that the Congress consider (1) developing both short-and long-term strategies to improve federal assistance programs to rural areas and (2) establishing a permanent interagency executive committee to oversee and provide better delivery mechanisms for federal programs and services. (GAO/RCED-94-165 and GAO/RCED-92-197)

---

Related Products With  
Open Recommendations:  
Food and Agriculture

Product Title

Agriculture Payments: Effectiveness of Efforts to Reduce Farm Payments Has Been Limited (GAO/RCED-92-2)

Biotechnology: Managing the Risks of Field Testing Genetically Engineered Organisms (GAO/RCED-88-27)

Commodity Programs: Flex Acres Enhance Farm Operations and Market Orientation (GAO/RCED-94-76)

Commodity Programs: Should Farmers Grow Income-Supported Crops on Federal Land? (GAO/RCED-92-54)

Dairy Industry: Potential for and Barriers to Market Development (GAO/RCED-94-19)

Disaster Assistance: Problems in Administering Agriculture Payments (GAO/T-RCED-94-187)

Early Intervention: Federal Investments Like WIC Can Produce Savings (GAO/HRD-92-18)

Farmers Home Administration: Billions of Dollars in Farm Loans Are at Risk (GAO/RCED-92-86)

Farmers Home Administration: Final Resolution of Farm Loan or Servicing Appeals (GAO/RCED-93-28)

FDA Regulations: Sustained Management Attention Needed to Improve Timely Issuance (GAO/HRD-92-35)

Federal Dairy Programs: Insights Into Their Past Provide Perspectives on Their Future (GAO/RCED-90-88)

Food Nutrition: Better Guidance Needed to Improve Reliability of USDA's Food Composition Data (GAO/RCED-94-30)



**Food Safety and Quality: FDA Needs Stronger Controls Over the Approval Process for New Animal Drugs (GAO/RCED-92-63)**

**Food Safety and Quality: FDA Strategy Needed to Address Animal Drug Residues in Milk (GAO/RCED-92-209)**

**Food Safety and Quality: Innovative Strategies May Be Needed to Regulate New Food Technologies (GAO/RCED-93-142)**

**Food Safety and Quality: Uniform, Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152)**

**Food Safety and Quality: USDA Improves Inspection Program for Canadian Meat, but Some Concerns Remain (GAO/RCED-92-250)**

**Food Safety: Building a Scientific, Risk-Based Meat and Poultry Inspection System (GAO/T-RCED-93-22)**

**Food Safety: Changes Needed to Minimize Unsafe Chemicals in Food (GAO/RCED-94-192)**

**Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/RCED-94-110)**

**Food Safety: USDA's Role Under the National Residue Program Should Be Reevaluated (GAO/RCED-94-158)**

**Forest Service Needs to Improve Efforts to Protect the Government's Financial Interests and Reduce Below-Cost Timber Sales (GAO/T-RCED-91-42)**

**International Trade: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65)**

**Peanut Program: Changes Are Needed to Make the Program Responsive to Market Forces (GAO/RCED-93-18)**

**Pesticides: A Comparative Study of Industrialized Nations' Regulatory Systems (GAO/PEMD-93-17)**

**Pesticides: Adulterated Imported Foods Are Reaching U.S. Grocery Shelves (GAO/RCED-92-205)**

**Pesticides: Food Consumption Data of Little Value to Estimate Some Exposures (GAO/RCED-91-125)**

**Pesticides: Issues Concerning Pesticides Used in the Great Lakes Watershed (GAO/RCED-93-128)**

**Pesticides: Limited Testing Finds Few Exported Unregistered Pesticide Violations on Imported Food (GAO/RCED-94-1)**

**Pesticides: Need to Enhance FDA's Ability to Protect the Public From Illegal Residues (GAO/RCED-87-7)**

**Pesticides on Farms: Limited Capability Exists to Monitor Occupational Illnesses and Injuries (GAO/PEMD-94-6)**

**Pesticides: Pesticide Reregistration May Not Be Completed Until 2006 (GAO/RCED-93-94)**

**Rangeland Management: BLM Efforts to Prevent Unauthorized Livestock Grazing Need Strengthening (GAO/RCED-91-17)**

**Rice Program: Government Support Needs to Be Reassessed (GAO/RCED-94-88)**

**Rural Development Administration: Patterns of Use in the Business and Industry Loan Guarantee Program (GAO/RCED-92-197)**

**Rural Development: Patchwork of Federal Programs Needs to Be Reappraised (GAO/RCED-94-165)**

**Social Security: Need for Better Coordination of Food Stamp Services for Social Security Clients (GAO/HRD-92-92)**

**Soil and Wetlands Conservation: Soil Conservation Service Making Good Progress but Cultural Issues Need Attention (GAO/RCED-94-241)**

**Sugar Program: Changing Domestic and International Conditions Require Program Changes (GAO/RCED-93-84)**

**Sustainable Agriculture: Program Management Accomplishments and Opportunities (GAO/RCED-92-233)**

**Truck Transport: Little Is Known About Hauling Garbage and Food in the Same Vehicles (GAO/RCED-90-161)**

**USDA Restructuring: Refocus Info Share Program on Business Processes Rather Than Technology (GAO/AIMD-94-156)**

**U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9)**

**U.S. Department of Agriculture: Improving Management of Cross-Cutting Agricultural Issues (GAO/RCED-91-41)**

**U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19)**

**U.S. Department of Agriculture: Need for Improved Work Force Planning (GAO/RCED-90-97)**

**U.S. Department of Agriculture: Strengthening Management Systems to Support Secretarial Goals (GAO/RCED-91-49)**

---

## Housing and Community Development Issue Area (Budget Functions 370 and 450)

GAO Contact: Judy A. England-Joseph, 202/512-7631

---

### Impact of GAO's Work

Adequate affordable housing is a basic need of every American. Similarly, healthy, vibrant communities are the cornerstones of the nation's economic growth and social stability. Budget constraints at all levels of government, fragmented delivery systems, as well as a host of seemingly intractable social problems make the goals of providing decent, affordable housing and maintaining vital communities increasingly more difficult to achieve.

Various federal programs and agencies are involved in meeting housing and community development needs. For example, housing programs operated by the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), and the Farmers Home Administration (FmHA) combined to provide over \$560 billion in credit guarantees and insurance in FY 1993. Two government-sponsored enterprises (Freddie Mac and Fannie Mae) contribute by purchasing conventional, as well as some HUD mortgages and packaging them as guaranteed securities. These organizations held over \$1.3 trillion in securitized mortgages at the end of FY 1993. About \$4 billion in Community Development Block Grants (CDBG) are distributed annually to virtually every state and city, and the Small Business Administration's (SBA) \$26 billion loan portfolio provides capital to the nation's small businesses.

### Mortgage Assistance

We reviewed various issues concerning federal agencies' efforts to help low- and moderate-income individuals and families obtain housing through direct, insured, and guaranteed loans. This included work on programs operated by HUD, VA, and FmHA.

In the multifamily area, we continued work on impediments to disposition of properties owned by HUD. Because of these impediments, HUD became the landlord for a huge and growing inventory of properties—a role HUD was not adequately staffed to carry out. Our work contributed to development of new legislation that should increase HUD's flexibility in

disposing of HUD-owned properties. The Congressional Budget Office has estimated that the new legislation will result in \$410 million in savings from more rapid HUD multifamily property disposition.

We also reported on problems that had led to a shortage of mortgage financing for affordable multifamily housing, including (1) changes in federal policies and regulations on housing subsidies, taxation, and banking; (2) the poor performance of multifamily mortgages purchased or insured by major financial institutions; and (3) the lack of a reliable data base on the performance of affordable multifamily housing loans. The Federal Housing Administration (FHA) acted on our recommendation to enter into new risk-sharing arrangements with public and private financial institutions as a way to increase the availability of capital for multifamily mortgages.

In the single-family mortgage insurance area, we testified that FHA's insurance fund had made a substantial financial improvement recently. Legislative and other program changes helped restore its financial health, but favorable prevailing and forecasted economic conditions were primarily responsible for this improvement. We also reported on FHA borrowers' incomes, races, ages, and the locations of their homes over a 20-year period. We also provided key subcommittee staff advice on a proposed risk-sharing program, data and analysis on FHA's loan limits, and explanations of the impact of several loan-to-value changes during congressional deliberations on the reauthorization of the Housing and Community Development Act. Past work in the single-family mortgage area contributed to actions taken during the past year that resulted in a \$456 million reduction in VA's budget for excess housing subsidies and the imprisonment of a real estate developer, who was also ordered to pay \$500,000 in restitution.

We testified twice on FmHA's single-family direct loan program. We reported that centralizing FmHA's servicing activities presented an opportunity to demonstrate how reengineering a government process in a more businesslike way could improve service while cutting costs. We also reported that, because of a FmHA regulatory prohibition against refinancing single-family loans, FmHA customers had to pay higher rates than available to households in the private sector. FmHA has since agreed that it misinterpreted the legislation and plans to draft a new regulation which, under specified circumstances, will allow existing borrowers' note rates to be lowered.

## Low-Income Housing

Our work on low-income housing covered such issues as how to (1) improve living conditions in federally assisted properties, (2) protect children who live in section 8 tenant-based housing against lead-based paint poisoning, and (3) formulate more effective policies on federal homelessness assistance.

As part of our work on improving the effectiveness of rental assistance programs, we testified on deplorable conditions in rental properties receiving hundreds of thousands of dollars annually in federal subsidies. We discussed reasons for these conditions, including inadequate management information systems, longstanding problems in loan servicing, and certain legislative constraints. We also made recommendations aimed at addressing the poor conditions under which some families receiving assistance were living.

In addition, we reported on the effects of determining rent subsidy payments using smaller market areas. Such a change, we determined, would help assistance payments better reflect typically prevailing rent levels, but it might not be advantageous for various reasons.

We testified on a number of issues in housing and community development reauthorization legislation being considered by the House of Representatives. We discussed, among other things, actions that reduced the potential for defaults in three government-sponsored loan programs—HUD's insured multifamily loans, HUD-guaranteed CDBG loans, and FmHA's rural housing loans. We also discussed the benefits of merging HUD section 8 voucher and certificate programs but noted several key issues that could affect implementation of such a merger.

We continued our series of reports on lead-based paint hazards in federally assisted housing by reporting that visual inspections of section 8 tenant-based housing did not always identify lead hazards but that more rigorous testing was costly and could drive some landlords out of the program. Also, the section 8 tenant-based homes of children with elevated blood lead levels were not being tested, though required, and communication between local health agencies that tested children and housing agencies that inspected residences needed to be improved.

During the past year, we began to focus more closely on the nation's public housing and the efforts HUD could (and is) taking to "turn public housing around." For example, we testified that housing agencies needed greater flexibility in what they could do to rid themselves of their most

chronically vacant and deteriorated buildings. We reported that, in some cases, HUD was providing excessive subsidies and modernization funding to these buildings and that regulatory gridlock blocked housing agencies' ability to effectively deal with replacing or eliminating this obsolete housing. As a result of our work, legislation was proposed in the House that would grant housing agencies relief from the most restrictive regulations under certain circumstances.

We made a major addition to our body of work on assisting the homeless by comprehensively assessing the impact that federal McKinney Act programs had had in Baltimore, San Antonio, Seattle, and St. Louis. We identified what difference these programs had made in the cities' overall efforts to assist the homeless, identified problems the cities had experienced, and explored how the McKinney programs could better fill future service gaps anticipated in the cities' local strategies. Drawing on our work in these cities and the results of other national research studies, we identified key issues the Congress would have to face in formulating a more effective policy on federal homelessness assistance.

In response to our earlier report on barriers to using federally held foreclosed housing properties to assist the homeless, HUD proposed, and the Congress enacted, legislation that set clear policy for HUD on making multifamily properties available to homeless assistance organizations. This policy should make more multifamily properties available and help fill a need we had identified in our national survey of nonprofit homelessness assistance organizations.

## Community Development

Our community development work encompassed three types of federal help to strengthen and rebuild communities—(1) financial and other assistance to small business, (2) economic development, and (3) assistance to aid communities and individuals devastated by natural disasters.

In the small business area, we reported on three SBA efforts. First, we reported on the eligibility of firms receiving financial support from Specialized Small Business Investment Companies. This program aims to assist firms owned by socially or economically disadvantaged individuals. We reported that investment companies had not adequately established the eligibility of firms receiving financial support. In response, SBA revised program regulations, clarifying information that needed to be collected on assisted firms. Second, we identified continuing problems with SBA's minority business development program. Efforts to improve program

management information were again delayed as SBA reevaluated requirements in light of its redesigned minority enterprise development program. Finally, we reported on the success of a pilot program in providing increased access by small businesses to surety bonds. This review provided a basis for reauthorizing the program.

In the economic development area, as mandated by the Housing and Community Development Act of 1992 (Public Law 102-550), we studied several issues related to the use of CDBG funds for economic development activities. We concluded that HUD had not fully addressed impediments to using CDBG funds for economic development, especially in the area of job retention activities. Guidance that HUD is preparing should help grantees meet key requirements, and data that HUD has begun to collect should be useful in assessing the seriousness of defaults on loans to for-profit businesses from CDBG funds. We recommended that grantees be encouraged to establish and meet job quality goals for CDBG funds. Also, we recommended possible indicators that communities might use to assess overall effectiveness of their economic development activities, including job elements (the number and the type of jobs, the cost of creating them, and the targeted population); any increase in the community's tax base; the amount of public and private funds leveraged; the level of defaults; the creation of essential services and facilities; and the types and the sizes of assisted businesses.

We also reported on the availability, the affordability, and the accessibility of property insurance for homeowners and small businesses in urban areas. Although substantial amounts of homeowner property insurance data are collected from insurance companies by statistical agents to help states regulate insurance rates, the data are not useful for determining availability and affordability in urban neighborhoods and no data are currently collected to analyze accessibility issues. Also, no data exist to analyze the availability, the affordability, or the accessibility of property insurance for small businesses in urban areas. Our report identified the types of data that would be useful for making these assessments.

The occurrence of several large disasters since 1989—including Hurricanes Hugo, Andrew, and Iniki and the Loma Prieta and Northridge Earthquakes—has led to unprecedented increases in the cost of federal disaster assistance. Both the House of Representatives and the Senate established special task forces to deal with disaster assistance. We briefed both task forces and issued a report to the House task force summarizing



our key findings and recommendations over the past several years on a broad array of federal disaster assistance programs.

Following our 1993 report on the nation's capability for dealing with catastrophes, the Federal Emergency Management Agency (FEMA) took a number of corrective actions and legislative reforms are proceeding. FEMA established a Response and Recovery Directorate dedicated to helping state and local governments prepare for, respond to, and recover from all disasters. In addition, FEMA (1) took steps to improve its ability to perform comprehensive damage and needs assessments, (2) expanded the readiness capabilities of agency strike teams, (3) enhanced states' flexibility in using FEMA grant funds, and (4) revised its Disaster Relief Fund budget requests to show estimated future costs of past disasters. We recently commented on legislation that would help implement other recommendations, such as clarifying the statutory authority of federal agencies to prepare for disasters when there was warning.

Also, in the area of disaster assistance, we reported that the financial resources of FEMA's Flood Insurance Program might not be sufficient to meet future expected losses. We suggested that, in reforming the program, the Congress, when considering elimination of subsidized rates, consider also (1) the effect of the potential cancellation of flood insurance policies and (2) the financial impact on other disaster assistance programs of expanding or strengthening the mandatory purchase requirement in the Flood Insurance Program.

---

## Key Open Recommendations

We recommended that the HUD Secretary, to determine whether requiring more rigorous inspection and testing for lead-based paint hazards in section 8 tenant-based housing was practicable and whether such requirements were likely to affect landlords' participation in the section 8 program, conduct a demonstration program that would estimate testing costs, assess landlords' responses, and recommend to the Congress whether HUD's regulations should be changed to reflect the demonstration program's findings. We recommended also that the Secretary require property owners and public housing authorities to take several actions that would better ensure that children in section 8 tenant-based housing were protected from further exposure to lead-based paint hazards. Finally, we recommended that the Congress amend the Lead-Based Paint Poisoning Prevention Act to resolve uncertainties about the act's applicability to section 8 tenant-based housing. (GAO/RCED-94-137)

In an earlier report, we recommended that the HUD Secretary, to protect children living in public housing from the hazards of lead-based paint, (1) expedite efforts to issue a comprehensive and workable plan to abate lead-based paint hazards in public housing; (2) revise regulations to ensure that tenants were notified, other units were tested, and abatement actions were taken in buildings where a child had elevated lead blood levels; and (3) develop procedures to ensure that the public housing authorities notified tenants of lead-based paint test results. (GAO/RCED-93-138)

In a June 1993 report, we stated that because the Government National Mortgage Association's (GNMA) staffing needs were tied to HUD's personnel ceilings, the agency might not be able to focus on areas of risk and exposure to the extent it should and might experience difficulties in responding to future management challenges. GNMA is a secondary mortgage market organization in HUD that guarantees securities backed by pools of mortgage loans insured by HUD's FHA or guaranteed by VA. We recommended that the HUD Secretary and the Office of Management and Budget Director, to ensure that GNMA had the flexibility to manage its growing workload, respond to changing markets, and create new products, work together to consider GNMA's staffing needs and provide for them without regard to personnel limitations imposed on HUD. (GAO/RCED-93-100)<sup>2</sup>

We recommended also that HUD, because of the deplorable conditions we had found in various federally assisted properties, (1) promptly identify all section 8 tenant-based properties with severe physical problems and offer affected tenants temporary assistance to relocate to safe and decent housing, (2) systematically notify owners of the problems, and (3) take appropriate enforcement actions in cases in which owners did not bring their properties into compliance with housing quality standards. We recommended further that HUD, to the extent that budgetary or legislative constraints prevented HUD from addressing these conditions, give the Congress an assessment of the resources and the legislative changes the department needed. (GAO/T-RCED-94-273)

In an October 1993 report, we stated that a national data base on the performance of affordable multifamily housing loans was needed to better ensure an adequate flow of capital to affordable multifamily housing properties. The Housing and Community Development Act of 1992 authorized the establishment of a task force to create such a data base. We recommended that the Congress reauthorize and appropriate funds for

---

<sup>2</sup>See chapter 5 of this report for additional recommendations related to GNMA and federal credit.

this task force. Further, we recommended that the Secretary of Housing and Urban Development and the Chairman of the Federal Housing Finance Board, in their capacity as cochairs of the task force, direct the task force to develop policies and procedures relating to (1) access to the data, (2) definition of items to be included in the data base, (3) underwriting standards to be applied, and (4) the way in which the data base should be financed in the long term. (GAO/RCED-94-3)

---

### Related Products With Open Recommendations: Housing and Community Development

#### Product Title

Community Development: Block Grant Economic Development Activities Reflect Local Priorities (GAO/RCED-94-108)

Disaster Assistance: Federal, State, and Local Responses to Natural Disasters Need Improvement (GAO/RCED-91-43)

Disaster Assistance: Problems in Administering Agriculture Payments (GAO/T-RCED-94-187)

Disaster Management: Recent Disasters Demonstrate the Need to Improve the Nation's Response Strategy (GAO/T-RCED-93-4)

Disaster Management: Recent Disasters Demonstrate the Need to Improve the Nation's Response Strategy (GAO/T-RCED-93-20)

Disaster Relief Fund: Actions Still Needed to Prevent Recurrence of Funding Shortfall (GAO/RCED-93-60)

Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77)

Farmers Home Administration: Billions of Dollars in Farm Loans Are at Risk (GAO/RCED-92-86)

Federally Assisted Housing: Condition of Some Properties Receiving Section 8 Project-Based Assistance Is Below Housing Quality Standards (GAO/T-RCED-94-273)

Government National Mortgage Association: Greater Staffing Flexibility Needed to Improve Management (GAO/RCED-93-100)

Homelessness: Access to McKinney Act Programs Improved but Better Oversight Needed (GAO/RCED-91-29)

Homelessness: Action Needed to Make Federal Surplus Property Program More Effective (GAO/RCED-91-33)

Homelessness: Federal Personal Property Donations Provide Limited Benefit to the Homeless (GAO/RCED-91-108)

Homelessness: Information on and Barriers to Assistance Programs Providing Foreclosed Property (GAO/RCED-93-182)

Homelessness: McKinney Act Programs Provide Assistance but Are Not Designed to Be the Solution (GAO/RCED-94-37)

Housing Finance: Expanding Capital for Affordable Multifamily Housing (GAO/RCED-94-3)

Housing Programs: VA Can Reduce Its Guaranteed Home Loan Foreclosure Costs (GAO/RCED-89-58)

Lead-Based Paint Poisoning: Children in Public Housing Are Not Adequately Protected (GAO/RCED-93-138)

Lead-Based Paint Poisoning: Children in Section 8 Tenant-Based Housing Are Not Adequately Protected (GAO/RCED-94-137)

Lead-Based Paint Poisoning: Children Not Fully Protected When Federal Agencies Sell Homes to Public (GAO/RCED-93-38)

Public and Assisted Housing: Linking Housing and Supportive Services to Promote Self-Sufficiency (GAO/RCED-92-142BR)

Public Housing: Housing Persons With Mental Disabilities With the Elderly (GAO/RCED-92-81)

Radon Testing in Federal Buildings Needs Improvement and HUD's Radon Policy Needs Strengthening (GAO/T-RCED-91-48)

**Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (GAO/RCED-89-20)**

**Rural Development Administration: Patterns of Use in the Business and Industry Loan Guarantee Program (GAO/RCED-92-197)**

**Small Business: Problems Continue With SBA's Minority Business Development Program (GAO/RCED-93-145)**

**Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers (GAO/RCED-92-30)**

**Urban Poor: Tenant Income Misreporting Deprives Other Families of HUD-Subsidized Housing (GAO/HRD-92-60)**

---

Natural Resources  
Management Issue  
Area (Budget  
Function 300)

GAO Contact: James Duffus III, 202/512-7756

---

Impact of GAO's Work

Natural resources on federal lands are second only to tax receipts in generating revenues for the federal government, totaling almost \$7 billion in fiscal year 1993. Fiscal year 1994 budget authorities for the three agencies primarily responsible for managing and protecting these resources—the Department of the Interior, the Department of Agriculture's Forest Service, and the U.S. Army Corps of Engineers—more than doubled the revenues generated the year before, about \$16 billion.

Our work over the last several years identified (1) the declining ecological condition of the resources generating these revenues; (2) the growing state of disrepair of the existing infrastructure, valued at over \$200 billion, constructed to make use of these resources; and (3) the inability of the agencies responsible for managing and protecting these resources to sustain the long-term productivity of the land. At the same time, agency staff are being asked to assume increasing responsibilities and to perform more duties. Budgetary constraints will challenge these agencies as never before to find better ways to address these problems with fewer resources.

The Congress and the administration will have to make difficult decisions about how the federal government can best fulfill its stewardship responsibilities. These include finding new sources of funding for the agencies responsible for managing natural resources or finding ways for them to operate more efficiently, making further cutbacks in the agencies' services for maintaining facilities and lands and developing new approaches for protecting individual natural resources and sustaining their long-term productivity.

---

Key Open  
Recommendations

Hardrock Mining on Federal  
Lands

In March 1989, we recommended that the Congress eliminate the law's patenting provision allowing valuable federal lands to pass into private ownership or, should the Congress decide not to eliminate this provision, amend the law to require that the federal government obtain fair market

value for the land patented. Efforts to reform the mining law in the 103rd Congress were not successful. (GAO/RCED-89-72)

#### Below-Cost Timber Sales

In April 1991 testimony, we stated that the federal government was not recovering timber sale preparation and administration expenses, resulting in below-cost timber sales, and recommended that the Forest Service do so. We made three additional recommendations. The Forest Service is still considering our recommendations in developing a below-cost policy scheduled for implementation in 1995. (GAO/T-RCED-91-42)

#### Obtaining Fair Market Value

In four products issued between April 1993 and July 1994, we stated that the federal government was not receiving fair market value for the use of its lands as ski areas and communication sites and recommended, among other things, that the Secretaries of Agriculture and the Interior obtain fair market value for such uses. We also pointed out that if fair market value were to be obtained for the use of the communication sites on federal lands, the Congress should consider not renewing the current limits on fee increases. The Congress has removed the limits on communication site fee increases, and the Departments of Agriculture and the Interior plan to implement a new fee system for communication sites by January 1995, which will reflect fair market value. In addition, the Forest Service plans to have a new ski fee system, which will reflect fair market value in place for the 1996-1997 ski season. (GAO/RCED-93-107 and GAO/RCED-94-248)

#### Federal Water Subsidies

The 1992 Omnibus Water Bill raised irrigation rates in the Central Valley Project in California's Central Valley Basin. In an April 1994 report on the impact of higher irrigation rates on Central Valley Project farmers, we stated that if irrigators paid full-cost rates for water, federal revenues could be significantly enhanced. We pointed out that whether irrigation rates should be increased beyond current requirements was a decision for the Congress. We listed several factors for the Congress to consider should it decide to pursue the issue of further increasing irrigation rates, such as (1) to what extent could farmers absorb increased irrigation costs, (2) how farmers and local economies might be adversely affected, (3) how much increased revenue to the U.S. Treasury could be generated, (4) how able farmers were to mitigate the effects of price increases, (5) what environmental and water supply benefits would result from higher irrigation rates, (6) what the impacts of future water supply reductions would be, and (7) whether the increases should apply to already renewed contracts. Other options, such as water markets in which rights to use water are bought and sold, may achieve similar benefits but would affect farmers differently. (GAO/RCED-94-8)

---

## Federal Water Transfers

The beneficial and adverse impacts of water markets were addressed in our May 1994 report on the usefulness and the feasibility of allowing water provided from federal water projects to be resold on the market in the western states. We concluded that water markets could be an effective tool for using water more efficiently and improving environmental quality. We cautioned, however, that water transfers could cause a variety of adverse economic, social, and environmental impacts on third parties and that existing laws and procedures might not fully protect the third parties from these impacts.

We recommended that the Department of the Interior and the Corps of Engineers clarify guidance on approving water transfers to more clearly outline the requirements that must be met, including how the federal laws and environmental requirements must be satisfied, how the rates for transferred water would be determined, and whether contracts must be amended. Ultimately, whether to encourage more widespread voluntary market transfers of federally provided water as a way to address water supply and environmental problems and to promote economically efficient water use is a policy decision for the Congress. The Department of the Interior and the Corps of Engineers generally concurred in the findings and recommendations but did not indicate that they would take action in the near future to clarify the current requirements for improving water transfers. (GAO/RCED-94-35)

## Ecosystem Management

In our August 1994 report and September 1994 testimony on federal initiatives to implement ecosystem management governmentwide, we recommended that the Director of the White House Office on Environmental Policy develop a strategy clarifying the policy goal for ecosystem management, take practical steps clearly identifying what must be done and which agencies and parties must be involved, and identify barriers to implementing ecosystem management and options for overcoming them. We also recommended that progress in implementing the strategy be reported as part of the yearly budget and appropriations process. The White House Office on Environmental Policy and the primary federal land management agencies—the Forest Service and Interior’s National Park Service, the Bureau of Land Management, and the Fish and Wildlife Service—generally agreed with the recommendations. (GAO/RCED-94-111)



---

Related Products With  
Open Recommendations:  
Natural Resources  
Management

Product Title	Bureau of Reclamation: Central Valley Project Cost Allocation Overdue and New Method Needed (GAO/RCED-92-74)
	Bureau of Reclamation: Unauthorized Recreation Facilities at Two Reclamation Projects (GAO/RCED-93-115)
	Coastal Barriers: Development Occurring Despite Prohibition Against Federal Assistance (GAO/RCED-92-115)
	Department of the Interior: Transfer of the Presidio From the Army to the National Park Service (GAO/RCED-94-61)
	Ecosystem Management: Additional Actions Needed to Adequately Test a Promising Approach (GAO/RCED-94-111)
	Endangered Species: Factors Associated With Delayed Listing Decisions (GAO/RCED-93-152)
	Federal Land Management: The Mining Law of 1872 Needs Revision (GAO/RCED-89-72)
	Federal Land Management: Unauthorized Activities Occurring on Hardrock Mining Claims (GAO/RCED-90-111)
	Federal Lands: Fees for Communications Sites Are Below Fair Market Value (GAO/RCED-94-248)
	Federal Lands: Improvements Needed in Managing Short-Term Concessioners (GAO/RCED-93-177)
	Federal Timber Sales: Process for Appraising Timber Offered for Sale Needs to Be Improved (GAO/RCED-90-135)
	Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38)

**Financial Management: Focused Leadership and Comprehensive Planning Can Improve Interior's Management of Indian Trust Funds (GAO/AIMD-94-185)**

**Financial Management: Status of BIA's Efforts to Reconcile Indian Trust Fund Accounts and Implement Management Improvements (GAO/T-AIMD-94-99)**

**Fisheries Management: Administration of the Sport Fish Restoration Program (GAO/RCED-94-4)**

**Forest Service: Little Assurance That Fair Market Value Fees Are Collected From Ski Areas (GAO/RCED-93-107)**

**Forest Service: Management of Reforestation Program Has Improved, But Problems Continue (GAO/RCED-94-257)**

**Forest Service Needs to Improve Efforts to Protect the Government's Financial Interests and Reduce Below-Cost Timber Sales (GAO/T-RCED-91-42)**

**Forest Service Timber Sales Program: Questionable Need for Contract Term Extensions and Status of Efforts to Reduce Costs (GAO/T-RCED-92-58)**

**Mineral Resources: Federal Coal-Leasing Program Needs Strengthening (GAO/RCED-94-10)**

**Mineral Resources: Federal Helium Purity Should Be Maintained (GAO/RCED-92-44)**

**Mineral Resources: Meeting Federal Needs for Helium (GAO/RCED-93-1)**

**Mineral Revenues: Progress Has Been Slow in Verifying Offshore Oil and Gas Production (GAO/RCED-90-193)**

**National Park Service: Activities Outside Park Borders Have Caused Damage to Resources and Will Likely Cause More (GAO/RCED-94-59)**

**National Park Service: Condition of and Need for Employee Housing (GAO/RCED-93-192)**

**National Park Service: Reexamination of Employee Housing Program Is Needed (GAO/RCED-94-284)**

National Park Service: Scope and Cost of America's Industrial Heritage Project Need to Be Defined (GAO/RCED-93-134)

Natural Resources: Defense and Interior Can Better Manage Land Withdrawn for Military Use (GAO/NSIAD-94-87)

Natural Resources Restoration: Use of Exxon Valdez Oil Spill Settlement Funds (GAO/RCED-93-206BR)

Offshore Oil and Gas Resources: Interior Can Improve Its Management of Lease Abandonment (GAO/RCED-94-82)

Rangeland Management: BLM Efforts to Prevent Unauthorized Livestock Grazing Need Strengthening (GAO/RCED-91-17)

Rangeland Management: BLM's Hot Desert Grazing Program Merits Reconsideration (GAO/RCED-92-12)

Rangeland Management: BLM's Range Improvement Project Data Base Is Incomplete and Inaccurate (GAO/RCED-93-92)

Rangeland Management: Improvements Needed in Federal Wild Horse Program (GAO/RCED-90-110)

Rangeland Management: Interior's Monitoring Has Fallen Short of Agency Requirements (GAO/RCED-92-51)

Research Fleet Modernization: NOAA Needs to Consider Alternatives to the Acquisition of New Vessels (GAO/RCED-94-170)

Timber Sale Contract Defaults: Forest Service Needs to Strengthen Its Performance Bond and Contract Provisions (GAO/RCED-94-5)

Trans-Alaska Pipeline: Regulators Have Not Ensured That Government Requirements Are Being Met (GAO/RCED-91-89)

U.S. Forest Service: Independence Still Lacking in Law Enforcement Organization (GAO/T-OSI-94-1)

Water Markets: Increasing Federal Revenues Through Water Transfers (GAO/RCED-94-164)

**Water Resources: Federal Efforts to Monitor and Coordinate Responses to Drought (GAO/RCED-93-117)**

**Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers (GAO/RCED-94-8)**

**Water Transfers: More Efficient Water Use Possible, If Problems Are Addressed (GAO/RCED-94-35)**

**Weather Forecasting: Systems Architecture Needed for National Weather Service Modernization (GAO/AIMD-94-28)**

**Wetlands: The Corps of Engineers' Administration of the Section 404 Program (GAO/RCED-88-110)**

**Wilderness Preservation: Problems in Some National Forests Should Be Addressed (GAO/RCED-89-202)**

**Wildlife Management: Problems Being Experienced With Current Monitoring Approach (GAO/RCED-91-123)**

**Wildlife Protection: Enforcement of Federal Laws Could Be Strengthened (GAO/RCED-91-44)**

---

## Transportation and Telecommunications Issue Area (Budget Function 400)

GAO Contact: Kenneth M. Mead, 202/512-2834

---

### Impact of GAO's Work

The transportation sector is a key component in the administration's and the Congress' efforts to improve the economy; maintain and enhance U.S. competitiveness in the global marketplace; and serve the growing needs of businesses, industries, and the American public. Comprising diverse elements ranging from air, land, water, and mass transit to pipeline and marine safety; employing about 10 percent of America's work force; and involving about \$1 trillion (17 percent) of the nation's gross domestic product, the transportation sector provides facilities and services and carries out activities that touch everyone's life.

In trying to meet these goals, the world's finest transportation system faces many challenges and tradeoffs. Among the challenges are reducing the enormous societal and economic costs of transportation-related fatalities, injuries, and property damage; restoring the obsolete and deteriorated portions of the transportation infrastructure; relieving the increasingly congested aviation, highway, and waterway systems; meeting the increasing demands for more and better public transit and rail service; using public resources more efficiently; and increasing reliance on private resources. Chief among the tradeoffs are the investment choices among the various transportation modes because investments in the modes today affect the way people and goods are transported tomorrow, which, in turn, affects how people live their lives, conduct business, and protect the environment.

In the telecommunications sector, which has many parallels to transportation, experts forecast tumultuous changes over the next 4 to 5 years. The key issues in the industry boil down essentially to issues of consumer access at reasonable prices in an environment where service delivery could be controlled by a few large firms. Further, telecommunications is fast becoming a viable proxy for business travel. In fact, some European countries—recognizing the similarities to transportation issues and the potential that telecommunications has for relieving congestion—have combined transportation and telecommunications under one ministry. Congressional concern is

focusing on the appropriate government regulatory role and increasing competition.

As detailed below, our work, which has included an increasing emphasis on the transportation sector's international and intermodal aspects, has influenced the Congress and the Department of Transportation (DOT) and its agencies to take many actions to improve transportation safety and the efficiency and the effectiveness of transportation policies and programs.

#### Aviation Safety

Over the next several years, the Federal Aviation Administration (FAA) will face major challenges on how to deal with the effects of a downsized work force, corporatization proposals, and increased globalization of the aviation industry, all within the context of continuing to maintain a high level of safety in the U.S. air transport system. Our recommendations have been designed to help FAA and congressional decisionmakers cope with these challenges.

For example, in response to our recommendations, FAA (1) issued guidelines to airlines to implement self-audit and voluntary disclosure programs, which supplement the limited corps of FAA inspectors that cannot police every aspect of the industry all the time; (2) finalized a working agreement with the European Joint Aviation Authority to help avoid unnecessary duplication and more effectively use its certification work force; (3) agreed to provide security clearances to airport security coordinators at the nation's high-threat airports; (4) established a system to monitor its harmonization work program and has concluded technical agreements for 48 of the 79 key regulatory differences identified in the program; and (5) promulgated new deicing regulations for commuter aircraft. In addition, FAA and the State Department implemented procedures to facilitate FAA's efforts to address regulatory violations committed by foreign carriers that fly into the United States.

#### Air Traffic Control Modernization

FAA is at a critical juncture in its air traffic control (ATC) modernization program because (1) new ATC systems are about to be installed; (2) the automation plan for ATC facilities is undergoing radical restructuring; and (3) new, costly major acquisitions (e.g., the wide area augmentation system for satellite navigation) are in the earliest phases. Our work over the past couple of years focused on reviewing mission needs analyses that FAA was conducting as the starting point for modernization projects and FAA's effectiveness in considering alternative systems to allow aircraft to conduct precision approaches to airports. Of particular note, we recommended further analysis of alternatives for precision landings. As a

result of FAA's subsequent review, the agency terminated the Microwave Landing System Project, saving taxpayers about \$1 billion over the next decade. FAA plans, instead, to use satellite navigation to provide precision landing services.

In line with our other recommendations, FAA reviewed requirements for later segments of the Advanced Automation System, increased its scrutiny of mission need statements for new projects, issued improved guidance for mission need statements, incorporated measurable goals in its Capital Investment Plan, and issued a new policy to ensure that projects funded via Letters of Intent met statutory requirements. Additionally, on the basis of our analysis, the Congress reduced FAA's fiscal year 1994 Facilities and Equipment appropriation by \$209 million.

## Surface Safety

Although the number of people who die in transportation accidents is lower than it has been for 30 years, 40,000 people still die on the nation's highways each year and nearly \$15 billion is spent annually on health care related to traffic accidents. As a result of our work in this important area, (1) the Federal Highway Administration (FHWA) initiated a special study to determine accident rates of longer combination vehicles and improved motor carrier safety by requiring the loss of a commercial driver's license for not correcting serious out-of-service violations and initiating an action plan to improve the timeliness of its motor carrier compliance reviews, (2) the National Highway Traffic Safety Administration improved data collection and methodology for estimating the cost of motor vehicle safety and fuel economy and improved its control over gray market vehicles to ensure that they met basic U.S. safety requirements, (3) DOT increased staffing in the Office of Intermodalism and directed it to outreach to industry and state and local governments, (4) Amtrak established minimum safety standards for its passenger cars to ensure that unsafe cars were not placed in service, and (5) the Research and Special Programs Administration required that new or replacement pipelines be capable of using internal inspection devices (smart pigs) and classified many more materials as hazardous when transported in bulk. Further, the Congress decided, on the basis of our work, that the railroad hours-of-service requirements did not need any revisions.

## Surface Infrastructure

Highway demonstration projects number over 1,000 and account for billions of dollars. A number of such projects have stalled in early development phases, leading to growing congressional and administration interest in rescinding inactive projects. But we pointed out in testimony that FHWA lacked a system to do this. Subsequently, DOT improved its

demonstration project tracking system. Also, supplemental appropriation legislation rescinded 21 projects, thereby saving \$32.2 million.

In line with other recommendations, FHWA improved guidance and oversight for equipment rental rates and began disseminating bridge-related seismic information and research to states. The Federal Transit Administration improved federal management of employee transit benefit programs.

#### Competition, Economic, and Regulatory Analysis

International travel is becoming increasingly important to U.S. airlines and now accounts for more than one-fourth of U.S. carrier revenues. Therefore, our aviation focus shifted to largely international issues, including the impacts of code sharing and marketing alliances and the competitive problems faced by U.S. air cargo airlines. The National Commission to Ensure a Strong Competitive Airline Industry adopted our recommendation to liberalize the rules governing foreign investment in U.S. airlines but restricts such liberalization to airlines from nations offering our airlines equivalent opportunities. Our testimony before the National Commission to Ensure a Strong Competitive Airline Industry was a key factor in the formulation of a number of Commission recommendations that rejected reregulation but called for actions to protect competition and maximize traveler welfare (e.g., Montreal Protocols) and for reissuance of Fly Rights, DOT's airline passenger consumer rights publication. Additionally, DOT is revisiting the High Density Rule at O'Hare International Airport in Chicago.

Our rail work shifted to the economic and financial questions facing Amtrak. In testimony, we highlighted Amtrak's serious financial condition and difficult decisions regarding passenger rail future that must be made. Additionally, we recommended that the Federal Railroad Administration target limited federal funds for high-speed rail on a relatively few routes to gain maximum impact. The administration now agrees and will focus resources on a few promising routes.

Our report on trucking undercharges influenced the provisions of the Negotiated Rates Act of 1993 to settle undercharge claims. Our report on highway user fees will be the impetus for a new highway cost allocation study and might change how roads are paid for. Our work on charter buses indicated that the rules protecting private operators from subsidized competition from transit operators were largely working but that better communication could help public operators identify areas of opportunity. The Federal Transit Administration is planning to include, in seminars for



transit operators, guidance on how to file for exemptions. The administration also, in developing guidance to implement set-asides for intercity bus assistance, specified eligible items.

Finally, our testimony on the Interstate Commerce Commission was highly influential in the congressional decision to eliminate motor carrier regulations. We testified that, while truck rate and entry rulings were no longer needed in a deregulated environment, rail responsibilities continued to be important especially to captive shippers.

## Coast Guard

This relatively small agency has various important missions to fulfill. Over the next few years, the increasing numbers and sizes of foreign-flagged vessels visiting U.S. ports, including a new fleet of 2,600 passenger “mega” cruise ships, will strain the existing Coast Guard inspection work force. Also, enforcement of the Oil Pollution Act of 1990, with comprehensive provisions covering oil spill contingency planning, requirements for double-hull construction, and crew proficiency standards, represents a major Coast Guard resource commitment that must be met in addition to the agency’s other missions.

Our work has been targeted to identifying more efficient ways of using Coast Guard resources and fulfilling its mission. Because of this work, the Coast Guard (1) developed a better process to justify closing small boat stations; (2) improved its management of research and development activities, resulting in a \$2.5 million cut in the research and development budget in 1994; (3) improved its management of appropriated funds used for morale, welfare, and recreation activities; and (4) improved its accounting for acquisition staff funding, resulting in a reduction of \$4 million from its fiscal year 1994 budget.

Regarding safety, in response to our work, the Coast Guard (1) improved its inspection program to detect unsafe tankers, (2) improved its inspections of waterfront facilities, and (3) took actions needed to improve cruise ship safety. Regarding pollution prevention and response, the Coast Guard (1) improved its oil spill cost recovery procedures and (2) developed an inventory of abandoned barges so that it could be used to help prevent pollution.

## Financial Systems

In response to our report on the progress made with the Departmental Accounting and Financial Information System, DOT included in its financial systems improvement plans a strategy to address shortcomings in the system in its Chief Financial Officer and Information Resources

---

Management Plans and agreed to report to the Congress on the progress made in improving its financial system. In June 1993, DOT implemented the system departmentwide.

Telecommunications

The Federal Communications Commission, in response to our work, hired 10 additional auditors for its Common Carrier Bureau, which addresses telephone company cost allocations. The Commission anticipates a rapid expansion of telecommunications-based services, many of which will be provided by regulated telephone companies.

---

Key Open  
Recommendations

Despite the many actions and initiatives taken by the Congress, DOT, and its agencies in response to our recommendations, some important recommendations remain open and warrant priority attention.

Expectations for the National  
Highway System

We recommended in testimony that FHWA develop performance expectations and measures in conjunction with the major goals of the National Highway System to ensure that progress could be assessed. This is particularly critical in areas such as pavement condition and the extent of congestion. (GAO/T-RCED-94-136)

Highway User Fees

In a report on highway user fees, we recommended that FHWA conduct a formal cost allocation study to determine whether all highway users were paying their fair share of federal highway costs and to ensure that FHWA and the Congress had up-to-date information when making decisions affecting federal highway user fees. We recommended that FHWA obtain appropriate input from the affected parties and use, to the extent possible, the data being developed by the Strategic Highway Research Program on the relationship between axle loads and pavement damage. (GAO/RCED-94-181)

Highway Quality Improvements

GAO recommended, in a report on highway quality improvements, that FHWA, to help protect the nation's highway infrastructure, work with states to develop performance standards and expectations, including specific time frames for corrective action that depend on the severity and safety impact of maintenance problems. GAO also recommended that FHWA issue guidance to states on factors to be considered as part of life-cycle cost analysis, such as setting priorities for projects over multiyear periods; establishing acceptable value ranges, particularly for social and other nontraditional costs like pollution, congestion, and fuel usage; and refining maintenance costs and salvage values. (GAO/RCED-94-198)

---

**Mass Transit Grants**

In a series of five reports, we recommended several improvements in the Federal Transit Administration's oversight of mass transit grants. The reports documented inadequacies in oversight; serious deficiencies in grantees' financial, technical, procurement, inventory, and other management controls; noncompliance with federal requirements; and improper expenditures of grant funds. The administration plans to implement most of our recommendations, which if properly executed, should help better safeguard transit funds from risk of fraud, waste, abuse, and mismanagement. These efforts have not been completed, however, and the administration will have to be persistent to ensure that it does not lose momentum. (GAO/RCED-89-94, GAO/RCED-91-107, GAO/RCED-92-38, GAO/RCED-92-53, and GAO/RCED-93-8)

**Track Safety Inspections**

In reporting on the Federal Railroad Administration's Track Safety Inspection Program, we recommended that the administration provide guidance to track inspectors on options available when excepted track deficiencies constituted an imminent threat of derailment or another safety hazard. Such action would strengthen the current regulations governing the excepted track provision and improve safety on excepted track. (GAO/RCED-94-56)

**New Aviation Security  
Technology**

We recommended that FAA, to facilitate the introduction of new explosive detection equipment, develop a plan, with industry, that provides a strategy for implementing new detection technology during the next decade. This plan should include important milestones and identify roles; cost estimates for the purchase, the operation, and the maintenance of explosive detection systems; and FAA and industry resources. (GAO/RCED-94-142)

**Advanced Automation System**

In testimony on FAA's Advanced Automation System, we recommended that FAA submit a report to the Congress before the administration proposed its fiscal year 1996 budget for FAA describing a comprehensive automation plan, including time frames, funding levels, and all interim and long-term actions necessary to satisfy user needs and FAA air traffic control and management requirements. (GAO/T-RCED-94-188)

**Airport Improvement Program**

In a series of reports on this program, we recommended options for improving the targeting of Military Assistance Program funds within the national airport system, reducing the number of eligible reliever airports or further reducing the set-aside for reliever airports upon receipt of information from FAA regarding the need for such airports, and steps to

---

ensure that letters of intent were used in accordance with congressional direction. (GAO/RCED-94-100, GAO/RCED-94-209, and GAO/RCED-94-226)

---

## Related Products With Open Recommendations: Transportation and Telecommunications

### Product Title

Advanced Automation System: Implications of Problems and Recent Changes (GAO/T-RCED-94-188)

Air Traffic Control: FAA Can Better Forecast and Prevent Equipment Failures (GAO/RCED-91-179)

Air Traffic Control: Status of FAA's Plans to Close and Contract Out Low-Activity Towers (GAO/RCED-94-265)

Aircraft Certification: Limited Progress on Developing International Design Standards (GAO/RCED-92-179)

Aircraft Certification: New FAA Approach Needed to Meet Challenges of Advanced Technology (GAO/RCED-93-155)

Aircraft Maintenance: FAA Needs to Follow Through on Plans to Ensure the Safety of Aging Aircraft (GAO/RCED-93-91)

Airline Competition: Impact of Changing Foreign Investment and Control Limits on U.S. Airlines (GAO/RCED-93-7)

Airport Improvement Program: Better Management Needed for Funds Provided Under Letters of Intent (GAO/RCED-94-100)

Airport Improvement Program: Reliever Airport Set-Aside Funds Could Be Redirected (GAO/RCED-94-226)

Airport Improvement Program: The Military Airport Program Has Not Achieved Intended Impact (GAO/RCED-94-209)

Amtrak Safety: Amtrak Should Implement Minimum Safety Standards for Passenger Cars (GAO/RCED-93-196)

**Amtrak Training: Improvements Needed for Employees Who Inspect and Maintain Rail Equipment (GAO/RCED-93-68)**

**Aviation Insurance: Federal Insurance Program Needs Improvements to Ensure Success (GAO/RCED-94-151)**

**Aviation Research: FAA Could Enhance Its Program to Meet Current and Future Challenges (GAO/RCED-92-180)**

**Aviation Safety: FAA and the State Department Can Better Manage Foreign Enforcement Cases (GAO/RCED-94-87)**

**Aviation Safety: FAA Can Better Prepare General Aviation Pilots for Mountain Flying Risks (GAO/RCED-94-15)**

**Aviation Safety: Increased Oversight of Foreign Carriers Needed (GAO/RCED-93-42)**

**Aviation Safety: Problems Persist in FAA's Inspection Program (GAO/RCED-92-14)**

**Aviation Safety: Progress Limited With Self-Audit and Safety Violation Reporting Programs (GAO/RCED-92-85)**

**Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft (GAO/RCED-93-135)**

**Aviation Security: Additional Actions Needed to Meet Domestic and International Challenges (GAO/RCED-94-38)**

**Aviation Security: Development of New Security Technology Has Not Met Expectations (GAO/RCED-94-142)**

**Coast Guard: Acquisition Program Staff Were Funded Improperly (GAO/RCED-93-123)**

**Coast Guard: Additional Actions Needed to Improve Cruise Ship Safety (GAO/RCED-93-103)**

**Coast Guard: Coordination and Planning for National Oil Spill Response (GAO/RCED-91-212)**

Coast Guard: Management of the Research, Development, Test and Evaluation Program Needs Strengthening (GAO/RCED-93-157)

Coast Guard: Program to Inspect Intermodal Containers Carrying Hazardous Materials Can Be Improved (GAO/RCED-94-139)

Coast Guard: Reorganization Unlikely to Increase Resources or Overall Effectiveness (GAO/RCED-90-132)

Computer Reservation Systems: Action Needed to Better Monitor the CRS Industry and Eliminate CRS Biases (GAO/RCED-92-130)

Defense Transportation: Ineffective Oversight Contributes to Freight Losses (GAO/NSIAD-92-96)

Department of Transportation: University Research Activities Need Greater Oversight (GAO/RCED-94-175)

Employee Drug Testing: Opportunities Exist to Lower Drug-Testing Program Costs (GAO/GGD-93-13)

FAA Budget: Key Issues Need to Be Addressed (GAO/T-RCED-92-51)

FAA Information Resources: Agency Needs to Correct Widespread Deficiencies (GAO/IMTEC-91-43)

Global Positioning Technology: Opportunities for Greater Federal Agency Joint Development and Use (GAO/RCED-94-280)

Government Civilian Aircraft: Central Management Reforms Are Encouraging but Require Extensive Oversight (GAO/GGD-89-86)

Gray Market Vehicle Program: Extension Warranted, But Improvements in Vehicle Identification Are Needed (GAO/RCED-94-22)

Highway Contracting: Disadvantaged Business Eligibility Guidance and Oversight Are Ineffective (GAO/RCED-92-148)

Highway Contracting: Disadvantaged Business Program Meets Contract Goal, But Refinements Are Needed (GAO/RCED-94-168)

Highway Infrastructure: Quality Improvements Would Safeguard Billions of Dollars Already Invested (GAO/RCED-94-198)

Highway Planning: Agencies Are Attempting to Expedite Environmental Reviews, But Barriers Remain (GAO/RCED-94-211)

Highway Safety: Safety Belt Use Laws Save Lives and Reduce Costs to Society (GAO/RCED-92-106)

Highway User Fees: Updated Data Needed to Determine Whether All Users Pay Their Fair Share (GAO/RCED-94-181)

Longer Combination Trucks: Driver Controls and Equipment Inspection Should Be Improved (GAO/RCED-94-21)

Longer Combination Trucks: Potential Infrastructure Impacts, Productivity Benefits, and Safety Concerns (GAO/RCED-94-106)

Mass Transit: Federal Participation in Transit Benefit Programs (GAO/RCED-93-163)

Mass Transit Grants: If Properly Implemented, FTA Initiatives Should Improve Oversight (GAO/RCED-93-8)

Mass Transit Grants: Improved Management Could Reduce Misuse of Funds in UMTA's Region IX (GAO/RCED-92-7)

Mass Transit Grants: Noncompliance and Misspent Funds by Two Grantees in UMTA's New York Region (GAO/RCED-92-38)

Mass Transit Grants: Risk of Misspent and Ineffectively Used Funds in FTA's Chicago Region (GAO/RCED-92-53)

Mass Transit Grants: Scarce Federal Funds Misused in UMTA's Philadelphia Region (GAO/RCED-91-107)

Mass Transit Grants: UMTA Needs to Improve Procurement Monitoring at Local Transit Authority (GAO/RCED-89-94)

Mass Transit: Needs Projections Could Better Reflect Future Costs (GAO/RCED-93-61)

**Motor Vehicle Regulations: Regulatory Cost Estimates Could Be Improved**  
(GAO/RCED-92-110)

**Motor Vehicle Safety: Key Issues Confronting the National Advanced Driving Simulator** (GAO/RCED-92-195)

**National Highway System: Refinements Would Strengthen the System**  
(GAO/T-RCED-94-136)

**Oil Spill Prevention: Progress Made in Developing Alaska Demonstration Programs** (GAO/RCED-93-178)

**Railroad Safety: Continued Emphasis Needed for an Effective Track Safety Inspection Program** (GAO/RCED-94-56)

**Research Fleet Modernization: NOAA Needs to Consider Alternatives to the Acquisition of New Vessels** (GAO/RCED-94-170)

**Telecommunications: FCC Procedures Delay Release of Decision Documents** (GAO/RCED-94-242)

**Traffic Congestion: Activities to Reduce Travel Demand and Air Pollution Are Not Widely Implemented** (GAO/PEMD-93-2)

**Trans-Alaska Pipeline: Regulators Have Not Ensured That Government Requirements Are Being Met** (GAO/RCED-91-89)

**Transportation Infrastructure: Benefits of Traffic Control Signal Systems Are Not Being Fully Realized** (GAO/RCED-94-105)

**Transportation Infrastructure: Better Tools Needed for Making Decisions on Using ISTEA Funds Flexibly** (GAO/RCED-94-25)

**Transportation Infrastructure: Oversight of Rental Rates for Highway Construction Equipment Is Inadequate** (GAO/RCED-93-86)

**Transportation Infrastructure: The Nation's Highway Bridges Remain at Risk From Earthquakes** (GAO/RCED-92-59)

**Transportation Infrastructure: Urban Transportation Planning Can Better Address Modal Trade-offs** (GAO/RCED-92-112)



---

**Truck Transport: Little Is Known About Hauling Garbage and Food in the**  
**Same Vehicles (GAO/RCED-90-161)**

# Improving Human Resources Programs

---

## Education and Employment Issue Area (Budget Function 500)

GAO Contact: Linda G. Morra, 202/512-7014

---

### Impact of GAO's Work

For the United States to remain competitive in the increasingly global economy, it must continue to cultivate a highly trained, competent, and dedicated work force. While legislation has been passed that should provide much needed improvement, many challenges still lie ahead for the Departments of Education and Labor, which manage our educational and employment systems. The Education Department must accommodate the increasingly poor and diverse population that has difficulty adjusting to and succeeding in the nation's current educational system. Additionally, with the growing awareness and tension brought about by international competition, the Labor Department must continue to examine the effectiveness of its multiple employment and training programs, as well as encourage the proper application of government regulations to best balance worker protection and economic growth.

To help the departments focus their efforts, our work has concentrated on the major challenges facing the nation's education and training programs. We participated in the formulation of two pieces of landmark legislation—the Goals 2000 Educate America Act and the School-to-Work Opportunities Act of 1994. Additionally, we have been directly involved in the debates on how to reform elementary and secondary education, federal student financial aid for higher education, and the employment and training system. Examples follow of our key contributions in education reform, higher education, work force skills and jobs, and workplace quality.

### Education Reform

Our work in elementary and secondary education has supported much congressional activity and legislation. Our reports and testimonies on the demographic characteristics of preschool and school-age children increased awareness among congressional decisionmakers and administration officials of the growing rates of poverty, increasing needs, and dramatic shifts in the locations of at-risk children during the 1980s. This work also helped to set the stage for the enactment of the Improving America's Schools Act of 1994, which reauthorized title I of the Elementary and Secondary Education Act (ESEA). The Rural Caucus of the House of Representatives, as well as House committees, used our work on

the demographics of rural school-age children to determine the effects of proposed chapter 1 formula changes. The additional analyses we performed on the legislation were the basis for a proposed amendment to better target title I funds, as well as a lengthy debate on the Senate floor. Our report on student turnover in schools also resulted in a proposed amendment to ESEA for a new demonstration program to develop approaches that schools could use to assist children who change schools frequently. Finally, our report on preschool demographics and work on Head Start participation rates were used to launch Head Start reauthorization and expansion hearings.

Our testimony and report on systemwide education reform were instrumental in gaining support for the Goals 2000 Educate America Act, passed in April 1994. This law represents landmark legislation, as it calls for high educational standards for all students, while still maintaining flexibility within the context of state goals. Additionally, the results of our work on state and district regulatory flexibility were used extensively in formulating the act's provision to give flexibility to schools and districts.

Our work on bilingual education highlighted the problems of school districts that have students with 20 to 50 different languages spoken at home yet do not have the trained staff and resources to successfully deal with this challenge. Furthermore, our testimony on the inclusion of children with disabilities in classrooms with nondisabled children may result in legislation to regulate the inclusion of children with certain disabilities.

Our report on comprehensive school-to-work transition (STWT) strategies supported the enactment of the landmark School-to-Work Opportunities Act of 1994. The legislation identified ways the federal government could support such strategies, for example, collecting and disseminating information on lessons learned in state and local jurisdictions that initiate STWT efforts, as well as in other countries, and making it easier for state and local officials to use existing targeted grants in STWT efforts. Also, our work on occupational skill standards highlighted the importance of business participation in developing such standards and influenced provisions in skill standards legislation that give an increased role for business.

## Higher Education

Our work in this area furthered our goal of ensuring access to quality higher education while containing costs for both students and the federal government. On the basis of our recommendations, the Congress made

cost-reduction revisions to the Federal Family Education Loan Program portion of the Higher Education Act concerning cost-sharing by lenders and guaranty agencies for defaulted loan claims, loan transfer fees paid for loans purchased by secondary market lenders, elimination of minimum loan interest rate payments to secondary market lenders, and loan origination fees for certain borrowers.

#### Work Force Skills and Jobs

Our work on how well workers acquire the skills they need to be fully employed in the mainstream work force has continued to demonstrate the need for a national employment training strategy. Our reports and testimonies on the 154 employment and training programs have made the overlapping nature of these programs a prominent and much discussed issue. Moreover, our work has provided a foundation for overhauling and streamlining the structure of employment training programs. Presently, over 13 legislative proposals are pending before the Congress to overhaul this system. Such overhaul could reduce the number of programs and achieve potential administrative savings. Finally, our report on the North American Free Trade Act bridge program identified problems, now being addressed by the Labor Department, with the program's ability to help dislocated workers reenter the work force.

#### Workplace Quality

In our efforts to help the Congress and the administration determine the appropriate federal role in ensuring safe, healthy, and equitable workplaces, we released a major study of workplace regulations. This report explored the impact of a body of legislation on both employers and workers who generally called for more cooperation between business and government as agencies pursued their regulatory missions. Additionally, our equal employment opportunity work elevated discussion from a narrow review of the Equal Employment Opportunity Commission's resources to a broader discussion of overhauling of the federal structures for ensuring equal employment opportunity.

---

#### Key Open Recommendations

##### Education Department Management

In our report on the Education Department's longstanding management problems, we recommended a multiphased approach to addressing them. We recommended that the Secretary of Education articulate a strategic management vision for the department and adopt a strategic management process for setting goals and priorities, such as the National Education Goals; measuring progress toward these goals; and ensuring accountability

for attaining them. We recommended also that the department continue to build on its initial steps taken over the last several years to enhance management by (1) implementing a departmentwide strategic management process; (2) identifying good management practices and supporting their adoption in other appropriate parts of the department; (3) rewarding managers for good leadership; (4) filling technical and policymaking leadership positions with persons having appropriate skills; and (5) creating strategic information, financial, and human resources management plans that were integrated with the department's overall strategic management process.

The Secretary's Reinvention Coordinating Council has been meeting weekly to establish a framework to implement such initiatives as the National Goals legislation. The department has also responded to some of our recommendations and has begun to implement a strategic planning process by producing a departmentwide strategic management plan, refine its financial management strategic plan, and redesign its core financial management systems. The department has also hired more persons with appropriate skills to fill technical and policymaking leadership positions. (GAO/HRD-93-47)

#### Education Reform

In our report on student turnover in schools, we recommended that the Department of Education determine the feasibility of using electronic student record systems instead of its current system. The department agreed that the present system had outlived its usefulness. It said that it was considering broader and more cost-effective mechanisms for transmitting educational and health records on mobile children. (GAO/HEHS-94-45)

#### Occupational Safety and Health

In our report on the Occupational Safety and Health Administration's (OSHA) policies and procedures for confirming abatement of hazards, we recommended that OSHA improve its ability to detect employers that failed to correct safety and health hazards found during inspections. The Secretary of Labor and the Office of Management and Budget have approved OSHA's draft regulation to make this improvement. Labor expects this regulation to be issued in the second quarter of 1995. (GAO/HRD-91-35)

In our report assessing the federal-state approach for enforcing OSHA's policies, we recommended that OSHA carry out a number of activities to improve its oversight of state programs, including (1) emphasizing measures of program outcome and evaluations, (2) revising the state program-monitoring and evaluation approach, and (3) obtaining

worksite-specific injury and illness data from employers. OSHA agreed with our recommendations; has implemented some; and has a number of efforts under way that should result in implementation of a performance management system, by March 1995, that will be used to assess the agency's effectiveness. (GAO/HEHS-94-10)

### Employment Discrimination

In our report discussing how registered representatives fared in discrimination disputes, we recommended that the Securities and Exchange Commission (SEC) direct self-regulating organizations (SROs) to use existing information systems to track the numbers, the types, and the outcomes of discrimination cases filed at, and arbitrated by, their arbitration departments. We also recommended that all arbitrators be required to disclose criminal convictions in their arbitrator profiles and that SROs assess and maintain information on arbitrators' expertise and use this information when selecting arbitrators to serve on panels. Finally, we recommended that SEC include files involving discrimination complaints when selecting arbitration case files to review during inspections. SEC generally agreed with our recommendations but, to date, has taken no specific action to implement them. Additionally, in 1994, bills were proposed in both the Senate and the House that would prevent employers from having mandatory arbitration policies. (GAO/HEHS-94-17)

### Student Achievement Standards

After reviewing standards set to interpret students' performance on the National Assessment of Educational Progress (NAEP), we found many technical flaws that made the results of doubtful validity. We recommended that the new standards be withdrawn by the NAEP governing board, that they not be used in reporting NAEP results, and that the governing board take a number of specific steps to ensure that it does not adopt technically unsound policies or approve technically flawed results. (GAO/PEMD-93-12)

### Vocational Rehabilitation

Our 8-year followup evaluation, using unique computer-matched wage and service data, showed only modest long-term outcomes of the state-federal program that provides services to help persons with disabilities to become more independent and become employed and integrated into the community. We also found unexplained disparities in the extent of services provided to clients of different races. We recommended that the Secretary of Education find out why these disparities existed; strengthen evaluation in a number of ways; and take steps to establish the National Commission on Rehabilitation Services, authorized in 1992, to review the programs in depth before the next reauthorization. (GAO/PEMD-93-19)

---

Related Products With  
Open Recommendations:  
Education and  
Employment

Product Title

Apprenticeship Training: Administration, Use, and Equal Opportunity  
(GAO/HRD-92-43)

Chapter 1 Accountability: Greater Focus on Program Goals Needed  
(GAO/HRD-93-69)

Department of Education: Longstanding Management Problems Hamper  
Reforms (GAO/HRD-93-47)

Dislocated Workers: Improvements Needed in Trade Adjustment  
Assistance Certification Process (GAO/HRD-93-36)

Dislocated Workers: Worker Adjustment And Retraining Notification Act  
Not Meeting Its Goals (GAO/HRD-93-18)

Education Issues (GAO/OCG-93-18TR)

Education Reform: School-Based Management Results in Changes in  
Instruction and Budgeting (GAO/HEHS-94-135)

Educational Achievement Standards: NAGB's Approach Yields Misleading  
Interpretations (GAO/PEMD-93-12)

EEOC's Expanding Workload: Increases in Age Discrimination and Other  
Charges Call for New Approach (GAO/HEHS-94-32)

Elementary School Children: Many Change Schools Frequently, Harming  
Their Education (GAO/HEHS-94-45)

Employment Discrimination: How Registered Representatives Fare in  
Discrimination Disputes (GAO/HEHS-94-17)

Employment Service: Improved Leadership Needed for Better  
Performance (GAO/HRD-91-88)

**Federal Prisons: Inmate and Staff Views on Education and Work Training Programs (GAO/GGD-93-33)**

**Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131)**

**Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20)**

**Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33)**

**Foreign Farm Workers in U.S.: Department of Labor Action Needed to Protect Florida Sugar Cane Workers (GAO/HRD-92-95)**

**Impact Aid: Most School Construction Requests Are Unfunded and Outdated (GAO/HRD-90-90)**

**Minimum Wages and Overtime Pay: Change in Statute of Limitations Would Better Protect Employees (GAO/HRD-92-144)**

**National Labor Relations Board: Action Needed to Improve Case-Processing Time at Headquarters (GAO/HRD-91-29)**

**Occupational Safety and Health: Assuring Accuracy in Employer Injury and Illness Records (GAO/HRD-89-23)**

**Occupational Safety and Health: Changes Needed in the Combined Federal-State Approach (GAO/HEHS-94-10)**

**Occupational Safety and Health: OSHA Policy Changes Needed to Confirm That Employers Abate Serious Hazards (GAO/HRD-91-35)**

**Occupational Safety and Health: Penalties for Violations Are Well Below Maximum Allowable Penalties (GAO/HRD-92-48)**

**Occupational Safety and Health: Worksite Safety and Health Programs Show Promise (GAO/HRD-92-68)**

**Precollege Math and Science Education: Department of Energy's Precollege Program Managed Ineffectively (GAO/HEHS-94-208)**



---

**Regulatory Flexibility in Schools: What Happens When Schools Are Allowed to Change the Rules?** (GAO/HEHS-94-102)

**Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need** (GAO/HRD-92-16)

**School-Linked Human Services: A Comprehensive Strategy for Aiding Students at Risk of School Failure** (GAO/HRD-94-21)

**Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain Eligible Workers Vary** (GAO/HRD-91-33)

**Vocational Education: Opportunity to Prepare for the Future**  
(GAO/HRD-89-55)

**Vocational Rehabilitation: Evidence for Federal Program's Effectiveness Is Mixed** (GAO/PEMD-93-19)

**Within-School Discrimination: Inadequate Title VI Enforcement by the Office for Civil Rights** (GAO/HRD-91-85)

---

## Federal Health Programs—Direct Delivery Issue Area (Budget Function 550)

GAO Contact: David P. Baine, 202/512-7101

---

### Impact of GAO's Work

The Department of Defense (DOD) and the Department of Veterans Affairs (VA) operate two of the largest centrally managed health care systems in the world, spending more than \$25 billion annually through about 500 facilities and a network of private providers (e.g., DOD's CHAMPUS (Civilian Health and Medical Program of the Uniformed Services) Program). In addition, the Health Care Financing Administration is administering the multibillion dollar Medicare and Medicaid programs, which finance health care provided to the nation's elderly, disabled, and economically disadvantaged.

Rising health care costs and substantial budget deficits have prompted major congressional concerns about whether these agencies are delivering quality health care to their beneficiaries as efficiently and cost-effectively as possible. Further, the lack of health insurance for many Americans has prompted proposals for health care reform, and our work enables us to advise the Congress as it considers formulation of a revised national health care system. The downsizing of military forces and the potential transfer of beneficiaries from DOD systems to VA systems has also prompted a concern about the structure of DOD and VA health delivery and VA's benefits systems.

Our objectives in this issue area are to (1) ensure that VA and DOD health care systems and VA benefits programs are operating effectively and efficiently; (2) identify and assess opportunities for restructuring VA and DOD health care delivery and VA benefits systems to enhance access to health care; (3) evaluate DOD's experience in implementing a large managed health care system to provide input into the nation's health care reform initiatives; and (4) improve the quality of health care processes in VA, DOD, Medicare, Medicaid, and Public Health Service programs.

### DOD Programs

Fiscal year 1994 was a year of work on issues of structure and reform of the military health care system. Our work focused on evaluating the implementation of DOD's managed care plans across the country and the implications of that new system for medical staffing, health care contracting, and alternative health care delivery systems. DOD is

implementing our recommendations in these areas, which will result in a contracting process that is more accountable and fair and medical staffing determined by requirements, rather than an arbitrary floor. We continue to review DOD's move toward managed care through its TRICARE plan and raised concerns about the cost-effectiveness of that delivery method versus that of other options. In addition, DOD is working to develop a uniform health benefits package for its beneficiaries nationwide and has received legislative authority to impose enrollment fees for beneficiaries' health care services, a recommendation we have made in the past.

We followed the progress of DOD's comprehensive study of the military medical care system. This study, known as the section 733 study, was mandated by the Congress in the fiscal years 1992-1993 Defense Authorization Act. The act required DOD to define its requirements for medical readiness and evaluate the cost-effectiveness of peacetime delivery of health care to its beneficiaries. The study was released in the spring of 1994, and we are evaluating its accuracy and usefulness to the Congress. We expect that this work will provide important guidance to the Congress on the future direction of military managed health care efforts.

## VA Programs

We are continuing a comprehensive effort to address the restructuring of federal health care delivery systems and beneficiary eligibility reforms. We are also continuing work to improve VA's implementation of veterans' compensation and pension programs.

Our work on restructuring health care provided a better understanding of, and federal options for, a system of universal access to quality health care. As part of this effort, we testified three times on the problems VA would likely face in competing under national health reforms. We stated that provisions in the proposed Health Security Act to make VA competitive in a managed care environment would create significant risks. For example, expanded entitlement to free care could add billions of dollars to VA appropriations if all veterans entitled to free care sought to enroll in VA health plans. On the other hand, if capacity in VA health plans were limited, veterans with service-connected disabilities could be denied health care benefits while high-income veterans with no service-connected disabilities were enrolled in VA health plans.

Further, problems in setting accurate and competitive premiums for VA care could lead to cutbacks in the availability of VA services, such as long-term psychiatric care or treatment for spinal cord injuries and posttraumatic stress disorder. In this connection, we related our findings

of the perceptions held by veterans about the role for VA under health reform. Excessive waiting times, poor customer service, and unequal care were among the concerns that VA needs to address if it is to be competitive in a reformed health care system. We also provided the Congress with a section-by-section analysis of the veterans' health care provisions of the administration's proposed Health Security Act.

Our report on VA tuberculosis controls at its medical centers reported that lax infection control practices and inadequate isolation rooms were problems associated with the outbreak of the disease at the East Orange Medical Center. Medical center staff did not consistently use appropriate procedures for isolation of suspected or known tuberculosis patients. But, through policy and procedural changes and interim control measures, the East Orange Center demonstrated that it could be a successful model in sharing the importance of strict observance of infection control procedures and requirements to minimize the risk of tuberculosis for both patients and employees.

VA took steps to increase tuberculosis awareness and promote the need for systemwide planning to address both clinical and construction deficiencies at its facilities. In our view, continued management of infection control practices is needed, together with timely and accurate data on the number and trends in tuberculosis cases and employee test results.

We reported that veterans with nonurgent conditions were too often experiencing service delays when seeking care at VA emergency and screening clinics. VA headquarters did not provide (1) guidance on how facilities should measure veterans' waiting times and (2) performance goals to compare timeliness of services and assess the need for further improvements. Veterans' waiting times could be significantly reduced at some facilities if VA top management helped facility management implement the best practices in place at other facilities.

We reported that current VA practices and procedures made it difficult to ensure that the financing of medical care cost recovery activities conformed to applicable laws. Some medical care cost recovery activities remain inadequately defined, such as those for overhead and medical record coding. Also, the method for allocating personnel costs for both medical care cost recovery and noncost-recovery activities was inadequate. Without better definitions of cost recovery activities and a reasonable method for allocating personnel costs between different

activities, some cost recovery expenses may continue to be improperly charged to the medical care appropriation.

Our work has led to important changes and identification of key issues that will improve veterans' compensation and pensions programs. We assessed the degree of satisfaction among VA customers through a national survey of 1,400 persons who had recently applied for VA nonmedical benefits. We found that the time VA took to process claims was by far the greatest source of applicants' dissatisfaction. Although VA had established timeliness goals, customers might still remain dissatisfied because they believed that processing should be completed in less time than the goals call for.

Communication with VA was another major concern for applicants—40 percent of those who had visited VA offices reported that they had not gotten the information they needed. Many customers were dissatisfied, whether the communication was by mail or phone or in person.

The need to resubmit claims to VA also caused concern for many claimants. Civilian documents, such as marriage certificates, were resubmitted most often. Resubmission costs applicants time and money and can increase VA's workload and processing time.

We examined how veterans' benefits provided by the United States compared with those provided by certain other countries. We found that the United States offered benefits specifically for disabled veterans and their survivors in more program areas than any of the five other countries studied. There are major differences, however, in the types of benefits offered, the eligibility requirements used to qualify for the benefits, and the methods used to compute the benefits. Where they do not have special programs for disabled veterans, the foreign countries provide some of the benefits the U.S. provides through programs that serve the general population as well. Countries differ in the extent to which a veteran's disability must be service connected for the veteran to receive benefits. Most foreign countries require that a disability be closely related to the performance of military duty to qualify for disability benefits; no such link is required in the United States.

The downsizing of the military has created a large surge in the number of service members leaving the armed services each year. We reviewed the DOD transition assistance program and found that many separatees and

their spouses were not getting timely transition services, though required by law. This happened because the program had not received adequate support from DOD, military service headquarters, and individual military unit commanders. As a result, (1) officials responsible for providing transition services did not know who was separating, (2) separating service members were not being provided information translating their military experience and training into marketable civilian skills, (3) members either were not being provided individual preseparation counseling or were not receiving it in a timely manner, and (4) many service members and their spouses did not have the opportunity to attend transition seminars and employment assistance centers.

#### Quality of Care Provided to Federal Beneficiaries

We reported that, despite the good faith efforts of VA program staff, the capacity of VA's programs to serve homeless veterans was far short of the demand. VA services, such as those for substance abuse, mental health, and housing problems, are not available in many localities in the United States. Under law, each VA medical center must assess homeless veterans' needs, determine the availability of VA and other services in the area, and encourage development of plans to address these needs. These assessments have not yet been done.

Because high-risk patients (e.g., patients who are a danger to themselves or others) leaving treatment settings without staff authorization is a significant problem at many VA medical centers, VA needs to improve these centers' assessment and monitoring procedures. Early in a patient's hospital stay, VA must identify those who are high risk and have the potential to leave early. These patients must be closely monitored either through direct staff observation or electronic detection devices or both. VA must also ensure that the search policies of each of its medical centers fully comply with its new search directive and are being complied with. Further, upon termination of an unsuccessful search, VA medical centers can do more than they are now doing to locate unaccounted for high-risk patients. This could be done by (1) disseminating information on the patient to service organizations and other VA offices and (2) annotating missing patients' names in VA's computerized payment and medical records for activation if any inquiries are made about their accounts.

We reported that prison inmates with special needs, including women, psychiatric patients, and patients with chronic illnesses, were not receiving the health care they needed at three Bureau of Prisons (BOP) facilities visited. This was happening because there were not enough physician and nursing staff to perform required clinical and related tasks.

BOP does not have the capacity to provide appropriate medical and psychiatric care at these facilities because it has been unable to recruit and retain qualified health care staff. Quality assurance programs, which rely on staff support for effective implementation, are also adversely affected. In addition, physician assistants, who are relied on to provide a significant amount of primary care to patients, are not as well trained or supervised as they should be. Thus, patients are, and will continue to be, at risk of receiving poor care.

We reported that in many Indian Health Service (IHS) areas, the provision of health care had been hampered by IHS' difficulty in recruiting and retaining qualified health care professionals, especially physicians. The recruitment and the retention of physicians in the Aberdeen, South Dakota, area is hampered by a number of factors, including relatively low pay; inadequate housing for medical personnel on the reservations; remoteness of the reservations; cultural differences between the physicians and their patients; and a general lack of amenities, such as shopping and dining, that are found in urban areas. IHS' Aberdeen area has a higher vacancy rate for physicians than all but one other IHS area. The vacancy rate has been particularly high, over 31 percent, at the Pine Ridge hospital. IHS is examining the benefits of using a physician pay structure similar to that used by VA.

We conducted an extensive literature search and interviewed over 30 health care experts in our study of health care performance measures and the way in which they should be developed so that quality of care "report card" comparisons could be made of various health care plans. We found that report cards could be a useful tool to educate stakeholders about the health care provided by a health plan. Most experts believe that publishing the results of cost and quality indicators, as well as other descriptive information comparing the performance of competing health plans, is a positive step toward preserving the quality, while lowering the cost of health care. However, experts disagree about the type and the amount of information to be published in a report card because the data sources and indicators used may not be reliable or valid. Furthermore, the report cards being developed may not reflect the needs of some users, and few cost estimates for publishing report cards are available.

We reported that millions of dollars in loans had been made to students attending foreign medical schools that might not have met U.S. standards. The comparability of foreign schools to schools in the United States was not ensured before their participation in the student loan program was

authorized. This happened because (1) federal standards for assessing foreign medical schools were not adequate to ensure that these schools were comparable to U.S. schools, particularly in the area of clinical training of foreign medical students; (2) little had been done to enforce the few standards that were in place; and (3) existing procedures did not ensure that students attending unapproved schools were excluded from receiving loans.

---

**Key Open  
Recommendations**

In July 1989, we reported that an estimated 19 percent of veterans receiving compensation benefits had disabilities resulting from diseases that had probably been neither caused nor aggravated by military service. Many of these diseases, which are related to heredity or lifestyle, resulted in benefits estimated at \$1.7 billion in 1986. We recommended that the Congress consider whether these diseases should be compensated as service-connected disabilities. The Congress has not yet taken action. (GAO/HRD-89-60)

In March 1992, we reported that three VA-administered life insurance programs had sufficient excess funds to pay their own administrative costs. This would save an estimated \$27 million annually in appropriated funds. We recommended that the Congress amend 38 U.S.C. 1982 to require that these administrative costs be paid from excess interest income. The Congress has not yet initiated action. (GAO/HRD-92-42)

In September 1992, we reported that VA's vocational rehabilitation program did not emphasize finding jobs for veterans, that VA did not know why most veterans had dropped out of the program, and that standards for measuring services to veterans needed to be improved.

We recommended that VA (1) meet legislative requirements related to finding and maintaining suitable employment for disabled veterans, (2) work with the Department of Labor to effectively provide job placement services, (3) determine why veterans were dropping out and take action to increase the number of veterans completing the program, and (4) establish a realistic performance measurement system. VA agreed with the recommendations and has initiated action. (GAO/HRD-92-100)

We recommended that VA use private health care only when the needed services were not available at VA facilities or veterans' geographic inaccessibility made it more economical to use private care. (GAO/HRD-92-109)



In our report on the quality of care provided by some VA psychiatric hospitals, we recommended that each hospital director be held responsible for making certain that quality-of-care problems were identified and resolved. We recommended also that VA define the term “treatment goal,” provide guidance on how such goals should be evaluated, and ensure that program reviews were conducted to evaluate the attainment of these goals. (GAO/HRD-92-17)

In our report on variabilities in VA’s outpatient care eligibility and rationing decisions, we recommended that VA develop better guidance to medical centers so that clinicians might achieve more consistent application of statutory eligibility requirements or propose to the Congress alternative eligibility criteria that produced greater consistency of eligibility determinations. (GAO/HRD-93-106)

In our report on HealthPASS, we recommended that the Secretary of Health and Human Services (1) require that the Pennsylvania Department of Public Welfare arrange to share the names of HealthPASS members with the Women, Infants, and Children’s Program and (2) direct the state of Pennsylvania to include in its contract with the Healthcare Management Association a requirement to query nationwide information banks to improve the identification of potentially problematic physicians in the HealthPASS Program. (GAO/HRD-93-67)

In our testimony on DOD’s managed health care initiatives, we recommended that DOD adopt a uniform set of health care benefits and cost-sharing requirements within individual categories of beneficiaries and implement organization and budgeting systems that provide managers the appropriate incentives to manage beneficiaries’ care. We recommended also that, as DOD continued to contract for health care services, it (1) carefully determine when contracting would and would not be appropriate, (2) carefully determine the size of its procurements to ensure sufficient competition, and (3) take appropriate safeguards to ensure high quality and accessible care so as to protect beneficiaries and the government against poor contractor performance. (GAO/T-HRD-93-21)

In our report on restructuring the VA ambulatory care system, we recommended that VA restructure its ambulatory care system to improve timeliness of services by (1) establishing telephone assistance networks at each facility, (2) allowing veterans to schedule appointments at general medicine or primary care clinics, (3) requiring all facilities to develop treatment-monitoring systems that ensure that all veterans referred to

specialty clinics would be transferred to general medicine or primary care clinics soon after their conditions were stabilized, and (4) establishing departmentwide performance goals for timely service delivery. (GAO/HRD-94-4)

In our report on the Medical Care Cost Recovery (MCCR) Fund, we recommended that VA examine medical centers' internal accounting and administrative controls and initiate appropriate action to ensure that all medical care cost recovery activities were correctly identified and charged to the MCCR Fund. (GAO/HRD-94-2)

Our report on the results of the national survey of VA customer satisfaction contained recommendations for VA to (1) set long-term goals to meet customer expectations for processing times and prepare a plan describing the incremental steps necessary to meet them, (2) provide applicants realistic estimates about how long it would take to complete their claims, and (3) develop data on applicants denied services so that VA could ensure that this segment of its customers got the best service possible. (GAO/HEHS-94-179)

In our report on the demand for services to homeless veterans, we recommended that VA initiate, without delay, the assessments required under section 107 of Public Law 102-405 and establish a firm date for completing the assessment and submitting the results to the Senate and House Committees on Veterans' Affairs. (GAO/HEHS-94-98)

In our report on improving the monitoring of high-risk patients, we recommended that VA emphasize to medical center management and staff the importance of identifying and closely monitoring high-risk patients with a propensity to leave treatment areas or facilities without staff knowledge or permission. We also recommended that VA require medical centers from which patients had left and were unaccounted for to disseminate information on these patients to other facilities and veterans' organizations in the area. (GAO/HRD-94-27)

In our report on prison inmates' access to health care, we recommended that BOP be required to (1) prepare a needs assessment of the medical services its inmate population required and determine what medical services it could efficiently and effectively provide in-house, (2) determine the most cost-effective approaches to providing appropriate health care to current and future inmate populations, (3) revise its hiring standards for physician assistants to conform to current community standards of

---

training and certification, and (4) reemphasize to the wardens of medical referral centers the importance of taking corrective action on identified quality assurance problems. (GAO/HEHS-94-36)

In our report on inappropriate loans made to U.S. nationals attending foreign medical schools, we made a number of recommendations designed to improve federal standards and processes for assessing foreign medical schools. We recommended that, once this was done, federal information on schools' quality be shared with state medical boards. Further, any schools failing to provide the needed information should be disqualified from participating in the student loan program. (GAO/HEHS-94-28)

---

**Related Products With  
Open Recommendations:  
Federal Health  
Programs—Direct Delivery**

**Product Title**

Bureau of Prisons Health Care: Inmates' Access to Health Care Is Limited by Lack of Clinical Staff (GAO/HEHS-94-36)

Composite Health Care System: Outpatient Capability Is Nearly Ready for Worldwide Deployment (GAO/IMTEC-93-11)

Defense Health Care: Additional Improvements Needed in CHAMPUS's Mental Health Program (GAO/HRD-93-34)

Defense Health Care: CHAMPUS Mental Health Demonstration Project in Virginia (GAO/HRD-93-53)

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10)

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21)

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24)

Defense Health Care: Physical Exams and Dental Care Following the Persian Gulf War (GAO/HRD-93-5)

DOD Health Care: Further Testing and Evaluation of Case-Managed Home Health Care Is Needed (GAO/HRD-93-59)

Federal Health Benefits Program: Stronger Controls Needed to Reduce Administrative Costs (GAO/GGD-92-37)

Homelessness: Demand for Services to Homeless Veterans Exceeds VA Program Capacity (GAO/HEHS-94-98)

Long-Term-Care Case Management: State Experiences and Implications for Federal Policy (GAO/HRD-93-52)

Maternal and Child Health: Block Grant Funds Should Be Distributed More Equitably (GAO/HRD-92-5)

Medicaid: HealthPASS: An Evaluation of a Managed Care Program for Certain Philadelphia Recipients (GAO/HRD-93-67)

Medical ADP Systems: Automated Medical Records Hold Promise to Improve Patient Care (GAO/IMTEC-91-5)

Medical ADP Systems: Defense's Tools and Methodology for Managing CHCS Performance Need Strengthening (GAO/AIMD-94-61)

Military Downsizing: Persons Returning to Civilian Life Need More Help From DOD (GAO/HEHS-94-39)

Pesticides: Need to Enhance FDA's Ability to Protect the Public From Illegal Residues (GAO/RCED-87-7)

Psychiatric Fraud and Abuse: Increased Scrutiny of Hospital Stays Is Needed for Federal Health Programs (GAO/HRD-93-92)

Student Loans: Millions Loaned Inappropriately to U.S. Nationals at Foreign Medical Schools (GAO/HEHS-94-28)

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60)

VA Health Care: Actions Needed to Control Major Construction Costs (GAO/HRD-93-75)

VA Health Care: Copayment Exemption Procedures Should Be Improved  
(GAO/HRD-92-77)

VA Health Care: Inadequate Controls Over Scarce Medical Specialist  
Contracts (GAO/HRD-92-114)

VA Health Care: Medical Care Cost Recovery Activities Improperly Funded  
(GAO/HRD-94-2)

VA Health Care: Medical Centers Are Not Correcting Identified Quality  
Assurance Problems (GAO/HRD-93-20)

VA Health Care: Modernizing VA's Mail-Service Pharmacies Should Save  
Millions of Dollars (GAO/HRD-92-30)

VA Health Care: Offsetting Long-Term Care Costs by Adopting State  
Copayment Practices (GAO/HRD-92-96)

VA Health Care: Potential for Offsetting Long-Term Care Costs Through  
Estate Recovery (GAO/HRD-93-68)

VA Health Care: Problems in Implementing Locality Pay for Nurses Not  
Fully Addressed (GAO/HRD-93-54)

VA Health Care: Restructuring Ambulatory Care System Would Improve  
Services to Veterans (GAO/HRD-94-4)

VA Health Care: Role of the Chief of Nursing Service Should Be Elevated  
(GAO/HRD-92-74)

VA Health Care: Telephone Service Should Be More Accessible to Patients  
(GAO/HRD-91-110)

VA Health Care: The Quality of Care Provided by Some VA Psychiatric  
Hospitals Is Inadequate (GAO/HRD-92-17)

VA Health Care: Use of Private Providers Should Be Better Controlled  
(GAO/HRD-92-109)

VA Health Care: VA Medical Centers Need to Improve Monitoring of  
High-Risk Patients (GAO/HRD-94-27)

**VA Health Care: VA Plans Will Delay Establishment of Hawaii Medical Center (GAO/HRD-92-41)**

**VA Health Care: Variabilities in Outpatient Care Eligibility and Rationing Decisions (GAO/HRD-93-106)**

**VA Health Care: Verifying Veterans' Reported Income Could Generate Millions in Copayment Revenues (GAO/HRD-92-159)**

**VA Life Insurance: Administrative Costs for Three Programs Should Be Paid From Excess Funds (GAO/HRD-92-42)**

**Veterans Benefits: Acquisition of Information Resources for Modernization Is Premature (GAO/IMTEC-93-6)**

**Veterans' Benefits: Lack of Timeliness, Poor Communication Cause Customer Dissatisfaction (GAO/HEHS-94-179)**

**Veterans' Compensation: Premature Closing of VA Office in the Philippines Could Be Costly (GAO/HRD-93-96)**

**Vocational Rehabilitation: Better VA Management Needed to Help Disabled Veterans Find Jobs (GAO/HRD-92-100)**

---

## Income Security Issue Area (Budget Functions 600, 650, and 700)

GAO Contact: Jane L. Ross, 202/512-7230

---

### Impact of GAO's Work

Income security programs affect all Americans at some time. Their purpose, in part, is to help people become self-sufficient and to support those unable to support themselves. The programs (1) provide cash aid to the elderly, the disabled, and the poor; (2) serve as conduits for funding in-kind assistance for such needy populations as the homeless, refugees, runaway youth, and abused children; and (3) provide oversight for the private pension system. Income security expenditures make up about 40 percent of all federal spending.

Our work provided information and recommendations directed at (1) determining what the government is doing and what the government could do to prevent dependency and increase self-sufficiency, (2) helping to redesign disability programs to better reflect the changing view of the disabled in society, (3) ensuring adequate retirement benefits in a changing economy, (4) ensuring adequate home and community-based long-term care services at a reasonable cost, (5) ascertaining how government services could be delivered effectively, and (6) determining the adequacy of government efforts to ensure efficient spending of public funds.

For example, our evaluations and analyses of long-term care, pension, and key welfare reform issues have contributed and are expected to continue to contribute to the health, welfare, and pension reform debates. In addition, our reviews of the Social Security Administration's (SSA) activities helped the Congress during deliberations leading to the passage of the Social Security Independence and Program Improvements Act of 1994 (Public Law 103-296, dated Aug. 15, 1994). We also assisted in drafting the Local Partnership Act provisions of the Violent Crime Control and Law Enforcement Act of 1994 (Public Law 103-322, dated Sept. 13, 1994) governing the allocation of crime prevention grants to local governments throughout the country.

Further, prior reports disclosed serious weaknesses in the Pension Benefit Guaranty Corporation's (PBGC) premium billing and collection systems and recommended various corrective measures. In response, PBGC changed its

---

collection procedures and collected more than \$44 million in additional premiums, penalties, and interest.

As a result of our continuing work in the use of SSA's death information, legislation was enacted that will cause states to share previously restricted information, leading to a savings of \$19.5 million.

---

## Key Open Recommendations

### Child Support Enforcement

In June 1992, we reported that states had done little to help defray the costs of providing child support enforcement services to clients who did not receive Aid to Families With Dependent Children (AFDC) benefits. With the broad discretion available to them, most states have implemented minimal fee policies. In 1990, about 3.5 percent of the \$644 million in administrative costs for non-AFDC clients was recovered by the states through fees. We recommended that the Congress amend title IV-D of the Social Security Act to require states to recover more of these costs. Congressional actions have not been initiated because the Congress is waiting to discuss and debate the administration's proposals for welfare and child support reforms. (GAO/HRD-92-91)

### Foster Care

In August 1992, we reported that child abuse prevention programs had been shown to be effective. Although few in number, evaluations of these programs indicate that they had reduced the incidence of abuse in high-risk families and the cost of long-range problems associated with abuse. While the federal government provides billions of dollars annually to states for foster care and other assistance for children who have already been abused, it provides relatively little funding for prevention. We recommended that, to give states incentives to implement and sustain child abuse prevention programs, the Congress amend title IV-F of the Social Security Act to reimburse states, at foster care matching rates, for the cost of implementing prevention programs. The reimbursements would be provided to states that demonstrated that the programs, by reducing child abuse and related foster care placements, were paying for themselves. The Congress has taken some action to make limited funds available for possible use in child abuse prevention but has not specifically addressed our recommendation. (GAO/HRD-92-99)

### Child Care

In November 1992, we reported that states were struggling to enforce their child care standards and promote quality in various child care settings.



While legislation establishing the Child Care and Development Block Grant (CCDBG) had been recently enacted and provided some money to states for quality improvement activities, including enforcement, Department of Health and Human Services (HHS) regulations further restricted the amount to be used for these activities. Given this, state officials were not optimistic about CCDBG's impact on their quality improvement and enforcement efforts, especially if state budget constraints continued and heavy caseloads became heavier as new providers, paid with CCDBG funds, entered the market. We recommended that HHS assess whether the quantity of child care services under CCDBG would exceed the states' capacity to ensure that those services met an acceptable level of care and, if so, modify its regulations restricting the use of CCDBG's quality improvement money. In May 1994, HHS regulations proposed for CCDBG's that allowed states greater flexibility in the amount of money they used for quality improvement activities. Final comments were due in July 1994. As of December 1994, HHS had not published its final regulations. (GAO/HRD-93-13)

#### Retirees' Benefits

We evaluated the readability of forms used by retirees who had chosen not to select survivor benefits for their spouses. In December 1989 and in December 1991, we recommended that the Internal Revenue Service (IRS) develop model language to be used by pension plans to clarify the implications of options available to retirees and their spouses. Once implemented, this recommendation could lead to an increase in the number of elderly widowed spouses receiving income from the private pension system. In response to our recommendations, IRS published an announcement for public notice and comment on a proposal to develop model language. (GAO/HRD-92-31)

#### Social Security

In March 1987, we reported on management problems that SSA must address to ensure high-quality services. Our report contained numerous recommendations. While some are closed, those still open address (1) improving the long-term operational plan, (2) reexamining resources and priorities of existing automatic data-processing systems, (3) improving various aspects of the management information system, and (4) establishing performance standards and measurements. (GAO/HRD-87-39)

In July 1991, we provided information to the Congress on debt management practices at SSA, the Railroad Retirement Board, the Office of Personnel Management, and the Department of Veterans Affairs. We recommended that SSA (1) assign central responsibility for debt management to the Deputy Commissioner for Finance, Assessment, and

Management and (2) accelerate completion of the management information system needed to support effective debt management. We also recommended that the Director, Office of Management and Budget, direct the Secretary of Veterans Affairs to assess interest and administrative costs on overpayments, as required by the Veterans Rehabilitation and Education Amendments of 1980. (GAO/HRD-91-46)

In September 1992, we reported on SSA and IRS efforts to reconcile billions of dollars in differences in the amounts of social security wages separately reported to the agencies. These differences are important because they affect the funding of the social security trust funds. We advised the Congress, to resolve questions about how much revenue should be credited to the trust funds each year, to amend the Social Security Act to credit revenues on the basis of social security taxes collected. The Congress has yet to act on this recommendation. (GAO/HRD-92-81)

In May 1994, we estimated that about 250,000 drug addicts and alcoholics were receiving disability payments under SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs at an annual cost of about \$1.4 billion. We also found that while certain addicts receiving SSI benefits (about 80,000) were required by law to obtain treatment and have representative payees as a condition of receiving benefits, many other addicts were receiving SSI benefits without meeting such conditions. Similarly, none of the addicts receiving DI benefits were required by law to attend treatment or have representative payees. We made a number of recommendations to the Congress and SSA to strengthen controls over these payments. The Congress enacted legislation in August 1994 that fully addressed our recommendations. SSA has initiated plans that respond to our report and the August 1994 legislation. (GAO/HEHS-94-128)

In June 1994, we also reported that SSA was mandated by law to periodically review the continued eligibility of DI beneficiaries. But, because of the lack of funding, SSA has not fully carried out this mandate and many ineligible beneficiaries continue to receive benefits at a significant cost to the DI trust fund. For example, according to SSA, because it did not perform all required continuing disability reviews during fiscal years 1990-1993, the trust fund will incur extra costs of \$1.4 billion through fiscal year 1997. The lack of funding has been exacerbated because disability claims have significantly increased in the 1990s. We made several recommendations to enhance the review process. SSA is taking initiatives to implement our recommendations. (GAO/HEHS-94-118)

---

Related Products With  
Open Recommendations:  
Income Security

Product Title	Board and Care Homes: Elderly at Risk From Mishandled Medications (GAO/HRD-92-45)
	Child Abuse: Prevention Programs Need Greater Emphasis (GAO/HRD-92-99)
	Child Care: States Face Difficulties Enforcing Standards and Promoting Quality (GAO/HRD-93-13)
	Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91)
	Debt Management: More Aggressive Actions Needed to Reduce Billions in Overpayments (GAO/HRD-91-46)
	Employee Benefits: Improved Plan Reporting and CPA Audits Can Increase Protection Under ERISA (GAO/AFMD-92-14)
	Employee Benefits: States Need Labor's Help Regulating Multiple Employer Welfare Arrangements (GAO/HRD-92-40)
	Families on Welfare: Focus on Teenage Mothers Could Enhance Welfare Reform Efforts (GAO/HEHS-94-112)
	Financial Audit: Department of Veterans Affairs Financial Statements for Fiscal Years 1989 and 1988 (GAO/AFMD-91-6)
	Financial Audit: Pension Benefit Guaranty Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-109)
	Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Fund (GAO/AFMD-92-1)
	Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1987 and 1986 (GAO/AFMD-89-23)
	Foreign Farm Workers in U.S.: Department of Labor Action Needed to Protect Florida Sugar Cane Workers (GAO/HRD-92-95)

Foster Care: Federal Policy on Title IV-E Share of Training Costs  
(GAO/HRD-94-7)

Homelessness: Access to McKinney Act Programs Improved but Better  
Oversight Needed (GAO/RCED-91-29)

Homelessness: Action Needed to Make Federal Surplus Property Program  
More Effective (GAO/RCED-91-33)

Homelessness: Demand for Services to Homeless Veterans Exceeds VA  
Program Capacity (GAO/HEHS-94-98)

Homelessness: Federal Personal Property Donations Provide Limited  
Benefit to the Homeless (GAO/RCED-91-108)

Housing Programs: VA Can Reduce Its Guaranteed Home Loan Foreclosure  
Costs (GAO/RCED-89-58)

Immigration Reform: Verifying the Status of Aliens Applying for Federal  
Benefits (GAO/HRD-88-7)

Military Downsizing: Persons Returning to Civilian Life Need More Help  
from DOD (GAO/HEHS-94-39)

The New Earned Income Credit Form Is Complex and May Not Be Needed  
(GAO/T-GGD-91-68)

Older Americans Act: Funding Formula Could Better Reflect State Needs  
(GAO/HEHS-94-41)

Older Americans Act: More Federal Action Needed on Public/Private Elder  
Care Partnerships (GAO/HRD-92-94)

Older Americans Act: Title III Funds Not Distributed According to Statute  
(GAO/HEHS-94-37)

Pension Plans: Stronger Labor ERISA Enforcement Should Better Protect  
Plan Participants (GAO/HEHS-94-157)

Private Pensions: IRS Efforts Underway to Improve Spousal Consent Forms  
(GAO/HRD-92-31)

**Private Pensions: Protections for Retirees' Insurance Annuities Can Be Strengthened (GAO/HRD-93-29)**

**Private Pensions: Spousal Consent Forms Hard to Read and Lack Important Information (GAO/HRD-90-20)**

**Quality Assurance Independence (GAO/HEHS-94-151R)**

**Rental Housing: Housing Vouchers Cost More Than Certificates But Offer Added Benefits (GAO/RCED-89-20)**

**Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39)**

**Social Security Disability: SSA Needs to Improve Continuing Disability Review Program (GAO/HRD-93-109)**

**Social Security Disability: SSA Quality Assurance Improvements Can Produce More Accurate Payments (GAO/HEHS-94-107)**

**Social Security: Increasing Number of Disability Claims and Deteriorating Service (GAO/HRD-94-11)**

**Social Security: IRS Tax Identity Data Can Help Improve SSA Earnings Records (GAO/HRD-93-42)**

**Social Security: Major Changes Needed for Disability Benefits for Addicts (GAO/HEHS-94-128)**

**Social Security: Measure of Telephone Service Accuracy Can Be Improved (GAO/HRD-91-69)**

**Social Security: Most Social Security Death Information Accurate But Improvements Possible (GAO/HEHS-94-211)**

**Social Security: Need for Better Coordination of Food Stamp Services for Social Security Clients (GAO/HRD-92-92)**

**Social Security: New Continuing Disability Review Process Could Be Enhanced (GAO/HEHS-94-118)**

**Social Security: Racial Difference in Disability Decisions Warrants Further Investigation (GAO/HRD-92-56)**

**Social Security: Reconciliation Improved SSA Earnings Records, But Efforts Were Incomplete (GAO/HRD-92-81)**

**Social Security: Reporting and Processing of Death Information Should Be Improved (GAO/HRD-92-88)**

**Social Security: Sustained Effort Needed to Improve Management and Prepare for the Future (GAO/HRD-94-22)**

**Social Security: Trust Funds Can Be More Accurately Funded (GAO/HEHS-94-48)**

**Urban Poor: Tenant Income Misreporting Deprives Other Families of HUD-Subsidized Housing (GAO/HRD-92-60)**

**VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60)**

**VA Life Insurance: Administrative Costs for Three Programs Should Be Paid From Excess Funds (GAO/HRD-92-42)**

**Veterans' Compensation: Premature Closing of VA Office in the Philippines Could Be Costly (GAO/HRD-93-96)**

**Vocational Rehabilitation: Better VA Management Needed to Help Disabled Veterans Find Jobs (GAO/HRD-92-100)**

**Vocational Rehabilitation: VA Needs to Emphasize Serving Veterans With Serious Employment Handicaps (GAO/HRD-92-133)**

**Welfare Benefits: States Need Social Security's Death Data to Avoid Payment Error or Fraud (GAO/HRD-91-73)**

**Welfare Eligibility: Programs Treat Indian Tribal Trust Fund Payments Inconsistently (GAO/HRD-88-38)**

**Welfare to Work: JOBS Participation Rate Data Unreliable for Assessing States' Performance (GAO/HRD-93-73)**

---

## Medicare and Medicaid Issue Area (Budget Function 570)

GAO Contact: Sarah F. Jaggar, 202/512-7119

---

### Impact of GAO's Work

As health care financier and insurer, the federal government serves over 35 million elderly and disabled under Medicare, an estimated 36 million poor under Medicaid, and 9 million active and retired federal employees and their families under the Federal Employees Health Benefits Program. The government's primary programs for financing health care, Medicare and Medicaid, have a federal spending total estimated at over \$255 billion in fiscal year 1995; an additional \$73 billion in state and local funds is expected to be spent on Medicaid.

Our primary objective in reviewing these programs is to find ways to reduce costs without adversely affecting beneficiary access to quality care. Other important objectives are to (1) assess the processes used to control and identify fraud, abuse, and mismanagement in the programs; (2) evaluate quality-of-care assurance systems; and (3) review issues related to beneficiary access to care.

Throughout the 1980s, the Congress looked to Medicare for deficit reduction opportunities and billions of dollars in monetary savings were achieved. Medicaid became a means of expanding health care services for those too poor to obtain them, particularly pregnant women and children. But the 1990s are presenting new challenges to these programs and health care in general. Health care costs have skyrocketed, and the nation's uninsured and underinsured populations continue to grow. New approaches for delivering health care services to millions of Americans are being tried. Our work continues to support many of the Medicare and Medicaid program initiatives and legislative changes undertaken by the Congress.

### Waste and Abuse

In the past year, we issued several reports discussing limitations in Medicare's efforts to protect program dollars from waste and abuse. The Health Care Financing Administration (HCFA), the agency that oversees Medicare, has not compiled sufficient information on its contractors' payment safeguards to systematically identify where important controls may be needed. In addition, the agency has not always provided adequate guidance to contractors on such matters as the methods they should use to detect potentially fraudulent, erroneous, or inappropriate claims.

We recommended various actions, to ensure that HCFA contractors improved their reviews of paid claims, that would require HCFA to assume a more proactive role in managing the program. These included HCFA's (1) expanding guidance and technical assistance for contractors' development of data analysis methods; (2) addressing longstanding legal and administrative problems that constrain contractors' authority to act against abusive providers; and (3) establishing better measures of contractor performance in the area of program safeguards.

### Monetary Benefits

We continued to monitor Medicare contractor efforts to recover duplicate payments from providers and private insurers. Our previous work identified ways that HCFA, through its Medicare contractors, could recover several hundred million dollars in duplicate payments. So far, hospital and other providers have refunded over \$650 million in outstanding credit balances.

Medicare contractors were continuing to recover payments for services that had been determined to be the responsibility of private insurers. Backlogs of duplicate payments were reduced from over \$1 billion to about \$78 million. HCFA estimated that about \$300 million had been recovered from private health insurers. Our most recent report and testimony commented on legislation requiring HCFA to establish a data bank containing information on workers, spouses, and dependents covered by employer health groups. Our work showed that the data bank would not measurably strengthen the existing process for ensuring that private health insurers paid before Medicare and Medicaid. On the basis of our work, HCFA proposed an 18-month delay in implementation of the data bank requirements.

### Impact on Program Beneficiaries

We continued to monitor programs directly affecting Medicare and Medicaid beneficiaries. One report stated that an estimated 1.8 million senior citizens were not enrolled in the Qualified Medicare Beneficiary (QMB) program, which allows Medicaid to pay premiums, deductibles, and coinsurance for certain Medicare beneficiaries. Many reasons were cited for the program's failure to enroll eligible Medicare beneficiaries, including a perceived welfare stigma attached to the program, a complicated application process, and the belief that the benefit was not worth much in monetary terms. Also, a small percentage of QMBs and regular Medicaid beneficiaries do not qualify for free Medicare inpatient services—but could if states paid their premiums. We recommended that the Congress authorize a demonstration project that would permit the Social Security Administration to enroll Medicare-eligible beneficiaries in



the program and require automatic buy-in for all QMB and regular Medicaid beneficiaries.

In another report, we estimated that about 3 million elderly Medicare beneficiaries paid about \$1.8 billion in 1991 for supplemental insurance policies (Medigap) that probably involved duplicate coverage. Many of these people had coverage through employer-sponsored plans and did not need to purchase Medigap policies. Although retirees with employer-sponsored coverage do not, as a rule, need to purchase Medigap policies, employer-sponsored insurance is not secure. Many employers offering retiree health plans are increasing cost-sharing, tightening eligibility requirements, or possibly terminating plans. While Medigap insurance may be appropriate in these circumstances, federal requirements provide, in effect, a one-time “open season” for people to purchase Medigap insurance, regardless of health status. We recommended two options to alleviate this problem—(1) that the Congress change the federal Medigap law to guarantee an open season for retirees whose employer-sponsored plans had been terminated or substantially changed or (2) that the Congress require a periodic open season for all Medicare beneficiaries.

A recent report on the Medicaid program showed that many low-income persons had never completed the application process mainly because applicants had failed to provide the needed documentation to verify their eligibility or had not appeared for eligibility interviews. Because hospitals desperately need a payment source to cover the care of uninsured patients, many states rely on outside help to enroll patients in Medicaid. Lessons learned from these experiences could help in dealing with the increased administrative burdens of expanded coverage under future health care reform.

#### Financial and Management Matters

Work in the Medicaid program showed that Michigan, Texas, and Tennessee had used several financing approaches to maximize federal Medicaid contributions without effectively committing their share of matching funds. In some cases, payments to health care facilities exceeded the cost of the services provided. Under these approaches, health care facilities that received increased Medicaid payments from the states, in turn, paid the states almost as much as they had received. Consequently, the states realized increased revenue that was used to reduce their state Medicaid contributions, fund other health care needs, and supplement general revenue funding. We recommended that the Congress develop legislation to minimize the likelihood that states could develop illusory

financing mechanisms whereby providers returned Medicaid payments to the states, thus effectively reducing the states' share of Medicaid funding.

We also issued a report on HCFA's contracting authority for processing Medicare claims. Such contracts are awarded without competition, renewed annually, and funded on a cost-reimbursement basis. Periodically, the Congress has directed HCFA to experiment with other types of contracts to help reduce administrative costs. The Congress is considering a legislative proposal requiring HCFA to study the feasibility of making the contracting process more competitive. Although HCFA contracts with the BlueCross and BlueShield Association for the administration of 41 Medicare contractors, it has not evaluated the Association's performance since 1989. We therefore recommended that HCFA develop criteria and evaluate the Association's role as a prime contractor to ensure that Medicare contractors abide by all contract provisions.

In another report, we examined HCFA's methodology for setting payment rates to health maintenance organizations (HMOs) under the Medicare Risk Contract Program, a program expected to allow the government to share in managed care-generated cost savings. Currently, rates are set on the basis of the average local fee-for-service costs for Medicare beneficiaries. Because beneficiaries enrolling in HMOs under the Risk Contract Program tend to be healthier on average, even rates paid to HMOs that are risk adjusted on the basis of age, sex, and institutional status tend to exceed the cost of care by substantial amounts. Consequently, program savings have not been realized. We therefore recommended that the HCFA Administrator take action to identify better risk adjustment methods and explore payment methods that did not rely on fee-for-service rates.

Other reports issued during the year addressed (1) federal financing of graduate medical education of primary care and nonprimary care physicians, (2) federal and state antitrust actions concerning the health care industry and antitrust enforcement under Maryland's hospital all payer system, (3) changes in best prices for outpatient drugs purchased by HMOs and hospitals, and (4) financial problems and management weaknesses of BlueCross and BlueShield plans.

---

## Key Open Recommendations

### Excessive Medicare Payments for Costly Technology

We recommended that HCFA (1) survey the technical component costs incurred by facilities providing radiology services and revise the fee schedule to more accurately reflect the costs incurred and (2) periodically adjust technical component payments to reflect changing costs, with annual payment reviews for procedures using high-cost technologies. This would save Medicare a significant amount of money and, even though costs per scan would decrease, providers would still realize profits because there would be fewer machines and utilization would rise. (GAO/HRD-92-59)

### Special Payments to Teaching Hospitals

We reported that the extra payments to Medicare teaching hospitals were too high and recommended that the Congress reduce the percentage of add-on payments that teaching hospitals received. About \$1 billion could be saved annually. (GAO/HRD-89-33)

### Medicaid Enrollment in the District of Columbia

We recommended that the Mayor of the District of Columbia establish a demonstration or a pilot project focusing on the enrollment of Medicaid-eligible persons at hospitals. The project could (1) identify and describe the eligible patients having the most difficulty getting enrolled, (2) identify their assistance needs, and (3) test methods of providing these patients with needed assistance through outstationing of eligibility workers and other means. (GAO/HRD-93-28)

### Financing State Medicaid Programs

We recommended that the Congress enact legislation to minimize the likelihood that states could develop illusory financing mechanisms whereby providers returned Medicaid payments to the states, thus effectively reducing the states' share of Medicaid funding. The legislation should prohibit Medicaid payments that exceed costs to any government-owned facility. (GAO/HEHS-94-133)

### Health Insurance for the Elderly

One-third of retirees get supplemental insurance from their former employers. If a Medicare beneficiary's plan is subsequently modified or discontinued by the employer and the person desires to obtain a different supplemental policy, the beneficiary will not be eligible for the 6-month open enrollment period provided for persons who are newly enrolled in Medicare part B. Thus, obtaining an alternative Medigap policy may not be possible. We recommended that, for this reason, the Congress amend the law to provide a mechanism for retirees to obtain Medigap insurance when these circumstances occurred. (GAO/HEHS-94-185)

---

Related Products With  
Open Recommendations:  
Medicare and Medicaid

Product Title

District of Columbia: Barriers to Medicaid Enrollment Contribute to Hospital Uncompensated Care (GAO/HRD-93-28)

Health Insurance for the Elderly: Owning Duplicate Policies Is Costly and Unnecessary (GAO/HEHS-94-185)

Health Reform: Purchasing Cooperatives Have an Increasing Role in Providing Access to Insurance (GAO/T-HEHS-94-196)

Long-Term-Care Case Management: State Experiences and Implications for Federal Policy (GAO/HRD-93-52)

Medicaid Drug Fraud: Federal Leadership Needed to Reduce Program Vulnerabilities (GAO/HRD-93-118)

Medicaid: Ensuring that Noncustodial Parents Provide Health Insurance Can Save Costs (GAO/HRD-92-80)

Medicaid: HealthPASS: An Evaluation of a Managed Care Program for Certain Philadelphia Recipients (GAO/HRD-93-67)

Medicaid: States Use Illusory Approaches to Shift Program Costs to Federal Government (GAO/HEHS-94-133)

Medicare and Medicaid: Many Eligible People Not Enrolled in Qualified Medicare Beneficiary Program (GAO/HEHS-94-52)

Medicare: Changes to HMO Rate Setting Method Are Needed to Reduce Program Costs (GAO/HEHS-94-119)

Medicare: Excessive Payments Support the Proliferation of Costly Technology (GAO/HRD-92-59)

Medicare: Experience Shows Ways to Improve Oversight of Health Maintenance Organizations (GAO/HRD-88-73)

**Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67)**

**Medicare: Greater Investment in Claims Review Would Save Millions (GAO/HEHS-94-35)**

**Medicare: HCFA Should Improve Internal Controls Over Part B Advance Payments (GAO/HRD-91-81)**

**Medicare: HCFA's Contracting Authority for Processing Medicare Claims (GAO/HEHS-94-171)**

**Medicare: Inadequate Review of Claims Payments Limits Ability to Control Spending (GAO/HEHS-94-42)**

**Medicare: Indirect Medicare Education Payments Are Too High (GAO/HRD-89-33)**

**Medicare/Medicaid: Data Bank Unlikely to Increase Collections From Other Insurers (GAO/HEHS-94-147)**

**Medicare: New Claims Processing System Benefits and Acquisition Risks (GAO/HEHS/AIMD-94-79)**

**Medicare: One Scheme Illustrates Vulnerabilities to Fraud (GAO/HRD-92-76)**

**Medicare: Over \$1 Billion Should Be Recovered From Primary Health Insurers (GAO/HRD-92-52)**

**Medicare: Payments for Clinical Laboratory Test Services Are Too High (GAO/HRD-91-59)**

**Medicare Physician Payment: Geographic Adjusters Appropriate But Could Be Improved With New Data (GAO/HRD-93-93)**

**Medicare: PRO Review Does Not Assure Quality of Care Provided by Risk HMOS (GAO/HRD-91-48)**

**Medicare: Variations in Payments to Anesthesiologists Linked to Anesthesia Time (GAO/HRD-91-43)**

---

**Screening Mammography: Higher Medicare Payments Could Increase  
Costs Without Increasing Use (GAO/HRD-93-50)**

---

## National and Public Health Issue Area (Budget Function 550)

GAO Contact: Sarah F. Jaggar, 202/512-7119

---

### Impact of GAO's Work

Among the federal government's functions in supporting public health are research funds, support for educating and training health professionals, and surveillance of contagious diseases; overseeing food and drugs; providing block grants to states for mental health services, drug and alcohol programs, and maternal and child health services; and providing health care services to underserved areas and population groups.

The Public Health Service, through its numerous agencies, carries out most of these tasks.

### Health Care Reform

Our work has made a significant contribution to the debate on health care reform as it relates to the organization and the availability of private health insurance. We issued reports examining the experience of existing health insurance-purchasing alliances, a key component of managed competition reform proposals. We also examined difficulties related to establishing geographic boundaries for proposed alliance regions. Our review of four major health reform bills indicated the potential for administrative cost savings as many current insurance functions would have been transferred to purchasing alliances or a public single payer. We also examined the rapid growth of managed health care plans among private employers and noted the difficulties in attributing cost savings to these plans.

Our health care reform work also highlighted issues of access to care. By examining health care in Hawaii, we were able to discuss the implications for national reform of mandating employers to provide health coverage. We also questioned whether federal funds for health professionals' education under titles VII and VIII had achieved improved access to health care among underserved populations. Our interim report on school-linked health services assisted the Senate Committee on Labor and Human Resources in unanimously adopting a section supporting school-based clinics in its markup of a major health reform bill.

We have also continued to support congressional oversight of the Public Health Service. Our review of the activities of the eight Public Health Service agencies did not find areas of duplication and supported the appropriateness of the Center for Disease Control's activities in chronic diseases; intentional injury; and funding of services, such as cancer

---

screening. We also examined the Food and Drug Administration's regulation of dietary supplements.

---

Key Open  
Recommendations

In our July 1994 report, we found that, over the past decade, the supply of nearly all health professions had increased faster than the population. For most health professions, however, data are not available to demonstrate whether this increase has meant more access to care for people in rural and underserved areas. Data are inconclusive to support Department of Health and Human Services' premise that further increases in minority recruitment will improve access to health care for underserved populations. While almost \$2 billion has been provided for 30 title VII and title VIII programs in the last 10 years, evaluations have not shown that these programs have significantly effected changes in the supply distribution and in minority representation of health professionals.

We recommended that the Congress or the Secretary of Health and Human Services establish (1) specific national goals for title VII and title VIII programs, (2) common outcome measures and reporting requirements for each goal, (3) restrictions limiting the use of funds to activities whose results can be measured against these goals and reported, and (4) criteria for allocating funding among professions on the basis of relative need in meeting national goals. (GAO/HEHS-94-164)

---

Related Products With  
Open Recommendations:  
National and Public Health

Product Title

Access to Health Care: States Respond to Growing Crisis (GAO/HRD-92-70)

ADMS Block Grant: Drug Treatment Services Could Be Improved by New Accountability Program (GAO/HRD-92-27)

Biotechnology: Managing the Risks of Field Testing Genetically Engineered Organisms (GAO/RCED-88-27)

Board and Care Homes: Elderly at Risk From Mishandled Medications (GAO/HRD-92-45)



**Breastfeeding: WIC's Efforts to Promote Breastfeeding Have Increased**  
(GAO/HRD-94-13)

**Child Abuse: Prevention Programs Need Greater Emphasis** (GAO/HRD-92-99)

**Childhood Immunization: Opportunities to Improve Immunization Rates at Lower Cost** (GAO/HRD-93-41)

**Drug Abuse Research: Federal Funding and Future Needs** (GAO/PEMD-92-5)

**Early Intervention: Federal Investments Like WIC Can Produce Savings**  
(GAO/HRD-92-18)

**FDA Regulations: Sustained Management Attention Needed to Improve Timely Issuance** (GAO/HRD-92-35)

**FDA User Fees: Current Measures Not Sufficient for Evaluating Effect on Public Health** (GAO/PEMD-94-26)

**Federal Formula Programs: Outdated Population Data Used to Allocate Most Funds** (GAO/HRD-90-145)

**Food Safety and Quality: FDA Strategy Needed to Address Animal Drug Residues in Milk** (GAO/RCED-92-209)

**Food Safety and Quality: Uniform, Risk-based Inspection System Needed to Ensure Safe Food Supply** (GAO/RCED-92-152)

**Food Safety: Building a Scientific, Risk-Based Meat and Poultry Inspection System** (GAO/T-RCED-93-22)

**Health Information Systems: National Practitioner Data Bank Continues to Experience Problems** (GAO/IMTEC-93-1)

**Health Professions Education: Role of Title VII/VIII Programs in Improving Access to Care Is Unclear** (GAO/HEHS-94-164)

**Long-Term Care Case Management: State Experiences and Implications for Federal Policy** (GAO/HRD-93-52)

**Long-Term Care Insurance: Risks to Consumers Should Be Reduced**  
(GAO/HRD-92-14)

**Maternal and Child Health: Block Grant Funds Should Be Distributed More Equitably (GAO/HRD-92-5)**

**Medical Technology: For Some Cardiac Pacemaker Leads, the Public Health Risks Are Still High (GAO/PEMD-92-20)**

**Medical Waste Regulation: Health and Environmental Risks Need to Be Fully Assessed (GAO/RCED-90-86)**

**Methadone Maintenance: Some Treatment Programs Are Not Effective; Greater Federal Oversight Needed (GAO/HRD-90-104)**

**Occupational Safety and Health: OSHA Action Needed to Improve Compliance With Hazard Communication Standard (GAO/HRD-92-8)**

**Pesticides: Need to Enhance FDA's Ability to Protect the Public From Illegal Residues (GAO/RCED-87-7)**

**Public Health Service: Evaluation Set-Aside Has Not Realized Its Potential to Inform the Congress (GAO/PEMD-93-13)**

**Public Housing: Housing Persons With Mental Disabilities With the Elderly (GAO/RCED-92-81)**

**Residential Care: Some High-Risk Youth Benefit, But More Study Needed (GAO/HEHS-94-56)**

**State Health Care Reform: Federal Requirements Influence State Reforms (GAO/T-HRD-92-55)**

**Truck Transport: Little Is Known About Hauling Garbage and Food in the Same Vehicles (GAO/RCED-90-161)**

# Improving Justice and General Government Programs

---

## Administration of Justice Issue Area (Budget Function 750)

GAO Contact: Norman Rabkin, 202/512-8777

---

### Impact of GAO's Work

The administration of justice issue area encompasses a wide range of federal activities, including (1) civil and criminal law enforcement, in such areas as money laundering, firearms licensing, and drug abuse; (2) litigative and judicial activities, such as sentencing reform; (3) correctional activities; and (4) immigration control and criminal justice assistance.

### Federal Law Enforcement Activities

The National Crime Information Center (NCIC) is the nation's most extensive criminal justice information system and is maintained by the Federal Bureau of Investigation (FBI). We reported that NCIC was vulnerable to insider misuse by persons with authorized access because of (1) the system's inherent risk and (2) the control limitations in some state criminal justice information systems through which users access NCIC. We recommended that the FBI and the NCIC Advisory Policy Board reevaluate the security specifications for the system and, as a minimum, amend the policy to endorse and encourage state and local law enforcement agencies that use NCIC to enhance their security features. In response to our recommendation, the FBI and the Board issued correspondence to state and local NCIC users, emphasizing the continual need to enhance security in the area of user accountability.

In regard to federal efforts to combat money laundering, we reported and subsequently testified that 30 to 40 percent of the Currency Transaction Reports (IRS Form 4789) filed by financial institutions reflected routine deposit activity by large, well-established retail businesses and were of little or no value to law enforcement. Because of the large volume of reports filed annually—almost 9 million in calendar year 1992—eliminating routine reports would not only reduce government and industry costs but also enhance the usefulness of the reports filed by better ensuring they are more relevant to law enforcement purposes. The information we developed was incorporated in the Money Laundering Suppression Act of 1994, which contains several provisions to substantially reduce the number of reports filed.

We also reported on an emerging threat to antimoney-laundering efforts—currency smuggling. Although the exact amount cannot be determined, law enforcement authorities estimate that an extensive

amount of U.S. currency, perhaps as much as several billion dollars, is taken out of the country each year without being reported. Once the funds are deposited in a foreign financial institution, they are much more difficult to trace and can be spent or transferred back to the United States with less risk of exposure. During our review, the Customs Service increased its oversight of and emphasis on efforts to interdict unreported currency leaving the country.

In the area of drug control, we reviewed selected aspects of the Office of National Drug Control Policy (ONDCP) and concluded that there was a continuing need for a central planning agency to provide leadership and coordination for the nation's drug control efforts. We also found, however, that ONDCP lacked adequate performance indicators and other information to evaluate which components of the strategies were working, which were not, or how any particular component directly contributed to the overall goal of reducing drug use. We recommended that the Congress reauthorize ONDCP for an additional finite period of time and direct ONDCP to develop additional measures to (1) assess progress in reducing drug use and (2) evaluate the contributions made by major components of antidrug efforts.

The Congress acted upon our recommendations with legislation reauthorizing ONDCP until September 30, 1997, and requiring that each year's national drug control strategy include an evaluation of the effectiveness of federal drug control efforts during the preceding year.

#### Federal Litigative and Judicial Activities

As the federal judiciary has expanded, its need for sophisticated information management systems has also grown. During fiscal years 1990 through 1993, the judiciary spent more than \$400 million on automation. Our testimony on the Judiciary Automation Fund pointed out that the judiciary's long-range automation plan was not linked to a strategic plan that provided a clear vision of the judiciary's mission, goals, and objectives and identified several key areas of needed improvement.

We completed a comprehensive, nationwide review of the federal government's Judicial Security Program, which should result in major improvements in the management of the program by the three responsible agencies—the Administrative Office of the U.S. Courts, the General Services Administration, and the U.S. Marshals Service. We found that although the environment in which the federal judiciary operated was becoming increasingly more dangerous, key aspects of the comprehensive on-site Judicial Security Program recommended in 1982 by the Attorney

General's Task Force on Court Security had not been implemented. In addition, off-site security was not being systematically addressed as part of the comprehensive program. We made a number of recommendations to the three agencies designed to ensure that the comprehensive risk-based security program envisioned by the 1982 task force and a 1987 memorandum of understanding is implemented fully and consistently in all judicial districts and that off-site security risks and needs are systematically assessed.

#### Federal Correctional Activities

Prison incarceration is not the only sanction available to punish those who violate federal law. Intermediate sanctions are more severe than simple probation but less severe than a prison sentence. Examples of intermediate sanctions include home confinement and boot camps. Our report on federal intermediate sanctions provided the Congress with detailed cost information for each type of federal criminal sanction available, the eligibility criteria for each sanction, how many of those eligible received which type of sanction, and the cost of and limitations on expanding the use of each sanction.

#### Asset Forfeiture

Our report calling for improved guidance for use of forfeited assets recommended that the Departments of Justice and the Treasury develop mutually agreeable guidelines to ensure that assets shared with state and local law enforcement agencies are used in accordance with program goals. In addition, we recommended that both agencies jointly develop policies and procedures for federal oversight. Justice and Treasury have since revised their asset-sharing guidelines to ensure that shared assets are used properly. The guidelines also include an annual audit and certification requirement for state and local agencies that receive sharing proceeds.

#### Customs Service

In the area of user fees, we recommended that Customs, the Corps of Engineers, and the Census Bureau be permitted reimbursement for the costs associated with collecting the Harbor Maintenance Fee and that the agencies provide a justification of costs before expenses are reimbursed. The Customs Modernization Act authorizes the agencies to seek reimbursement for costs associated with collecting the fee.

---

## Key Open Recommendations

### Federal Law Enforcement

In our testimony on misuse of criminal justice information in NCIC, we identified sufficient examples of misuse to warrant recommending that the Congress enact legislation with strong criminal sanctions for such misuse. The Congress has not as yet initiated such legislative action. But such action may be considered sometime in FY 1995. The FBI, the NCIC Advisory Policy Board, and state and local law enforcement agencies that use NCIC continue to support, as a deterrent to further misuse, enactment of legislation containing criminal sanctions for misusing NCIC. (GAO/T-GGD-93-41)

In our report on drug use measurement, we recommended that the Secretary of Health and Human Services (HHS) (1) develop or improve supplementary data sources to more appropriately determine heroin and cocaine prevalence patterns and trends; (2) design and conduct a systematic program for the study of drug use prevalence rates among underrepresented high-risk groups; and (3) give high priority to validating self-reports of the use of illicit drugs, focusing particularly on objective techniques, such as hair testing. Action is in process for recommendations (2) and (3) above. HHS' Public Health Service has begun to conduct studies of drug use prevalence rates among various hard-to-reach populations, and HHS' National Institute on Drug Abuse has begun to investigate methods to improve the validity of self-reported data, including the use of objective techniques.

In addition, we recommended that the National Institute of Justice Director (1) review the practicality of improving the drug-use forecasting design and (2) give priority to creating a drug-use forecasting arrestee data base that could be generalized to booked arrestees in the geographic areas surveyed. (GAO/PEMD-93-18)

Greater involvement by law enforcement at the state level in addressing money laundering would help reduce the profitability of crime. We recommended that the Congress, to assist the states in this regard and to allow access by any federal law enforcement agency, amend the disclosure provisions of the Internal Revenue Code to give the Secretary of Treasury permanent authority to disclose information reported on Internal Revenue Service Form 8300, Report of Cash Payments Over \$10,000 in a Trade or Business. (GAO/GGD-93-1)

---

**Federal Litigative and Judicial Activities**

In our testimony on reauthorization of the Judiciary Automation Fund, we recommended that the Congress direct the judiciary to (1) develop a strategic business plan identifying the judiciary's key missions and goals, (2) implement a long-range automation plan based on that strategic plan, and (3) establish effective audit oversight of court automation efforts. (GAO/T-GGD/AIMD-94-176)

**Immigration Control**

In our general management report on the Immigration and Naturalization Service (INS), we recommended that the INS Commissioner set priorities within the framework of the overall INS mission and reorganize the agency's field structure. We also made recommendations to reduce the overlap and the duplication in the enforcement program, improve allocation of resources in the examination and inspection programs, and strengthen the financial and information management programs. INS has taken steps to address some of these recommendations, particularly in the financial management area. (GAO/GGD-91-28)

---

**Related Products With Open Recommendations: Administration of Justice**

**Product Title**

**Asset Forfeiture: Noncash Property Should Be Consolidated Under the Marshals Service** (GAO/GGD-91-97)

**Bank and Thrift Criminal Fraud: The Federal Commitment Could Be Broadened** (GAO/GGD-93-48)

**Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue Professional Liability Claims** (GAO/T-GGD-92-42)

**Bankruptcy Administration: Justification Lacking for Continuing Two Parallel Programs** (GAO/GGD-92-133)

**Child Abuse: Prevention Programs Need Greater Emphasis** (GAO/HRD-92-99)

**Civil Debt Collection: Justice's Private Counsel Pilot Program Should Be Expanded** (GAO/GGD-94-195)

**Customs Service and INS: Dual Management Structure for Border Inspections Should Be Ended** (GAO/GGD-93-111)

**Customs Service: 1911 Act Governing Overtime Is Outdated (GAO/GGD-91-96)**

**Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123)**

**Document Security: Justice Can Improve Its Controls Over Classified and Sensitive Documents (GAO/GGD-93-134)**

**Drug Control: Communications Network Funding and Requirements Uncertain (GAO/NSIAD-92-29)**

**Drug Control: Inadequate Guidance Results in Duplicate Intelligence Production Efforts (GAO/NSIAD-92-153)**

**Drug Control: Reauthorization of the Office of National Drug Control Policy (GAO/GGD-93-144)**

**Drug Control: Treatment Alternatives Program for Drug Offenders Needs Stronger Emphasis (GAO/GGD-93-61)**

**Drug Use Measurement: Strengths, Limitations, and Recommendations for Improvement (GAO/PEMD-93-18)**

**EEO at Justice: Progress Made but Underrepresentation Remains Widespread (GAO/GGD-91-8)**

**Federal Judicial Security: Comprehensive Risk-Based Program Should Be Fully Implemented (GAO/GGD-94-112)**

**Federal Judiciary: How the Judicial Conference Assesses the Need for More Judges (GAO/GGD-93-31)**

**Federal Prisons: Inmate and Staff Views on Education and Work Training Programs (GAO/GGD-93-33)**

**Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates (GAO/PEMD-93-25)**

**Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems (GAO/GGD-91-28)**



**Immigration Reform: Verifying the Status of Aliens Applying for Federal Benefits (GAO/HRD-88-7)**

**Information Management: Immigration and Naturalization Service Lacks Ready Access to Essential Data (GAO/IMTEC-90-75)**

**INS User Fees: INS Working to Improve Management of User Fee Accounts (GAO/GGD-94-101)**

**Judiciary Automation Fund: Reauthorization Should Be Linked to Better Planning and Reporting (GAO/T-GGD/AIMD-94-176)**

**Justice Automation: Tighter Computer Security Needed (GAO/IMTEC-90-69)**

**Money Laundering: State Efforts To Fight It Are Increasing But More Federal Help Is Needed (GAO/GGD-93-1)**

**National Crime Information Center: Legislation Needed to Deter Misuse of Criminal Justice Information (GAO/T-GGD-93-41)**

**National Fine Center: Expectations High, But Development Behind Schedule (GAO/GGD-93-95)**

**Office of Justice Programs: Discretionary Grants Reauthorization (GAO/GGD-93-23)**

**Prison Inmates: Better Plans Needed Before Felons Are Released (GAO/GGD-93-92)**

**Sentencing Guidelines: Central Questions Remain Unanswered (GAO/GGD-92-93)**

**Tax Administration: IRS' Management of Seized Assets (GAO/T-GGD-92-65)**

**U.S. Attorneys: Better Models Can Reduce Resource Disparities Among Offices (GAO/GGD-91-39)**

**U.S. Customs Service: Limitations in Collecting Harbor Maintenance Fees (GAO/GGD-92-25)**

**War on Drugs: Federal Assistance to State and Local Drug Enforcement (GAO/GGD-93-86)**

---

Federal Human  
Resources  
Management Issue  
Area (Budget  
Function 800)

GAO Contact: Nancy R. Kingsbury, 202/512-5074

---

Impact of GAO's Work

Each year, the federal government spends about \$115 billion in pay and benefits for the 2.1 million civilian employees who constitute its work force. Recruiting, hiring, and managing a quality work force is the foundation of effective governance. In recent years, our recommendations on these issues have resulted in several significant actions.

Architect of the Capitol

Our April 1994 report identified serious deficiencies in the personnel system of the Architect of the Capitol (AOC). Among other things, AOC did not have an equal employment opportunity program with affirmative action features, its hiring and promotion policies were not defined, and supervisors were not required to provide employees with performance appraisals. These and other shortcomings contributed to a demoralized and distrustful working environment. We recommended that the Architect develop and implement a detailed plan to revise AOC's personnel system and that congressional committees monitor the development and the implementation of the plan. As a result of our work, the Congress passed the Architect of the Capitol Human Resource Act, which mandates that the Architect develop and implement a plan for improvement under congressional oversight.

Workers' Compensation  
Programs

In February 1992, we recommended that the Department of Labor's Office of Workers' Compensation Programs (OWCP) act in coordination with the Rehabilitation Services Administration (RSA) to explore the feasibility of making greater use of state vocational rehabilitation agencies in providing more cost-effective rehabilitation services to federal employees suffering job-related injuries. In April 1993, OWCP and RSA developed a model agreement to guide their staffs in renewing relationships for providing these services to injured federal workers. As of September 1, 1994, eight states had signed these agreements with OWCP.

In February 1994, we reported that OWCP did not appear to be selecting physicians who were predisposed against supporting federal workers' claims for compensation benefits. We recommended, however, that OWCP revise its procedures to (1) more clearly define its methods for selecting

physicians to conduct impartial medical examinations (IME) when its Physician Directory System could not be used and (2) better document the reasons for using alternative selection methods when the usual selection methods were not followed. In March 1994, OWCP issued revised procedures to address these concerns, further ensuring the unbiased selection of IME physicians and reducing the potential for perception of bias.

#### Employee Drug Testing

Our 1992 report on federal employee drug testing noted several opportunities to lower the costs of drug testing programs. We recommended that the Department of Health and Human Services (HHS), among other things, reduce its requirements pertaining to the quality assurance programs of drug testing laboratories. On June 9, 1994, HHS incorporated our recommendation and revised its guidelines for federal workplace drug testing programs.

#### Measuring Costs of Service Contractors

Our March 1994 report on measuring the costs of using service contractors versus using federal employees noted that cost comparisons could help ensure that agencies acquired needed services in the most cost-effective manner. Office of Management and Budget (OMB) regulations do not require agencies to conduct cost comparisons for professional services, such as advisory and assistance services. Consequently, it is not generally known whether it costs less to contract out for these services than it would for government employees to do the work. We recommended that OMB extend its cost comparison requirement for commercial activities to cover advisory and assistance services. OMB is considering extending this requirement as part of an overall revision to parts of its procurement guidance. In addition, the Congress incorporated a provision in the Federal Work Force Restructuring Act of 1994 that activities affected by agency downsizing not be contracted out except when a cost comparison showed contracting to be advantageous to the government.

---

#### Key Open Recommendations

If the goals envisioned by the National Performance Review (NPR) are to be realized, substantial improvements will need to be made in federal human resources management (HRM). As part of this process, we have made numerous recommendations to the Office of Personnel Management (OPM) and other agencies to improve the quality of the federal work force. Following are some areas where we believe that further action or monitoring is needed to adequately respond to our recommendations.

---

Equal Employment Opportunity

Data on the genders, races, and national origins of applicants for federal employment—known as applicant flow data—are not adequately collected. During the early 1980s, OPM and the Equal Employment Opportunity Commission (EEOC) required agencies to collect the data using an OPM form. Authority to use the form expired, however, and OPM and EEOC no longer require agencies to collect applicant flow data. In our October 1991 testimony, we recommended that OPM, in cooperation with EEOC, examine options for collecting and analyzing applicant flow data and take prompt appropriate action. While OPM has asked EEOC to help share the cost of a new system to collect applicant flow data, EEOC has declined, citing funding shortfalls. OPM has said that it will not proceed in developing a new system without EEOC and OMB support. (GAO/T-GGD-92-2)

Hiring Entry-Level Employees

In March 1994, we issued a report on Administrative Careers With America (ACWA), the federal government's examining and hiring system for entry-level employees. The Subcommittee on the Civil Service, House Committee on Post Office and Civil Service, was concerned about the apparently low use of ACWA. We confirmed that ACWA was used much less frequently than other hiring methods and found that, compared with other hiring methods, ACWA was not timely, was inflexible, and did not allow managers to meet affirmative action goals. ACWA also did not inform thousands of job applicants of their chances of being hired on the basis of their ACWA test scores. Although OPM had previously planned to redesign much of the examination process, it intended to retain ACWA for high-use occupations. Our report provided statistics showing that, although the number of ACWA hires in high-use occupations was large, the vast majority of all hiring for these occupations was done through methods other than ACWA. The report also demonstrated that the agencies filling vacancies in these occupations were particularly dissatisfied with ACWA. We recommended that OPM include high-use occupations in its plans to redesign ACWA. OPM agreed and is planning to redesign ACWA for all occupations, pending approval from the plaintiffs in the consent decree that led to the establishment of ACWA. (GAO/GGD-94-103)

Personnel Management  
Evaluations

As discussed in our December 1992 report, OPM was not providing sufficient oversight of the federal personnel system to ensure compliance with laws, rules, and regulations. We found that varying degrees of personnel management evaluation (PME) activity existed among 35 of the largest federal agencies and that OPM had not issued standards by which to adequately judge quality. (GAO/GGD-93-24)

Acting on the NPR's recommendation for OPM to identify agency HRM accountability standards supporting merit, diversity, and equity, OPM has established "The Good Government Framework" to help agencies ensure that their existing HRM accountability and monitoring systems are consonant with Merit System Principles (5 U.S.C. 2301). OPM said that it is working closely with agencies to refine this framework and is developing several training modules to assist agencies in its use. OPM is encouraging agencies to include PME, internal controls, ongoing HRM systems assessment, and Inspector General (IG) reviews in these efforts. OPM said that it will monitor agency success in using "The Good Government Framework" to improve internal accountability.

#### Presidential Transition Conversions and Appointments

In our May 1994 report, we noted that OPM had a policy of suspending the processing of career Senior Executive Service (SES) appointments (except in emergencies) when an agency head had announced his or her departure. The purpose of this policy is to ensure that the succeeding agency head has the greatest possible flexibility in executive resource decisions.

During the 1992 presidential transition, OPM followed this policy and suspended SES processing at five agencies where the agency heads had resigned or specifically announced their resignations. OPM did not suspend SES processing at other agencies, however, because neither the White House nor the transition team had requested such suspensions. We believe that to preserve the greatest possible flexibility for new agency heads following a presidential transition, OPM should routinely suspend processing of all career SES appointments during such transition periods.

We also noted several instances in which noncompetitive appointments had been made pursuant to the Ramspeck Act under circumstances that did not appear to further the purpose of the act. We believe that the Congress may wish to amend the act and provide additional guidance on its use. (GAO/GGD-94-66)

#### Performance Management

Although federal agencies are diverse and have different missions, they are required to use the same general performance management system. A general framework for federal performance management systems seems appropriate. Agencies believe, however, that, within this framework, they should be able to tailor specific elements to reflect such factors as their missions, organizational structures, and the ways their work is done. The lack of sufficient flexibility for agencies to design their own performance management systems has created problems in managing and improving

---

employee performance. As recommended in our February 1993 report, the Congress should give agencies the flexibility needed to tailor performance management systems to their own work environments. Legislation giving agencies increased flexibility is expected to be introduced by the administration later this year as part of the NPR initiative. (GAO/GGD-93-57)

#### Health Benefits

In July 1991, we reported on the need for stronger controls to prevent fraud and abuse in the Federal Employees Health Benefits Program. Our report contained several recommendations with which OPM agreed. OPM's IG, however, has not been able to obtain the resources needed to achieve our recommended goal of a 3- to 5-year audit cycle for fee-for-service plans. (GAO/GGD-91-95)

---

#### Related Products With Open Recommendations: Federal Human Resources Management

##### Product Title

AID Management: EEO Issues and Protected Group Underrepresentation Require Management Attention (GAO/NSIAD-93-13)

Aircraft Certification: New FAA Approach Needed to Meet Challenges of Advanced Technology (GAO/RCED-93-155)

Amtrak Training: Improvements Needed for Employees Who Inspect and Maintain Rail Equipment (GAO/RCED-93-68)

Apprenticeship Training: Administration, Use, and Equal Opportunity (GAO/HRD-92-43)

Army Maintenance: Strategy Needed to Integrate Military and Civilian Personnel Into Wartime Plans (GAO/NSIAD-93-95)

Aviation Safety: Problems Persist in FAA's Inspection Program (GAO/RCED-92-14)

Coast Guard: Acquisition Program Staff Were Funded Improperly (GAO/RCED-93-123)

**Customs Service and INS: Dual Management Structure for Border Inspections Should Be Ended (GAO/GGD-93-111)**

**Customs Service: 1911 Act Governing Overtime Is Outdated (GAO/GGD-91-96)**

**Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123)**

**Department of Education: Longstanding Management Problems Hamper Reforms (GAO/HRD-93-47)**

**DOE Management: Impediments to Environmental Restoration Management Contracting (GAO/RCED-92-244)**

**EEO at Justice: Progress Made but Underrepresentation Remains Widespread (GAO/GGD-91-8)**

**Employee Drug Testing: Opportunities Exist to Lower Drug-Testing Program Costs (GAO/GGD-93-13)**

**Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49)**

**FAA Budget: Key Issues Need to Be Addressed (GAO/T-RCED-92-51)**

**Federal Affirmative Action: Better EEOC Guidance and Agency Analysis of Underrepresentation Needed (GAO/GGD-91-86)**

**Federal Affirmative Employment: Better Guidance Needed for Small Agencies (GAO/GGD-94-71)**

**Federal Affirmative Employment: Status of Women and Minority Representation in the Federal Work Force (GAO/T-GGD-92-2)**

**Federal Contractor Hiring: Effect of Veteran Hiring Legislation Is Unknown (GAO/GGD-94-6)**

**Federal Employment: Displaced Federal Workers Can Be Helped by Expanding Existing Programs (GAO/GGD-92-86)**

**Federal Health Benefits Program: Stronger Controls Needed to Reduce Administrative Costs (GAO/GGD-92-37)**

Federal Hiring: Does Veterans' Preference Need Updating? (GAO/GGD-92-52)

Federal Hiring: Testing for Entry-Level Administrative Positions Falls Short of Expectations (GAO/GGD-94-103)

Federal Judiciary: How the Judicial Conference Assesses the Need for More Judges (GAO/GGD-93-31)

Federal Labor Relations: A Program in Need of Reform (GAO/GGD-91-101)

Federal Lobbying: Federal Regulation of Lobbying Act of 1946 Is Ineffective (GAO/T-GGD-91-56)

Federal Lobbying: Lobbying the Executive Branch (GAO/T-GGD-91-70)

Federal Performance Management: Agencies Need Greater Flexibility in Designing Their Systems (GAO/GGD-93-57)

Federal Personnel Management: OPM Reliance on Agency Oversight of Personnel System Not Fully Justified (GAO/GGD-93-24)

Federal Work Force: Inappropriate Use of Experts and Consultants at Selected Civilian Agencies (GAO/GGD-91-99)

Financial Audit: IRS Significantly Overstated Its Accounts Receivable Balance (GAO/AFMD-93-42)

Financial Disclosure: Implementation of Statute Governing Judicial Branch Personnel (GAO/GGD-93-85)

Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82)

Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9)

Food Aid: Management Improvements Are Needed to Achieve Program Objectives (GAO/NSIAD-93-168)

Foreign Assistance: AID's Private-Sector Assistance Program at a Crossroads (GAO/NSIAD-93-55)



**Fraud and Abuse: Stronger Controls Needed in Federal Employees Health Benefits Program (GAO/GGD-91-95)**

**General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98)**

**General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14)**

**Government Contractors: Measuring Costs of Service Contractors Versus Federal Employees (GAO/GGD-94-95)**

**Government National Mortgage Association: Greater Staffing Flexibility Needed to Improve Management (GAO/RCED-93-100)**

**Legislative Employment: Operations of the Office of Fair Employment Practices Could Be Improved (GAO/GGD-94-36)**

**Management of VA: Improved Human Resource Planning Needed to Achieve Strategic Goals (GAO/HRD-93-10)**

**Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1)**

**Mass Transit: Federal Participation in Transit Benefit Programs (GAO/RCED-93-163)**

**Military Aircraft: Policies on Government Officials' Use of 89th Military Airlift Wing Aircraft (GAO/NSIAD-92-133)**

**National Labor Relations Board: Action Needed to Improve Case-Processing Time at Headquarters (GAO/HRD-91-29)**

**National Science Foundation: Better Guidance on Employee Book Writing Could Help Avoid Ethics Problems (GAO/GGD-93-8)**

**Nuclear Security: Safeguards and Security Planning at DOE Facilities Incomplete (GAO/RCED-93-14)**

**Personnel Practices: Presidential Transition Conversions and Appointments: Changes Needed (GAO/GGD-94-66)**

**Personnel Practices: Schedule C and Other Details to the Executive Office of the President (GAO/GGD-93-14)**

**Personnel Security: Efforts by DOD and DOE to Eliminate Duplicative Background Investigations (GAO/RCED-93-23)**

**Safety and Health: Key Independent Oversight Program at DOE Needs Strengthening (GAO/RCED-93-85)**

**Security Clearances: Due Process for Denials and Revocations by Defense, Energy, and State (GAO/NSIAD-92-99)**

**Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39)**

**State Department: Management Weaknesses at the U.S. Embassies in Panama, Barbados, and Grenada (GAO/NSIAD-93-190)**

**State Department: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico (GAO/NSIAD-93-88)**

**Tax Administration: Better Training Needed for IRS' New Telephone Assistors (GAO/GGD-91-83)**

**Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97)**

**Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27)**

**Tax Administration: IRS Should Expand Financial Disclosure Requirements (GAO/GGD-92-117)**

**Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105)**

**UNESCO: Status of Improvements in Management Personnel, Financial, and Budgeting Practices (GAO/NSIAD-92-172)**

**University Research: Controlling Inappropriate Access to Federally Funded Research Results (GAO/RCED-92-104)**

**U.S. Attorneys: Better Models Can Reduce Resource Disparities Among Offices (GAO/GGD-91-39)**

**U.S. Department of Agriculture: Need for Improved Work Force Planning (GAO/RCED-90-97)**

**U.S. Department of Agriculture: Strengthening Management Systems to Support Secretarial Goals (GAO/RCED-91-49)**

**VA Health Care: Problems in Implementing Locality Pay for Nurses Not Fully Addressed (GAO/HRD-93-54)**

**VA Health Care: Role of the Chief of Nursing Service Should Be Elevated (GAO/HRD-92-74)**

**Vocational Rehabilitation: Better VA Management Needed to Help Disabled Veterans Find Jobs (GAO/HRD-92-100)**

**Whistleblower Protection: Agencies' Implementation of the Whistleblower Statutes Has Been Mixed (GAO/GGD-93-66)**

**Whistleblower Protection: Determining Whether Reprisal Occurred Remains Difficult (GAO/GGD-93-3)**

**The White House: Travel Office Operations (GAO/GGD-94-132)**

**Workplace Accommodation: EPA's Alternative Workspace Process Requires Greater Managerial Oversight (GAO/GGD-92-53)**

---

## Federal Management Issue Area (Budget Function 800)

GAO Contact: William M. Hunt, 202/512-8676

---

### Impact of GAO's Work

The Government Performance and Results Act (GPRA), the National Performance Review (NPR), the passage of the Government Management Reform Act, and the increasing interest in quality management and process reengineering within federal agencies are all part of the growing consensus that government must fundamentally change the way it manages. The experiences of federal agencies, state governments, and foreign countries that are leaders in public management show that the central features of these various management reform initiatives—strategic planning, performance measurement, and alignment of management systems and organizational structures to support mission-related outcomes—can serve as powerful tools for managers and other decisionmakers to use to make government results oriented.

In December 1993, we reported that we generally agreed with most of NPR's 384 recommendations and believed that their successful implementation could make an important contribution in addressing the federal government's management and programmatic problems. In September 1994, we issued a preliminary assessment of NPR's progress in implementing its recommendations. We found that, although there had been a great deal of activity directed at implementing NPR's recommendations, the administration still had a long way to go on the majority of them. In December 1994, we issued a detailed assessment of NPR's progress over its first year. We also are undertaking a review of selected "reinvention labs" that agencies have formed as part of NPR.

We have also continued to make progress in providing agencies with information and analysis as they implement GPRA. We have sought to show agencies how GPRA provides a framework for making them more effective and should not be seen as merely another in a growing number of externally imposed reporting requirements unrelated to their missions. We are frequently called upon by agencies to provide guidance and briefings on GPRA. Agencies have requested information on GPRA and its relationship to the Chief Financial Officers Act and the ways in which those acts, combined with other management improvement initiatives, such as quality management and NPR, can fundamentally change the focus of federal management and accountability. Moreover, several agencies are using aspects of our evaluation methodology for assessing GPRA as guidance for

implementing the act. As required by GPRA, we are also working closely with the Office of Personnel Management as it seeks to provide training to federal managers on GPRA and its essential components.

We are also developing a body of work aimed at showing how various management tools, such as quality management, process reengineering, performance measurement, and activity-based costing can be used by managers to improve organizational effectiveness. As the first part of that effort, we have issued a report providing examples from the public and private sectors on innovative ways to improve service delivery.

Faced with the need to become more results oriented, governments at all levels—national, state, and city—now realize that traditional government programs and service delivery mechanisms may not be the best way to meet the growing demand for an increased number of and more cost-effective services. Increasingly, these governments are exploring the use of alternative public-private mixes (such as contracting out, privatization, and public-private partnerships of various kinds) for delivering needed services. Thus, while certain functions are inherently governmental, the lines between the public and private sector are becoming blurred.

We are developing a body of work that will identify and evaluate the public-private alternatives that can be used to deliver services and provide a framework for the Congress and the agencies to use in choosing among the alternatives. As part of this effort, we have issued a report on the extent of contracting out for real property management services in the General Services Administration, as well as a report on how the increased use of competition has helped reform the real property organizations in four industrialized countries. Also, we have been requested to do a review of cities that have turned around their management to identify “best practices” that could be applied to the District of Columbia.

We also have begun a body of work in the regulatory arena. At the request of several Members of the Congress, we initiated a review of the cumulative impact of regulations on businesses. In April 1994, we reported on agencies’ compliance with the Regulatory Flexibility Act, which was designed to reduce federal agencies’ regulatory burden on small businesses and small governments. Small Business Administration (SBA) reports indicated that agencies’ compliance with the act varied, with some agencies repeatedly ignoring its requirements.

We also have continued to make progress in helping to improve the accuracy, the reliability, and the timeliness of the nation's major statistical data series. For example, the Congress continued to rely heavily on GAO for information on and assessments of the Census Bureau's progress in planning the 2000 census. Over the last 2 years, much of our work on the Decennial Census was focused on the Bureau's preparations for the 1995 test census. For example, we warned in March 1993 congressional testimony that a lack of progress in redesigning the 2000 census jeopardized the prospects of fundamental reform. In testimony 3 months later, we reported that the Bureau had altered its decisionmaking efforts and appeared to be getting back on track. More recently, we have continued to monitor and report on the Bureau's efforts to streamline the census questionnaire, develop a methodology for sampling census nonrespondents, work more cooperatively with the Postal Service to develop the address list, and consider other opportunities for reform. At the request of the Congress, we also are looking at a series of management issues at the Census Bureau.

We have continued our efforts to contribute to improvements in the quality of federal economic statistics. For example, we have issued a report on measuring U.S. and Canadian trade and a report on the agricultural and economic censuses. We are developing additional reports that will address critical issues related to economic statistics, such as how employment data are used in policymaking.

Over the last decade, our detailed management reviews of Cabinet departments and major independent agencies consistently have shown that departments and agencies need to develop outcome-oriented strategic plans and clearly articulated goals and objectives. Departments and agencies need also better financial and information management systems to give managers the outcome information they need to improve their organizations' effectiveness. These general management reviews of departments and agencies are discussed as appropriate in issue area sections dealing with those agencies.

---

## Key Open Recommendations

Our September 1993 report raised concerns that the federal judiciary's planning process did not produce results that were sufficiently reliable to form the basis for congressional authorization and funding of new construction and renovation projects for court space. We found that the judiciary could save approximately \$112 million annually, or \$1.1 billion in constant dollars over a 10-year period, if the errors in its planning process

were corrected. The judiciary has been making good progress in implementing our recommendations. For example, the Administrative Office of the United States Courts is updating the long-range plans for the judicial districts. The Office intends to update all plans within 2 years of the original completion date of each plan. (GAO/GGD-93-132)

Our April 1994 report on the Regulatory Flexibility Act recommended a number of actions, such as clarifying SBA's authority and responsibility, that the Congress could undertake to strengthen the implementation of the act. We recommended also that the Office of Management and Budget (OMB) consult with SBA to establish procedures that OMB could use to determine federal agencies' compliance with the act. These procedures should be incorporated into OMB processes for reviewing regulations before they are published for notice and comment and before they are published in final. Action on these recommendations has not been taken. (GAO/GGD-94-105)

We did a joint review with the Canadian Auditor General's Office looking at issues in measuring U.S.-Canada trade. We recommended that the Secretary of Commerce instruct the Census Bureau Director and that the Secretary of the Treasury instruct the Commissioner of Customs to form an interagency task force to study how U.S.-Canada merchandise trade data should be collected in the future trade environment. We also recommended that the study be expanded to include Mexico with the passage of the North American Free Trade Agreement. Finally, we recommended that the Secretaries work with their Canadian counterparts to form a bilateral task force to address these issues. The initial steps to address our recommendations are being taken with the Census Bureau and the Customs Service commitment to form a task force to study U.S.-Canada trade measurement issues. (GAO/GGD-94-4)

Our 1992 report summarizing the lessons learned from the 1990 Decennial Census and discussing the need for fundamental census reform suggested that the Congress maintain vigilant oversight over census planning issues throughout the 1990s. We suggested that the Congress hold a continuing series of oversight hearings to assess the Bureau's progress in making the changes necessary for a more cost-effective census in 2000. Our report continues to be used by congressional oversight committees to develop and implement long-term oversight agendas for the Decennial Census. (GAO/GGD-92-94)

**Related Products With  
Open Recommendations:  
Federal Management**

**Product Title**

**Customs Service and INS: Dual Management Structure for Border Inspections Should Be Ended (GAO/GGD-93-111)**

**Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123)**

**Decennial Census: 1990 Results Show Need for Fundamental Reform (GAO/GGD-92-94)**

**Department of Education: Longstanding Management Problems Hamper Reforms (GAO/HRD-93-47)**

**Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53)**

**DOE Management: Better Planning Needed to Correct Records Management Problems (GAO/RCED-92-88)**

**Energy Policy: Changes Needed to Make National Energy Planning More Useful (GAO/RCED-93-29)**

**Environmental Protection Agency: Protecting Human Health and the Environment Through Improved Management (GAO/RCED-88-101)**

**Federal Judiciary Space: Long-Range Planning Process Needs Revision (GAO/GGD-93-132)**

**Federal Personnel Management: OPM Reliance on Agency Oversight of Personnel System Not Fully Justified (GAO/GGD-93-24)**

**General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14)**

**Government Civilian Aircraft: Central Management Reforms Are Encouraging but Require Extensive Oversight (GAO/GGD-89-86)**



**Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems (GAO/GGD-91-28)**

**Information Management: Immigration and Naturalization Service Lacks Ready Access to Essential Data (GAO/IMTEC-90-75)**

**Management of VA: Improved Human Resource Planning Needed to Achieve Strategic Goals (GAO/HRD-93-10)**

**Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1)**

**Measuring U.S.-Canada Trade: Shifting Trade Winds May Threaten Recent Progress (GAO/GGD-94-4)**

**Paperwork Reduction: Agency Responses to Recent Court Decisions (GAO/PEMD-93-5)**

**Regulatory Flexibility Act: Status of Agencies' Compliance (GAO/GGD-94-105)**

**Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process Could Be Improved (GAO/GGD-93-116)**

**Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39)**

**Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105)**

**U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9)**

**U.S. Department of Agriculture: Improving Management of Cross-Cutting Agricultural Issues (GAO/RCED-91-41)**

**U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19)**

**U.S. Department of Agriculture: Need for Improved Work Force Planning (GAO/RCED-90-97)**

---

**U.S. Department of Agriculture: Strengthening Management Systems to**  
**Support Secretarial Goals (GAO/RCED-91-49)**

---

## Financial Institutions and Markets Issue Area (Budget Function 800)

GAO Contact: James L. Bothwell, 202/512-8678

---

### Impact of GAO's Work

The pace of change in the financial markets continues to accelerate. New domestic and international developments are affecting how U.S. markets function, as well as the perception of how fairly they treat customers. Our work delves into these and other issues to provide information, analyses, and recommendations to the Congress and regulators on financial services industry change, reform, regulation, and oversight. We analyze (1) various emerging issues and segments of the financial services sector and gaps in regulatory coverage, (2) regulatory practices to see if they work as intended, and (3) the continued appropriateness of federal policies governing financial institutions and markets.

Our work has improved the operation of the financial system as a whole and individual components of it. Our primary mission—work on safety and soundness issues—helps protect the taxpayer from the need to rescue one or more financial institutions or sectors. Our work also has an investor and customer focus to make sure that consumers of financial services get what they pay for. Our work on agency operations led to improvements in their effectiveness.

Our work on the over-the-counter derivatives market has provided the framework for debating the complex issue. Our report suggested that linkages between major U.S. dealers, especially bank dealers, represented a potential threat to the financial system if one or more major dealers were to fail or withdraw from the market. The report also identified major gaps in the regulatory structure.

Our work identified failed regulatory practices. Our report on insider lending cited Federal Deposit Insurance Corporation (FDIC) evidence of substantial insider problems at failed banks, along with indications of similar problems in open and healthy banks. These problems appear to be related to management breakdowns and inadequate oversight by boards of directors. Even when examiners discovered insider problems, they often did not adequately communicate these findings to management and boards. FDIC sent our executive summary to all its examiners with

instructions to implement our recommendations in their next examinations.

Our work identified the need for major reform. Our report on the Federal Home Loan Bank System recommended reforming the System. We expressed concerns about its capital structure and the mixture of voluntary and mandatory members. We also expressed substantial concern about whether the Federal Housing Finance Board could act as an arm's length regulator and recommended a single regulator for all three housing-related government-sponsored enterprises (GSEs). This report is forming the basis for a legislative proposal that will be submitted to the Congress.

These reports and our other work have strengthened necessary regulation of the financial services industry and produced a stronger financial system.

---

## Key Open Recommendations

### Financial Institution Reforms

In our report on credit unions, we recommended some 50 regulatory and legislative actions to ensure the soundness of the industry, including changes to (1) maintain safe and sound insurance operations, (2) upgrade the regulation and the supervision of credit unions, and (3) clarify the "common bond" characteristic distinguishing credit unions from banks and thrifts. The National Credit Union Administration has issued regulations to address many of the recommendations and is exploring solutions to others; the Congress, however, has not yet acted. (GAO/GGD-91-85)

Our report on the Federal Home Loan Bank System recommended reforming its capital structure and its mixture of voluntary and mandatory members and cost-saving reforms as well as recommended a single regulator for all three housing-related GSEs. The administration is working on a legislative plan to address our recommendations. (GAO/GGD-94-38)

Our report on the Farm Credit System's ability to repay federal assistance found that the System was in a financial position to permit the Congress to eliminate several accounting and regulatory exemptions used by the System. We made recommendations in this vein to the Congress and the regulator that would improve the System's financial disclosure statements.

We also recommended that the System repay startup advances made to the insurance fund. (GAO/GGD-94-39)

Our report on insider lending noted substantial insider problems at failed banks, along with indications of similar problems in open and healthy banks. We recommended that bank examiners analyze information such as call reports, insurance policies, loans to insiders, and other bank-specific data to determine whether insider lending was harming the banks. The bank regulators are implementing our recommendations. (GAO/GGD-94-88)

Our report on FDIC failed bank resolutions recommended improvements in documentation of marketing strategy rationale and pointed out the need for the FDIC board to review the rationale for least cost resolution decisions. FDIC is developing a strategy to comply with our recommendations. (GAO/GGD-94-107)

Our report on bank and thrift alternatives to real estate appraisals recommended that regulators establish minimum qualifications and standards of independence for persons performing alternatives to real estate appraisals. We recommended also that content standards be established for these alternative evaluations. An interagency group is working to address our recommendations. (GAO/GGD-94-144)

## Securities

Our report on investment advisers showed that regulatory oversight of advisers was very weak. We recommended that the Congress clarify its regulatory intent for the investment advisers' program by either strengthening it to meet some minimal standard or repealing requirements for federal regulation of advisers. Legislation to strengthen the program has been introduced during past sessions of the Congress. (GAO/GGD-90-83)

Our testimony on market fragmentation recommended that SEC periodically monitor the effects of such fragmentation. SEC is considering this recommendation. (GAO/T-GGD-93-35)

Our over-the-counter derivatives market report identified the actions needed to ensure that this rapidly growing segment of the financial market did not become a source of systemic risk. We made several recommendations calling for congressional action to address the weaknesses and the gaps we had identified that were impeding the regulatory process. Additionally, we made several recommendations to the regulators involved with regulating the over-the-counter derivatives market that addressed the weaknesses and gaps under their control.

---

Regulators have not yet implemented our recommendations.  
(GAO/GGD-94-133)

---

Related Products With  
Open Recommendations:  
Financial Institutions and  
Markets

Product Title

American Stock Exchange: More Changes Needed in Screening Emerging  
Companies for the Marketplace (GAO/GGD-94-72)

Asset Management System: Liquidation of Failed Bank Assets Not  
Adequately Supported by FDIC System (GAO/IMTEC-93-8)

Bank and Thrift Criminal Fraud: The Federal Commitment Could Be  
Broadened (GAO/GGD-93-48)

Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue  
Professional Liability Claims (GAO/T-GGD-92-42)

Bank and Thrift Regulation: Better Guidance Is Needed for Real Estate  
Evaluations (GAO/GGD-94-144)

Bank and Thrift Regulation: Improvements Needed In Examination Quality  
and Regulatory Structure (GAO/AFMD-93-15)

Bank Examination Quality: FRB Examinations and Inspections Do Not  
Fully Assess Bank Safety and Soundness (GAO/AFMD-93-13)

Bank Examination Quality: OCC Examinations Do Not Fully Assess Bank  
Safety and Soundness (GAO/AFMD-93-14)

Bank Insider Activities: Insider Problems and Violations Indicate Broader  
Management Deficiencies (GAO/GGD-94-88)

Bank Regulation: Regulatory Impediments to Small Business Lending  
Should Be Removed (GAO/GGD-93-121)

Credit Unions: Reforms for Ensuring Future Soundness (GAO/GGD-91-85)

Customs Service and INS: Dual Management Structure for Border Inspections Should Be Ended (GAO/GGD-93-111)

Disaster Assistance: Federal, State, and Local Responses to Natural Disasters Need Improvement (GAO/RCED-91-43)

Farm Credit System: Farm Credit Administration Effectively Addresses Identified Problems (GAO/GGD-94-14)

Farm Credit System: Repayment of Federal Assistance and Competitive Position (GAO/GGD-94-39)

Federal Home Loan Bank System: Reforms Needed to Promote Its Safety, Soundness, and Effectiveness (GAO/GGD-94-38)

Federal Reserve System Audits: Restrictions on GAO's Access (GAO/T-GGD-94-44)

Financial Audit: Federal Deposit Insurance Corporation's Internal Controls as of December 31, 1992 (GAO/AIMD-94-35)

Financial Audit: Federal Deposit Insurance Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-135)

Financial Audit: Resolution Trust Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-148)

Financial Derivatives: Actions Needed to Protect the Financial System (GAO/GGD-94-133)

Funding Foreign Bank Examinations (GAO/GGD-93-35R)

Government Sponsored Enterprises: Freddie Mac's and Fannie Mae's Accounting for Costs of Foreclosed Property (GAO/AIMD-94-75)

Investment Advisers: Current Level of Oversight Puts Investors at Risk (GAO/GGD-90-83)

1992 Bank Resolutions: FDIC Chose Methods Determined Least Costly, but Needs to Improve Process (GAO/GGD-94-107)

**1992 Thrift Resolutions: RTC Policies and Practices Did Not Fully Comply With Least-Cost Provisions (GAO/GGD-94-110)**

**Resolution Trust Corporation: Analysis of Selected Asset Sales and Financial Data (GAO/GGD-94-37)**

**Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs (GAO/GGD-93-2)**

**Resolution Trust Corporation: Better Analyses Needed Before Terminating Asset Management Contracts (GAO/GGD-94-147)**

**Resolution Trust Corporation: Ineffective Management of HomeFed Bank Environmental Services Contracting (GAO/GGD-94-62)**

**Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process Could Be Improved (GAO/GGD-93-116)**

**Resolution Trust Corporation: Oversight of SAMDA Property Management Contractors Needs Improvement (GAO/GGD-94-5)**

**Securities Enforcement: Improvements Needed in SEC Controls Over Disgorgement Cases (GAO/GGD-94-188)**

**Securities Firms: Assessing the Need to Regulate Additional Financial Activities (GAO/GGD-92-70)**

**Securities Investor Protection: The Regulatory Framework Has Minimized SIPC's Losses (GAO/GGD-92-109)**

**Securities Markets: Actions Needed to Better Protect Investors Against Unscrupulous Brokers (GAO/GGD-94-208)**

**Securities Markets: SEC Actions Needed to Address Market Fragmentation Issues (GAO/T-GGD-93-35)**

**Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105)**

**Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55)**



---

**U.S. Credit Card Industry: Competitive Developments Need to Be Closely Monitored (GAO/GGD-94-23)**

**U.S. Government Securities: More Transaction Information and Investor Protection Measures Are Needed (GAO/GGD-90-114)**

---

## Government Business Operations Issue Area (Budget Function 800)

GAO Contact: J. William Gadsby, 202/512-8387

---

### Impact of GAO's Work

Our work in this area focuses primarily on three of the government's largest business entities—the General Services Administration (GSA), the Resolution Trust Corporation (RTC), and the U.S. Postal Service. Collectively, these three government-business entities have a combined annual operating budget of about \$60 billion, and their activities have far-reaching implications for federal agencies and the public. Through them, the federal government owns or controls assets worth hundreds of billions of dollars and provides goods and services to federal agencies that directly affect mission accomplishment. This area also encompasses responsibilities for many other federal entities, such as the Smithsonian Institution, the National Archives, parts of the Department of the Treasury, and the D.C. Government.

Our work has continued to directly influence GSA, the administration, and the Congress to change the way GSA does business. In recommending an end to GSA's monopoly, separation of its governmentwide policymaking and service delivery responsibilities, and the creation of new asset management enterprises, the Vice President's National Performance Review (NPR) echoed concerns expressed in our December 1992 transition series report on general services issues. In response, GSA's top management is trying to make fundamental changes in the way GSA does business. The changes GSA is considering appear responsive to the concerns we and NPR expressed. The actual implementation of these reforms, however, will require reexamination of existing congressional funding, budgetary, and authorization processes that could impede their effectiveness as well as GSA's ability to compete successfully for agencies' business in an agency-choice setting.

RTC has made significant progress during the last year in addressing open recommendations. Both the RTC Completion Act of 1993 and the Secretary of the Treasury's management reform initiatives mandated that RTC correct problems identified by auditors. A key action of RTC was to implement cost controls that resulted in savings of about \$30 million in fiscal year 1993 and strengthened its oversight of contractor activities.

At the Postal Service, adversarial labor relations, the impact of electronic communication on letter mail, limited effects of automation, and postal

meter fraud were all among the topics reported on. Our labor relations report includes numerous recommendations for dealing with the longstanding problems of supervisor, union, and employee relations on the workroom floor. In addition, we testified that Congress would need to act on issues related to the threat that E-mail, fax, and other information technologies posed for financial viability of the Postal Service. We continued to emphasize the need for the Service to make work force adjustments if it were to reap the promised benefits of bar-coding mail. Further, as part of a broad survey of the Postal Service's efforts to protect its \$50 billion in revenue annually, we emphasized the need to address the widespread vulnerability of current postage meters to abuse and fraud.

In the procurement area, GSA has acknowledged that improvements are needed and has corrective actions under way in several areas. GSA is piloting a number of changes in its Multiple Awards Program, has efforts under way to improve its supply procurement and defaulted vendors' claims assessment and collection practices, is working to enhance its oversight of agencies' purchases and management of automatic data processing and telecommunications, and is exploring major changes in its supply depot operations.

---

## Key Open Recommendations

### General Services Administration

The Congress has supplemented Federal Buildings Fund revenues through appropriations and borrowing and eliminated most restrictions on rent payments to GSA by federal agencies. GSA used these funds to construct several new federal buildings and courthouses and has actions under way to develop a 5-year capital plan to guide decisionmaking and to take the lead in demonstrating the benefits of capital budgeting. But continuing funding limitations and budget scorekeeping rules that are biased in favor of operating leases impede cost-effective federal housing and asset management decisions and GSA's efforts to increase federal ownership of space and reduce dependence on costly leased space. (GAO/GGD-90-11)

GSA has identified buildings that need major repairs and renovations and has improved its management controls to better ensure that these needs are properly tracked and addressed. Also, GSA has prepared a 5-year building capital plan, but it has not yet been approved by the Office of Management and Budget or been used by GSA to support its annual capital spending proposals to the Congress or to promote better, more informed

decisionmaking. As mentioned earlier, GSA has efforts under way to develop an acceptable 5-year capital plan and has increased its spending on building repairs and renovations to compensate for earlier neglect and prevent further deterioration and obsolescence. These actions need to be sustained and fully implemented. (GAO/GGD-91-57)

GSA has acknowledged the potential for increasing direct delivery of supplies and has developed an approach to test the recommendations in the marketplace. GSA also established an interagency committee of senior supply management personnel to aid in assessing and improving GSA's supply operations. GSA plans to use this committee to help it increase direct delivery and improve its supply distribution activities and expects to fully implement our recommendations by July 1995. (GAO/GGD-93-32)

#### Resolution Trust Corporation

In July 1993, we recommended that RTC better ensure that contractors meet RTC fitness and integrity requirements by requiring background checks for major legal contractors that contract with RTC. This requirement would be consistent with the fitness and integrity requirement for major business contractors. Procedures have been developed for conducting the recommended background checks of major legal contractors, and staff have been trained to conduct these checks. However, implementation of the procedures has been delayed until the new General Counsel reviews and approves them. (GAO/GGD-93-127)

In November 1993, we recommended that the Secretary of the Treasury, in consultation with the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and RTC, systematically assess the effectiveness of their approaches to preserving minority-owned financial institutions. FDIC and OTS have begun interviewing executives of minority banks and thrifts to obtain their views on efforts to preserve their institutions. As of September 1994, the results of these surveys were not yet available. (GAO/GGD-94-1)

#### U.S. Postal Service

The Postal Reorganization Act of 1970 established criteria for setting postal rates at a time when the Postal Service had less competition than it faces now. Since passage of the act, the Postal Service's competitive position has eroded, especially in the parcel post and overnight mail markets. We recommended that, because of the Postal Service's increasingly competitive environment and the need for greater pricing flexibility, the Congress reexamine the criteria used in setting postal rates to determine whether the criteria were still valid in light of changing marketplace realities. We also said that, if the Congress intended that the

---

Postal Service compete in the parcel post and express mail markets, it should consider a policy of granting discounts to customers on the basis of their mail volumes. No action has been taken on our recommendations. (GAO/GGD-92-49)

A key consideration in passage of the Postal Reorganization Act of 1970 was the need to improve the pay and the working conditions of postal employees. While pay has improved, we reported that employee problems persisted on the workroom floor of the U.S. Postal Service. The problems have not been addressed because postal management and labor unions have been unable to agree on solutions. We recommended that, given the severity and the persistence of the problems, the Service and the unions develop within 2 years a long-term (at least a 10-year agreement) framework agreement for addressing the volatile relations between supervisors and employees in processing plants and post offices across the country. Toward that end, our report enumerated the principles and the values to be pursued by the parties and contained seven key recommendations to the Service and union leaders, as well as the Congress, for fundamentally changing the manner in which both postal management and unions were dealing with employees. Our report was issued in September 1994, just as new labor contracts were being negotiated. We expect our recommendations to be considered in these negotiations; however, changing the Postal Service's organizational culture will take many years and we intend to track progress. (GAO/GGD-94-201A)

---

## Related Products With Open Recommendations: Government Business Operations

### Product Title

Commission on Civil Rights: Commissioners' Travel Activities  
(GAO/GGD-94-130)

Decennial Census: 1990 Results Show Need for Fundamental Reform  
(GAO/GGD-92-94)

Disinfectants: EPA Lacks Assurance They Work (GAO/RCED-90-139)

Environmental Protection Agency: Plans in Limbo for Consolidated  
Headquarters Space (GAO/GGD-93-84)

**Farm Credit System: Costs for Office Space, Equipment, and Furniture Compared to GSA's Costs (GAO/GGD-94-57)**

**Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57)**

**Federal Buildings: Many Are Threatened by Earthquakes, But Limited Action Has Been Taken (GAO/GGD-92-62)**

**Federal Judiciary Space: Long-Range Planning Process Needs Revision (GAO/GGD-93-132)**

**Federal Lobbying: Lobbying the Executive Branch (GAO/T-GGD-91-70)**

**Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11)**

**Foreign Direct Investment: Assessment of Commerce's Annual Report and Data Improvement Efforts (GAO/NSIAD-92-107)**

**General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98)**

**General Services Administration: Actions Needed to Stop Buying Supplies From Poor-Performing Vendors (GAO/GGD-93-34)**

**General Services Administration: Better Data and Oversight Needed to Improve Construction Management (GAO/GGD-94-145)**

**General Services Administration: Distribution Center Modernization Was Mismanaged (GAO/GGD-92-71)**

**General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32)**

**General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14)**

**Government Civilian Aircraft: Central Management Reforms Are Encouraging but Require Extensive Oversight (GAO/GGD-89-86)**

**Minority-Owned Financial Institutions: Status of Federal Efforts to Preserve Minority Ownership (GAO/GGD-94-1)**

**Multiple Award Schedule Contracting: Changes Needed in Negotiation Objectives and Data Requirements (GAO/GGD-93-123)**

**National Archives: A More Systematic Customer Focus Needed (GAO/GGD-94-3)**

**One-Dollar Coin: Reintroduction Could Save Millions If Properly Managed (GAO/GGD-93-56)**

**Postal Service: Planned Benefits of Iowa Automated Mail Facility Not Realized (GAO/GGD-94-78)**

**Postal Service: Service Impact of South Dakota Mail Facility Not Fully Recognized (GAO/GGD-93-62)**

**Resolution Trust Corporation: Affordable Housing Disposition Program Achieving Mixed Results (GAO/GGD-94-202)**

**Resolution Trust Corporation: Better Analyses Needed Before Terminating Asset Management Contracts (GAO/GGD-94-147)**

**Resolution Trust Corporation: Analysis of Selected Asset Sales and Financial Data (GAO/GGD-94-37)**

**Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs (GAO/GGD-93-2)**

**Resolution Trust Corporation: Better Assurance Needed That Contractors Meet Fitness and Integrity Standards (GAO/GGD-93-127)**

**Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process Could Be Improved (GAO/GGD-93-116)**

**Resolution Trust Corporation: Oversight of SAMDA Property Management Contractors Needs Improvement (GAO/GGD-94-5)**

**Resolution Trust Corporation: Recommendations Addressed to Oversee and Account for Cash Flow Mortgages (GAO/GGD-94-179)**

---

**Supply Contract Terminations: GSA Is Missing Opportunities to Recover Costs From Vendor Default (GAO/GGD-94-137)**

**U.S. Postal Service: Labor-Management Problems Persist on the Workroom Floor (Volume I) (GAO/GGD-94-201A)**

**U.S. Postal Service: Pricing Postal Services in a Competitive Environment (GAO/GGD-92-49)**

**Welfare Benefits: States Need Social Security's Death Data to Avoid Payment Error or Fraud (GAO/HRD-91-73)**



---

Tax Policy and  
Administration Issue  
Area (Budget  
Function 800)

GAO Contact: Jennie S. Stathis, 202/512-5407

---

Impact of GAO's Work

Commencing in 1994, about \$7.8 billion in increased tax revenues are expected to be made over the next 5 years as a result of statutory changes to tax expenditures and filing requirements which we had addressed in earlier reports. About \$3.8 billion of this amount is to be realized by restricting the use of section 936 tax credits, thus reducing federal revenues foregone while preserving an adequate stimulus for job creation in the United States possessions. About \$2.5 billion is expected to be collected from requiring the amortization of certain intangible assets over a specified period. And about \$1.5 billion is expected as a result of increased compliance stemming from submitting newly required information returns on forgiven debts, modifying the taxation of diesel fuel, and by collecting taxes earlier in the distribution system.

The amounts of these increased revenues represent only part of the impact of our work. Because of actions taken on our recommendations, the nation's tax collection system is operating more efficiently and effectively while imposing less of a burden on taxpayers. Our work has promoted long-term improvement projects (i.e., helping the Internal Revenue Service (IRS) manage for change given the potential benefits from increased automation and systems redesign contemplated under the Tax Systems Modernization (TSM) concept) and incremental short-term operational changes (e.g., identifying improved methods for dealing with noncompliance, such as overstated deductions of certain businesses). Concomitantly, our recommendations have addressed taxpayer concerns (e.g., ensuring the tax system is responsive, fair, and efficient and not overly intrusive or burdensome) as well as the need for the government to collect what is legally owed in taxes and to maximize the social benefits expected to be gained through tax preferences.

Also, as a result of our work, better information should be available to support deliberations on future tax policy and administration changes. In part, this will result from our convincing IRS not to abandon its best tool for assessing taxpayer compliance until a proven replacement has been developed and providing independent assessments to the Congress on the status and funding of TSM efforts. Other recommendations advancing the

interests of informed decisionmaking include those targeted at specific tax expenditures (e.g., tax exempt bonds) and at specific compliance efforts, such as audits of large corporations.

---

## Key Open Recommendations

### Compliance

Sole proprietorships, which account for about 13 percent of individual taxpayers, are responsible for about 40 percent of the taxable income earned by individuals but not reported for tax purposes. Yet, IRS' enforcement strategy does not provide a detailed operating plan for dealing with this noncompliance area. Moreover, IRS does not expect to develop the information systems needed to identify causes of the noncompliance and better target resources until the turn of the century. In the interim, we have recommended ways for IRS to better use available compliance data to identify possible causes of noncompliance and develop a more comprehensive sole proprietorship compliance program. (GAO/GGD-94-175)

Annually, about two-thirds of all additional tax assessments recommended as a result of IRS audits are attributable to the nation's 1,700 largest corporations. Although audits of these corporations consume about 20 percent of IRS' examination resources, IRS tracks neither actual collections from these audits nor the compliance rates of these corporations. We recommended a number of steps, given that only about \$1 of every \$5 of recommended tax assessments was actually being collected from these corporations, to help IRS ensure that it carried out its mission of collecting the proper amount of tax at the least cost—IRS should (1) centralize control over resources devoted to audits of large corporations, (2) increase revenue agent knowledge of the specific industries they audit, (3) begin tracking collection rates as a common measure across the agency, (4) analyze recurring tax disputes and propose legislative changes for minimizing such recurrence, and (5) test ways to measure compliance. (GAO/GGD-94-70)

IRS audits had indicated that individuals, in recent years, had overstated their real estate deductions by an estimated \$1.5 billion, resulting in nearly \$700 million in federal income tax losses. We recommended that, to improve voluntary compliance, IRS work with local governments to revise real estate bills that had led to erroneous tax deductions and share data on taxpayers' real estate payments. (GAO/GGD-93-43)

In October 1992, we reported on what states were doing to combat money laundering. We noted that the Internal Revenue Code required persons engaged in a trade or a business who had received cash payments of over \$10,000 to file reports with IRS but that these reports were not available to state law enforcement agencies. We recommended that the Congress amend the disclosure laws to allow states access to these reports. (GAO/GGD-93-1)

#### Tax Systems Modernization

Available compliance data indicate that overstated deductions of small businesses are a significant noncompliance area—about \$40 billion annually. Our review work showed that it was technically feasible for IRS to use computer-matching techniques and available information returns to identify a portion of this noncompliance. We recommended that IRS implement such matching techniques where tests showed that it would be cost-effective. We also recommended that IRS take actions to expand computer matching as part of its TSM effort. (GAO/GGD-93-133)

IRS is planning major organizational and operational changes to take advantage of new technology to be provided through TSM. We recommended that IRS, because these changes will have a major effect on IRS' work force, (1) assess existing work force knowledge, skills, and abilities; (2) identify specific staffing requirements for modernization projects that would significantly affect human resources; and (3) develop detailed retraining and redeployment plans to deal with gaps between staffing requirements and existing work force knowledge, skills, and abilities. (GAO/GGD-94-159)

Electronic filing reduces the time it takes to issue a refund to a taxpayer—on average, from 5 weeks for taxpayers who file paper returns to 2 weeks for those who file electronically. Because this speed leaves IRS little time to investigate and stop refunds and IRS' computer screens are inadequate, the program is particularly vulnerable to fraud. We recommended additional controls to help prevent fraudulent electronic returns from being filed and better detect fraudulent returns that had been filed. (GAO/GGD-93-27)

#### Accounts Receivable Collection

IRS is losing the potential to collect hundreds of millions of dollars of overdue taxes because of shortcomings in its processes for determining which accounts are currently collectible and which are not. We recommended that IRS (1) establish guidelines for determining taxpayers' ability to pay to include, for example, requiring minimum payments from taxpayers with incomes exceeding specified levels; (2) strengthen

oversight of the ability-to-pay determination process; and (3) modify criteria for reactivating cases previously classified as currently not collectible. (GAO/GGD-94-2)

We reviewed IRS' Offer in Compromise Program, which affords taxpayers the opportunity to settle tax debts for less than the amount owed. While IRS was pleased with the program's results, it had not demonstrated that the program's objectives of increased collections and improved compliance would be met. We recommended that IRS develop the indicators necessary to evaluate the program as a collection and compliance tool. (GAO/GGD-94-47)

We studied private sector and state collection techniques to determine whether IRS could improve its collection of delinquent taxes. We recommended that IRS restructure its collection program to support earlier telephone contact with delinquent taxpayers, develop detailed information on delinquent taxpayers for customized collection procedures, test the use of private collection companies, and identify ways to increase cooperation with state governments. (GAO/GGD-93-67)

While IRS' delinquent taxpayer workload has continued to grow, productivity of collection staff has varied at different field locations and IRS does not use marginal productivity measurements to adjust staff levels among those locations. We recommended that IRS develop a plan to ensure that collection staff would be allocated to maximize the assessment and collection of taxes. (GAO/GGD-93-97)

## Tax Simplification

In September 1993, we reported that the earned income tax credit had been the source of more taxpayer mistakes than any other individual income tax provision. We recommended the elimination of a complex schedule that did not add to IRS' compliance effort. We also recommended that IRS expand its efforts to notify low-income workers about the tax credit and make adjustments to procedures designed to ensure that all taxpayers would be treated equitably. (GAO/GGD-93-145)

Our work showed that the rules for claiming dependent exemptions were too complex and too burdensome for many taxpayers to comply. We recommended that the Congress simplify the rules by substituting a residency test similar to that used in the Earned Income Tax Credit Program. We recommended also that IRS resolve operational problems in its computer-matching program, thereby enabling IRS to cost-effectively

implement a 100-percent computer-matching program to identify erroneous dependent claims. (GAO/GGD-93-60)

Tax simplification, in part, involves efforts to make IRS correspondence easier for taxpayers to understand and act on. We have recommended that IRS modify its correspondence practices to (1) clearly advise taxpayers whether their tax problems could be quickly handled over the telephone, (2) advise taxpayers of the disposition of their inquiries, (3) make certain system improvements, and (4) monitor timeliness and taxpayer satisfaction with IRS correspondence. (GAO/GGD-94-118)

## Management of IRS

In a July 1994 report, we concluded that IRS needed regional offices, although the offices were not currently operating in a way that provided the most value to internal customers. We recommended that IRS rethink the role of regional offices and (1) remove regional offices from the chain of command in those situations where span of control was not an issue and (2) ensure that reviews done by regional offices would not duplicate those done by other offices and would help to solve problems. (GAO/GGD-94-160)

Successful implementation of IRS' one-stop service initiative is crucial to IRS' plans for improving customer service (e.g., reduce taxpayer burden in terms of additional time and frustration associated with making numerous contacts with IRS to resolve a single problem). In August 1994, we concluded that a flawed measurement process had led IRS to overstate its progress in providing one-stop service and recommended that a different measurement system be adopted. (GAO/GGD-94-131)

The federal tax deposit (FTD) system collects payment and tax data separately, thereby creating problems in matching the accounting information on tax returns to payment data on FTD coupons. The Department of the Treasury is automating the FTD process. We recommended that these automation efforts be monitored to ensure that the new automated system would collect the appropriate accounting data together with the taxpayer payment data. (GAO/AFMD-93-40)

In March 1993, we reported that taxpayer identity data, that IRS routinely collected each year to process tax returns, could help the Social Security Administration (SSA) identify the correct accounts for crediting workers' social security taxes. We recommended that IRS and SSA jointly evaluate the extent to which taxpayer data could be used to better match workers' earnings to correct social security accounts. (GAO/HRD-93-42)

**Related Products With  
Open Recommendations:  
Tax Policy and  
Administration**

**Product Title**

**Collecting Back Taxes: IRS Phone Operations Must Do Better**  
(GAO/IMTEC-91-39)

**Earned Income Tax Credit: Advance Payment Option Is Not Widely Known  
or Understood by the Public** (GAO/GGD-92-26)

**Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit  
System** (GAO/AFMD-93-40)

**Financial Audit: IRS Significantly Overstated Its Accounts Receivable  
Balance** (GAO/AFMD-93-42)

**Internal Revenue Service: Changes Needed in the Role of Regional Offices**  
(GAO/GGD-94-160)

**IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair  
Reliability of Management Information** (GAO/AIMD-93-34)

**Managing IRS: Actions Needed to Assure Quality Service in the Future**  
(GAO/GGD-89-1)

**Money Laundering: State Efforts To Fight It Are Increasing But More  
Federal Help Is Needed** (GAO/GGD-93-1)

**Social Security: IRS Tax Identity Data Can Help Improve SSA Earnings  
Records** (GAO/HRD-93-42)

**The New Earned Income Credit Form Is Complex and May Not Be Needed**  
(GAO/T-GGD-91-68)

**Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain  
Eligible Workers Vary** (GAO/HRD-91-33)

**Tax Administration: Approaches for Improving Independent Contractor  
Compliance** (GAO/GGD-92-108)

**Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs (GAO/GGD-91-118)**

**Tax Administration: Better Measures Needed to Assess Progress of IRS' One-Stop Service (GAO/GGD-94-131)**

**Tax Administration: Better Training Needed for IRS' New Telephone Assistors (GAO/GGD-91-83)**

**Tax Administration: Changes Needed to Cope With Growth in Offer in Compromise Program (GAO/GGD-94-47)**

**Tax Administration: Compliance Measures and Audits of Large Corporations Need Improvement (GAO/GGD-94-70)**

**Tax Administration: Computer Matching Could Identify Overstated Business Deductions (GAO/GGD-93-133)**

**Tax Administration: Congress Needs More Information on Compliance Initiative Results (GAO/GGD-92-118)**

**Tax Administration: Efforts to Prevent, Identify, and Collect Employment Tax Delinquencies (GAO/GGD-91-94)**

**Tax Administration: Erroneous Dependent and Filing Status Claims (GAO/GGD-93-60)**

**Tax Administration: Federal Agencies Should Report Service Payments Made to Corporations (GAO/GGD-92-130)**

**Tax Administration: Federal Contractor Tax Delinquencies and Status of the 1992 Tax Return Filing Season (GAO/T-GGD-92-23)**

**Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97)**

**Tax Administration: Increased Fraud and Poor Taxpayer Access to IRS Cloud 1993 Filing Season (GAO/GGD-94-65)**

**Tax Administration: Information Returns Can Improve Reporting of Forgiven Debts (GAO/GGD-93-42)**

**Tax Administration: IRS Can Better Pursue Noncompliant Sole Proprietors**  
(GAO/GGD-94-175)

**Tax Administration: IRS Can Do More to Collect Taxes Labelled “Currently Not Collectible”** (GAO/GGD-94-2)

**Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud** (GAO/GGD-93-27)

**Tax Administration: IRS Can Improve Its Program to Find Taxpayers Who Underreport Their Income** (GAO/GGD-91-49)

**Tax Administration: IRS Experience Using Undercover Operations’ Proceeds to Offset Operational Expenses** (GAO/GGD-91-106)

**Tax Administration: IRS’ Implementation of the 1988 Taxpayer Bill of Rights** (GAO/GGD-92-23)

**Tax Administration: IRS’ Management of Seized Assets** (GAO/T-GGD-92-65)

**Tax Administration: IRS’ 1992 Filing Season Was Successful But Not Without Problems** (GAO/GGD-92-132)

**Tax Administration: IRS’ Plans to Measure Tax Compliance Can Be Improved** (GAO/GGD-93-52)

**Tax Administration: IRS Preparer Penalty Data Inaccurate and Misleading** (GAO/GGD-90-92)

**Tax Administration: IRS Should Expand Financial Disclosure Requirements** (GAO/GGD-92-117)

**Tax Administration: IRS’ System Used in Prioritizing Taxpayer Delinquencies Can Be Improved** (GAO/GGD-92-6)

**Tax Administration: IRS Undercover Operations Management Oversight Should Be Strengthened** (GAO/GGD-92-79)

**Tax Administration: More Improvement Needed in IRS Correspondence** (GAO/GGD-94-118)



**Tax Administration: Negligence and Substantial Understatement Penalties Poorly Administered (GAO/GGD-91-91)**

**Tax Administration: New Delinquent Tax Collection Methods for IRS (GAO/GGD-93-67)**

**Tax Administration: Opportunities to Further Improve IRS' Business Review Process (GAO/GGD-92-125)**

**Tax Administration: Opportunities to Increase Revenue Before Expiration of the Statutory Collection Period (GAO/GGD-91-89)**

**Tax Administration: Opportunities to Increase the Use of Electronic Filing (GAO/GGD-93-40)**

**Tax Administration: Overstated Real Estate Tax Deductions Need to Be Reduced (GAO/GGD-93-43)**

**Tax Administration: Standards Adhered to in Issuing Revenue Ruling 90-27 (GAO/GGD-92-15)**

**Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion (GAO/GGD-92-67)**

**Tax Policy: Allocation of Taxes Within the Life Insurance Industry (GAO/GGD-90-19)**

**Tax Policy and Administration: Improvements for More Effective Tax-Exempt Bond Oversight (GAO/GGD-93-104)**

**Tax Policy: Earned Income Tax Credit: Design and Administration Could Be Improved (GAO/GGD-93-145)**

**Tax Policy: Summary of GAO Work Related to Expiring Tax Provisions (GAO/T-GGD-92-11)**

**Tax Policy: Tax Expenditures Deserve More Scrutiny (GAO/GGD/AIMD-94-122)**

**Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest (GAO/GGD-90-31)**

---

**Tax Systems Modernization: Automated Underreporter Project Shows  
Need for Human Resource Planning (GAO/GGD-94-159)**

# Financial and Information Management and Evaluation Programs

---

## Budget Issue Area (Budget Function 990)

GAO Contact: Paul L. Posner, 202/512-9573

---

### Impact of GAO's Work

The federal budget deficit remains a central factor in the nation's economic future. Despite recent reductions in the deficit, the long-term outlook is not encouraging. The deficit is expected to increase again before the end of the decade and remain a persistent problem in the foreseeable future. As a result, the budget continues to be a focal point for many current policy debates.

Our work (1) provides the Congress with deficit reduction analysis and reduction options and strategies, (2) recommends improvements in the budget presentation and choices provided by the budget and the budget process, (3) highlights the choices between consumption and investment spending and provides decisionmakers with criteria and analyses to aid in the selection of effective investments, (4) assesses the impacts of budget rules and incentives on management, and (5) examines the impact of proposed changes on managerial efficiency and congressional oversight.

### Deficit Reduction

Deficit reduction is essential to our nation's long-term economic growth. Although the fiscal year 1994 deficit is projected to be the lowest in 5 years, the annual deficit will still add about \$200 billion to the nation's debt. The national debt held by the public is approximately \$3.4 trillion, about 51 percent of the gross domestic product (GDP). Absent additional policy changes, the deficit is expected to increase in fiscal year 1996 and to continue growing into the next decade. As we have previously reported, failure to make difficult choices about what the federal government should do and how those activities will be financed will result in increasingly larger deficits and eventually lead to a steady erosion of economic growth.

Our long-term projections of the deficit and its impact on economic growth and productivity have been used by the public, private policy organizations, and the Congress to provide perspective on recent economic experiences and on the administration's economic plan.

Our report on the budgetary implications of selected GAO work, prepared with the active support of about 20 GAO issue areas and the cooperation of the Congressional Budget Office (CBO) and staff from the Joint Committee on Taxation, provided the Congress with over 50 options for possible budget savings or revenue gains. Our report on the executive order reducing administrative expenses warned of the difficulties associated

with the use of across-the-board administrative cost cuts as a means of deficit reduction. We provided the Congress with an analysis of the implementation issues associated with congressional proposals to cap mandatory spending. Our work on the long-term deficit outlook and on state balanced budget requirements contributed to both sides of the balanced budget amendment debate. We informed the Congress of the concept of GDP budgeting and illustrated the utility and the limits of using allocation of the GDP in budget policy deliberations.

Our work on deficit reduction includes an analysis of deficit reduction strategies used in other countries and their implications for U.S. deficit reduction. We are beginning to update our projections of the long-term impact of the deficit on the economy. We also plan to issue a second report on deficit reduction options and strategies and update a previous report on accounts with spending authority and permanent appropriations.

### Improving Budgetary Choices

The budget structure greatly influences decisions made. This makes highlighting and providing needed information about critical budget choices very important. In addition, better information about the costs of federal programs and a greater ability to link budgeting to accounting data could enhance the quality of budget decisions.

Our work on incorporating an investment component into the federal budget was used as the basis for analysis of investment in the fiscal year 1995 Budget of the United States Government. Our work on credit reform (1) cautioned that using present value-based estimated savings could create an incentive for overly optimistic savings estimates, (2) assessed coverage and compliance issues under the Credit Reform Act, and (3) discussed the inconsistent budgetary treatment of credit programs with negative subsidies. We worked closely with the Federal Accounting Standards Advisory Board to develop a governmentwide approach for recognizing liabilities and unmet needs for financial statement purposes. Our annual "lookback" report alerted the Congress to factors that had led to differences between budget estimates and actual results. A report issued on tax expenditures discussed ways to promote greater budget attention to, and accountability for, these tax programs.

Our current work on improving budgetary choices will examine the applicability of accrual concepts in budgeting for federal insurance programs. As part of our ongoing effort to identify problems in budget planning, we will prepare our annual "lookback" report. We also plan to examine the budgetary treatment of the acquisition of government capital,

such as information systems, which provide future benefits to the government as an operating entity.

#### Investment

Our work on the economic impact of the deficit identified the need to refocus the budget structure to promote a shift in the composition of federal spending from consumption to investment programs. Our investment work provided criteria and analysis to help decisionmakers select effective investments. For example, we issued a framework to help the Congress choose effective federal investments. Our work on restructuring the way budget data are presented has helped the Congress look at investment as a share of the budget. As mentioned above, the Office of Management and Budget (OMB) used the framework and definitions in our report on incorporating an investment component into the federal budget as the basis for analyzing investments in the fiscal year 1995 budget.

Our future work on federal investment will include an assessment of how economic criteria are used to make decisions and to evaluate the results of investment proposals.

#### Budget Issues in the Reinventing Government Agenda

The reinventing government agenda—the conceptual driver of the Vice President's National Performance Review (NPR) as well as recent performance measures legislation—has focused new attention on the impact of budget rules and incentives on agency management and program delivery. Our testimony on biennial budgeting noted that the Congress routinely provided multiyear funding and that a biennial appropriations process is not necessary to provide multiyear funds. Our work on analyzing franchise fund proposals resulted in major modifications in the proposed NPR legislation on working capital funds. Our work on the uses and the limitations of performance measurement and budgeting and the implications of state experiences highlighted the need for fundamental change, especially in the area of better cost accounting systems to support performance budgeting at the federal level.

Our work will continue to explore the links between performance measures and budgeting. We will review the budget account structure used to allocate federal resources. We will continue to be involved in evaluating budget-related proposals connected to NPR. We will also review the nature of performance information provided to the Congress through the appropriations process and assess how this information has changed since the enactment of the Government Performance and Results Act (GPRA). Finally, we will examine the impact on agency management of

---

executive branch rules and incentives for controlling funds and will review congressional techniques for control, such as rescissions, earmarking, reprogramming, and transfers.

---

## Key Open Recommendations

### Budget Enforcement Act Compliance

We are required by law to submit an annual compliance report that addresses OMB's and CBO's compliance with the Budget Enforcement Act of 1990. When we reviewed the reports and presidential orders for the session of the Congress ended January 3, 1992, we reported that OMB and CBO had substantially complied with the act; however, we found several minor instances in which either OMB or CBO or both had not implemented certain provisions. We discussed several matters for congressional consideration for making technical corrections to the act to clarify certain areas and allow more precise implementation. The Congress included some changes to the Budget Enforcement Act in the Omnibus Reconciliation Act of 1993 but did not address our specific recommendations. (GAO/AFMD-92-43)

### Federal Credit Reform

In response to a congressional request, we issued a series of reports examining several highly technical issues related to the implementation of the Federal Credit Reform Act of 1990. In our July 1994 report on coverage and compliance issues, we stated that Government National Mortgage Association (GNMA) guarantees were covered by the Credit Reform Act and that GNMA had not fully complied with requirements of the act. We recommended that the OMB Director require GNMA to budget for guarantees using the issuance dates of the guarantees to determine whether the costs of the guarantees should be included in the financing account or the liquidating account. OMB is examining long-term credit reform treatment for GNMA.

In the same report, we stated that it was appropriate for a credit program to capture the cost of a closely linked cross-subsidy program in determining the credit program's total subsidy costs and presented criteria for defining a "closely linked cross-subsidy program." We discussed, as a matter for congressional consideration, an amendment to the act to include the cost of closely linked subsidies in the cost of credit programs. For cross-subsidies not meeting the criteria for being closely linked, we recommended that the OMB Director include a table in the appendix to the Budget of the United States Government for the associated credit

programs showing, for each cross-subsidy, the size, the cost, and the effect of the credit subsidy rate. OMB has responded favorably to our recommendation, but a new budget has not been issued since the recommendation was made. The Congress has not yet addressed the matter for consideration.

We also examined the Federal Deposit Insurance Corporation's (FDIC) and the Resolution Trust Corporation's (RTC) fair housing programs. We suggested, as a matter for congressional consideration, amending the act to exclude from credit reform requirements only those FDIC and RTC programs whose sole purpose was resolving and disposing of assets of failed and failing financial institutions. (GAO/AIMD-94-57)

In our recently issued report on the treatment of negative subsidies under credit reform, we examined the budgetary treatment of negative subsidies (those in which receipts exceed outlays) and examined whether this treatment could adversely affect program management and budgeting. Specifically, we reviewed budget proposals and actions for fiscal years 1992-1995 for the Federal Housing Administration's Mutual Mortgage Insurance Fund, the Export-Import Bank, and GNMA.

We determined that the budgetary treatment of credit programs with negative subsidies was not consistent with credit reform requirements. The act does not explicitly address situations in which programs have negative subsidies. Under OMB's reasonable guidance, appropriations of negative subsidy receipts, unlike appropriations of general funds, do not make budget authority available for obligation. We determined that this disconnect between appropriations and available budget authority, coupled with the credit reform requirement that budget authority be available before direct loans were obligated or loan guarantees were committed, might cause program expenditures to be delayed or reduced to avoid violations of the Antideficiency Act. To avoid this, we recommended that the Congress appropriate only general funds for all subsidies and administrative costs of credit programs, using negative subsidy receipts to reimburse the general fund.

In the same report, we stated that programs with both positive and negative subsidy direct loans and loan guarantees, such as the credit programs of the Export-Import Bank, presented an additional issue. The act calls for appropriating amounts equal to estimated net subsidy costs (the estimated subsidy cost from positive subsidy direct loans and loan guarantees offset by estimated receipts from negative subsidy loans and

loan guarantees). With such an appropriation (or, from another viewpoint, an appropriation equal to estimated net outlays), an agency would not have sufficient budget authority to make all subsidized loans.

We recommended that, to solve this problem, the Congress amend the act to require the appropriation of an amount equal to the gross subsidy cost for credit programs with both positive and negative subsidy components. Since this report was released at the end of fiscal year 1994, the Congress has not yet had an opportunity to address our matters for consideration. (GAO/AIMD-94-58)

## Mandatory Spending

In response to a congressional request, we examined the implementation issues involved in applying a budgetary spending cap to mandatory spending programs. In our July 1994 report, we stated that, although a spending cap on mandatory programs would achieve savings, a cap would have little, if any, effect on the longer-term growth trends in these programs until issues of underlying eligibility and benefit formulas, which drive spending, were addressed. We discussed, as a matter for congressional consideration, an alternative process, under which the Congress, to reduce spending, would periodically set spending targets, assess mandatory spending, and vote on whether and how to change mandatory programs.

Our findings were used in the House during the recent debate on controlling mandatory spending. The House adopted a procedure similar in structure, but narrower in scope, to the one outlined in our report's section on matters for consideration by the Congress. The Senate did not consider specific controls on mandatory spending. Our report was recently released, and the Congress is likely to consider this matter again. (GAO/AIMD-94-155)

## Tax Expenditures

In a joint effort with the General Government Division, Tax Policy and Administration Issue Area, we responded to a congressional request to examine the growth of tax expenditures and alternatives for limiting their growth. The June 1994 report contained a recommendation to the Congress, matters for congressional consideration, and recommendations to the OMB Director.

We recommended that the congressional tax-writing committees explore, within the existing framework, opportunities to exercise more scrutiny over indirect "spending" through tax expenditures. Although these committees have considered revisions to various existing tax expenditures



over the years that would either eliminate such expenditures or more narrowly restrict eligibility, no specific action has been taken on our recommendation.

In this report, we also stated that should the Congress wish to consider tax expenditure efforts in the broader context of the allocation of federal resources, it could also consider further integrating them into the current budget process. One option would be for the Congress to consider whether it wished to seek a specified level of tax expenditure savings during its annual deliberations on the congressional budget resolution. Several proposals for better controlling tax expenditures have been offered, but no specific action has been taken on our recommendation.

In the same report, we made several recommendations to the OMB Director. We recommended that the Director, in consultation with the Secretary of the Treasury, revise the budgetary presentation of tax expenditure information to highlight the fiscal and other consequences associated with tax expenditures.

OMB revised its fiscal year 1995 budget to highlight information about tax expenditures in two respects—(1) the budget presents estimated tax expenditures over the 5-year budget window, as well as estimated expenditures for the current fiscal year and actual expenditures for the prior fiscal year, and (2) present value estimates are reported for tax expenditures involving deferrals and similar long-term revenue effects. Although OMB agreed in principle that the combined presentation of outlays and tax expenditures within functional areas would be helpful and is exploring the feasibility of presenting this information on a selective basis, OMB anticipates no significant additions for the fiscal year 1996 budget. The Treasury Department is deferring to OMB on this recommendation.

We also recommended that, to the extent practical, OMB incorporate tax expenditures into the annual budget review process. OMB has announced its intentions to begin such a process and has initiated preliminary actions to implement joint reviews of tax expenditures and related outlay programs as part of its annual budget review.

We recommended further that OMB, working with Treasury, design and test a basic structure for tax expenditure performance reviews before OMB developed a governmentwide framework by May 1997 as required by the 1993 GPRA. OMB has not yet taken action on this framework. We

recommended further that, once the initial determinations were made, OMB, along with the Treasury, conduct case studies of the proposed performance review process. This would enable OMB and Treasury to gauge how well the proposed framework might function. In addition, we recommended that, once tax expenditure performance data were developed, OMB consult with Treasury in considering how to present tax expenditure performance information in the budget. OMB is scheduled to begin action on the above recommendations according to the time frames established in the GPRA. The Treasury Department is deferring to OMB on the above recommendations. (GAO/GGD/AIMD-94-122)

---

## Related Products With Open Recommendations: Budget

### Product Title

Budget Issues: Compliance Report Required by the Budget Enforcement Act of 1990 (GAO/AFMD-92-43)

Budget Policy: Issues in Capping Mandatory Spending (GAO/AIMD-94-155)

Credit Reform: Appropriation of Negative Subsidy Receipts Raises Questions (GAO/AIMD-94-58)

Credit Reform: Case-by-Case Assessment Advisable in Evaluating Coverage and Compliance (GAO/AIMD-94-57)

Debt Management: More Aggressive Actions Needed to Reduce Billions in Overpayments (GAO/HRD-91-46)

Energy Management: Additional Uncosted Balances Could Be Used to Meet Future Budget Needs (GAO/RCED-94-26)

Tax Policy: Tax Expenditures Deserve More Scrutiny (GAO/GGD/AIMD-94-122)

---

## Civil Audits Issue Area (Budget Function 990)

GAO Contact: Greg Holloway, 202/512-9510

---

### Impact of GAO's Work

Our civil agency audits have illustrated the importance of reliable financial statements and effective systems in strengthening accountability and improved control over the federal government's financial resources and program activities. The preparation and the audit of accurate and useful financial statements depends upon the quality, the usefulness, and the availability of the financial information on which they are based and ultimately the adequacy of the underlying systems and related internal controls. The government's financial systems and internal controls are woefully inadequate, however. Even though agencies have spent billions of dollars to upgrade their financial systems, these efforts have met with limited success. Many federal financial systems are weak, outdated, and inefficient and cannot routinely produce relevant, timely, and accurate data on the results and the costs of operations.

### Chief Financial Officers Act of 1990

Since its passage 5 years ago, the Chief Financial Officers (CFO) Act of 1990 has set the foundation for a sound financial management structure and for beginning the process of change. A mechanism for reform is now in place, which represents a major accomplishment of our work and our long-term commitment to restore integrity to the federal government's financial management operations. The act can achieve substantive change, but this is just the first step; reform will require strong leadership, new thinking, and sustained high-level support and oversight.

Though much more needs to be done, agencies are beginning to recognize and fix their extensive financial systems deficiencies, come to grips with problems in recruiting and retaining financial personnel, and better understand the benefits of using new types of useful and relevant financial reports that are backed up by annual audits. We have helped agency managers and others become familiar with the CFO Act's principal features and understand better the actions needed to successfully implement the act. We have worked to foster adoption of appropriate financial reporting and accounting standards, promote quality financial audits and audit methods, and develop meaningful performance measures and cost systems.

CFO Act financial statements audits have been integral to identifying management inefficiencies and weaknesses and highlighting gaps in

safeguarding the government's assets and possible illegal acts. Also, they have identified actual and potential savings of hundreds of millions of dollars.

As part of our transition series, our report entitled Financial Management Issues (GAO/OCG-93-4TR) discussed (1) the widespread financial management weaknesses existing in government, (2) the role of the CFO Act in providing a road map for reform, (3) the steps needed to fully implement this act and make good financial management a reality, and (4) further necessary actions.

#### Other Financial Management Improvements

Our civil audits, over the past several years, have resulted in other significant improvements in federal financial management. For example, we have demonstrated, through discussion and analysis of several agencies' financial operations, the type of information that will give the Congress and the President greater insight into, and understanding of, agencies' financial affairs and the type of information that should be addressed in agency reports and attested to by the independent auditor.

These financial audits have also resulted in significant improvements in the quality of agency financial information and identified serious problems in agency financial operations. Most recently, we completed audits of the Internal Revenue Service's (IRS) and the U.S. Customs Service's fiscal year 1993 financial statements, which were done under the CFO Act's pilot program of agency-level audited financial statements. (GAO/AIMD-94-120 and GAO/AIMD-94-119)

These, along with our audit of the Department of Education's Federal Family Education Loan Program (FFELP), served as a catalyst for the recently passed Government Management Reform Act, which requires agencywide and governmentwide audited financial statements.

Our recommendations that delinquent nontax debt owed to agencies be collected through the IRS refund offset led the Congress, in 1993, to make this program mandatory through legislation. The program is expected to save the government billions of dollars. Also, the Congress passed legislation requiring agencies to report closed-out debts to IRS as income to the debtors, which we had also recommended.

---

#### Key Open Recommendations

Across government, effective financial management operations and information are hampered by financial systems that are incompatible; have

been allowed to deteriorate; are out-of-date; and cannot meet managers' cost, performance measurement, and other financial information needs. Agencies face a great challenge in providing strong financial management, effective internal controls, and sound fiscal accountability, but the investment will pay for itself many times over in improved operations and useful information for decisionmaking.

Governmentwide  
Recommendations

We have continually pressed agencies and the administration to improve credit management and debt collection practices. Our report on the Office of Management and Budget's (OMB) nine-point credit management program recommended that the Congress amend the Debt Collection Act of 1982 to require agencies, where consistent with program legislation, to use provisions of the act that were then optional and other credit management techniques. We continue to consider strengthened legislation in the credit management area to be an extremely important element for improving the government's loan programs, with billions of dollars in savings possible. (GAO/AFMD-90-12)

Agency-Specific  
Recommendations

Over the years, we have made many agency-specific recommendations to correct problems of fundamental accounting procedures, including serious internal control and accounting system weaknesses. The following recommendations deserve priority attention.

In our report on the U.S. Customs Service's fiscal year 1993 financial statements, we recommended several new actions and reaffirmed numerous key recommendations from our fiscal year 1992 financial statement audit of Customs. These recommendations included a number of actions that Customs could take to (1) reasonably ensure overall compliance with trade laws and to ensure that duties, taxes, and fees on imports would be properly assessed and collected and refunds of such amounts would be valid; (2) control, manage, and report the results of its enforcement efforts, including maintaining accountability and stewardship over the tons of illegal drugs and millions of dollars of cash and property seized or used in its enforcement efforts; and (3) adequately control the use and the reporting of its operating funds. In addition, we recommended that the Commissioner evaluate the technical proficiency and the experience of existing staff under the CFO to determine specific staff needs for effectively addressing the agency's financial management problems. (GAO/AIMD-94-119)

In our report on IRS' fiscal year 1993 financial statements, we recommended control procedures, such as reconciliations and supervisory

approval, to ensure that cash and other assets would be properly managed and accounted for. We stated that these steps must be taken before meaningful information could be obtained to help IRS, Treasury, OMB, and the Congress in making informed decisions.

We also reaffirmed the recommendations resulting from our audit of IRS' fiscal year 1992 financial statements regarding controls over revenue, accounts receivable, property and equipment, management of operating funds, computer controls, seized assets, and reports required by the Federal Managers' Financial Integrity Act (FIA). In addition, we recommended actions necessary to provide reliable, complete, timely, and comprehensive information with which to evaluate the effectiveness of IRS' enforcement and collection programs; analyze the impact of abatements on the effectiveness of assessments from IRS' various collection programs; and reconcile detailed revenue transactions for individual taxpayers to the master file and general ledger. (GAO/AIMD-94-120)

We recommended, in our report on IRS' accounts receivable, certain actions to develop a strategy for distinguishing between assessments that should be included in the receivables and those that should not, to include only valid receivables in the balances reported in IRS financial statements, and to modify IRS' methodology for assessing the collectibility of its receivables. (GAO/AFMD-93-42)

In our report on the Department of Education's FFELP financial statements for fiscal year 1993, we recommended several new actions and reaffirmed all our fiscal year 1992 recommendations that had not been completed by the department.

We especially emphasized the need for the department to improve controls over (1) estimating costs to be incurred on outstanding guaranteed loans; (2) ensuring that billing reports from guaranty agencies and lenders were timely and accurate and that guaranty agencies and lenders reported all default collections and origination fees, respectively, owed to the department; (3) preparing accurate financial statements; and (4) establishing security responsibilities and oversight for Education's general ledger system. We emphasized also the need for the department to establish necessary internal controls as it began to implement the new Federal Direct Student Loan Program. In addition, we continued to suggest that the Congress amend the Higher Education Act to require that originating lenders pay loan origination fees even if the loans were subsequently sold to other lenders. (GAO/AIMD-94-131)

---

Further Actions Needed on Key  
Open Recommendations

Major improvements are needed to restore integrity to the federal government's financial management operations. Key elements of successful federal financial management reform are high-quality leadership, an effective CFO organizational structure, effective long-range planning, and preparation of meaningful and auditable financial statements. Though agencies have made some progress in these areas, making substantive and lasting improvements is possible by taking prompt actions necessary to implement our recommendations and to meet the CFO Act's requirements.

High-Risk and Management  
Control Issues

Our high-risk program continued to focus on the identification of, and progress made in, correcting the root causes of problems in 18 areas we judged especially vulnerable to fraud, waste, abuse, and mismanagement. Since we began the program in 1990, we have issued over 600 reports addressing various aspects of the areas included in the program. Many of our recommendations have been implemented, and notable progress has been made in many of the areas. We are considering options for conducting GAO's high-risk program work in the future and for providing periodic updates on the status of areas in the program. The next update is scheduled for 1995.

Our FIA work continues to focus on evaluating that act's effectiveness and OMB's guidance for agency use in implementing it. We have been monitoring OMB's efforts to revise its Circular A-123, "Internal Control Systems," a draft of which was circulated for comment on November 28, 1994.

---

Related Products With  
Open Recommendations:  
Civil Audits

Product Title

Bureau of Indian Affairs' Efforts to Reconcile and Audit the Indian Trust Funds (GAO/T-AFMD-91-2)

Cost Accounting: Department of Energy's Management of Contractor Pension and Health Benefit Costs (GAO/AFMD-90-13)

Credit Management: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program (GAO/AFMD-90-12)

**Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit System (GAO/AFMD-93-40)**

**Financial Audit: Department of Veterans Affairs Financial Statements for Fiscal Years 1989 and 1988 (GAO/AFMD-91-6)**

**Financial Audit: EPA's Financial Statements for Fiscal Years 1988 and 1987 (GAO/AFMD-90-20)**

**Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119)**

**Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-120)**

**Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131)**

**Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20)**

**Financial Audit: IRS Significantly Overstated Its Accounts Receivable Balance (GAO/AFMD-93-42)**

**Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1987 and 1986 (GAO/AFMD-89-23)**

**Financial Management: Actions Needed to Ensure Effective Implementation of NASA's Accounting System (GAO/AFMD-91-74)**

**Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38)**

**Financial Management: Control Weaknesses Limited Customs' Ability to Ensure That Duties Were Properly Assessed (GAO/AIMD-94-38)**

**Financial Management: Customs' Accountability for Seized Property and Special Operation Advances Was Weak (GAO/AIMD-94-6)**

**Financial Management: Customs' Accounting for Budgetary Resources Was Inadequate (GAO/AIMD-94-23)**



Financial Management: Customs Did Not Adequately Account For or Control Its Accounts Receivable (GAO/AIMD-94-5)

Financial Management: Customs Lacks Adequate Accountability Over Its Property and Weapons (GAO/AIMD-94-1)

Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30)

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33)

Financial Management: Energy's Material Financial Management Weaknesses Require Corrective Action (GAO/AIMD-93-29)

Financial Management: Focused Leadership and Comprehensive Planning Can Improve Interior's Management of Indian Trust Funds (GAO/AIMD-94-185)

Financial Management: Important IRS Revenue Information Is Unavailable or Unreliable (GAO/AIMD-94-22)

Financial Management: IRS Does Not Adequately Manage Its Operating Funds (GAO/AIMD-94-33)

Financial Management: IRS Lacks Accountability Over Its ADP Resources (GAO/AIMD-93-24)

Financial Management: IRS' Self-Assessment of Its Internal Control and Accounting Systems Is Inadequate (GAO/AIMD-94-2)

Financial Management: NASA's Financial Reports Are Based on Unreliable Data (GAO/AFMD-93-3)

Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9)

Financial Management: Status of BIA's Efforts to Reconcile Indian Trust Fund Accounts and Implement Management Improvements (GAO/T-AIMD-94-99)

Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems (GAO/GGD-91-28)

---

**IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair Reliability of Management Information (GAO/AIMD-93-34)**

**Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1)**

**Superfund: EPA Cost Estimates Are Not Reliable or Timely (GAO/AFMD-92-40)**

---

## Corporate Audits Issue Area (Budget Function 990)

GAO Contact: Robert W. Gramling, 202/512-9406

---

### Impact of GAO's Work

Government corporations provide trillions of dollars in guarantees and insurance in support of the nation's major financial industries, including banks, savings and loan institutions, credit unions, and pension plans. The financial difficulties experienced by the banking and thrift industries in the last decade demonstrated how rapidly federal deposit insurance funds can be depleted. Although the condition of the Bank Insurance Fund (BIF) has greatly improved, the Savings Association Insurance Fund (SAIF) is not well capitalized. The Pension Benefit Guaranty Corporation (PBGC) continues to face a large deficit and significant exposure from underfunded pension plans that threaten the insurance program's long-term viability. The Resolution Trust Corporation (RTC) is nearing completion of its responsibilities for resolving troubled thrifts but needs to ensure a smooth transition of those responsibilities to the Federal Deposit Insurance Corporation (FDIC). The Panama Canal Commission will terminate on December 31, 1999, when the Canal is to be turned over to the Republic of Panama in operating condition and free of liens and debts.

To act promptly and minimize the taxpayers' exposure and costs, the Congress and regulators need reliable and informative financial reporting that provides early warning of emerging problems. Therefore, we have focused our work on ensuring that corporate entities accurately report their financial condition and performance and maintain internal control structures that provide accountability and safeguard assets. We are also evaluating whether generally accepted accounting principles and auditing standards provide an adequate basis for fairly and consistently reporting financial condition and operating performance.

### Financial Statement Audits

We have continued to independently assess the reliability of the statements of BIF, SAIF, the Federal Savings and Loan Insurance Corporation's Resolution Fund, PBGC, RTC, and the Panama Canal Commission. We have also continued to independently assess these corporations' control structures and worked closely with them to improve their internal control systems and operations. For fiscal year 1993, we issued unqualified opinions on each corporation's financial statements; our audits continue, however, to disclose internal control weaknesses of varying significance that if not corrected could affect the reliability of future financial reports and adversely affect their operations. In general,

the corporations have acted quickly to address the weaknesses we identified, although some weaknesses involve systems deficiencies that require longer-term solutions.

In fiscal year 1993, we provided the Congress with current assessments of the condition of the corporations and significant matters that could affect their future financial condition. We noted continued improvement in the condition of banking and thrift institutions that has accelerated BIF's recapitalization and reduced both BIF's and SAIF's exposure to significant losses from financial institution failures. But SAIF is greatly undercapitalized, and building up its reserves is a slow process that can be affected by events influencing the savings association industry. Our financial audit of RTC provided the Congress with an updated assessment of the Corporation's funding needs to complete its responsibilities for resolving failed thrifts and noted that weak controls over contractor performance, coupled with market risk beyond the Corporation's control, could affect estimated recoveries from failed thrifts' assets. We also continued to report on the exposure faced by PBGC from underfunded pension plans that threatens to add to the Corporation's deficit, and we supported legislative action to improve the funding requirements for defined benefit plans. We worked with the Panama Canal Commission to include financial statement disclosure of the status of its obligations and funding.

In addition, we also reported that nearly all government corporations had implemented the requirements of the Chief Financial Officers (CFO) Act to annually issue a management report that included financial statements, management's statement on internal controls, and the auditor's report resulting from the audit of the financial statements. We found, however, that the reports were not being consistently prepared. We recommended that the Office of Management and Budget (OMB), to improve the value and the usefulness of the reports, work with the corporations to establish guidance for assessing internal controls and reporting on other information useful in assessing the corporations' operations and performance.

#### Accounting and Auditing Standards

Our efforts to improve accounting standards focused on issues related to accounting for impaired assets and accounting and disclosures for financial derivatives.

With regard to auditing standards, we continued our efforts to achieve widespread public reporting on internal controls.

Our work on impaired assets included a review at the request of the Senate Banking Committee on Freddie Mac's and Fannie Mae's accounting for costs of foreclosed property. This review disclosed that accounting standards in this area were unclear and potentially conflicting. Additional work on impaired assets included our review of bank and thrift loan loss reserve methodologies. This review disclosed inconsistent and potentially inappropriate reserving practices, which were the result primarily of a lack of definitive accounting standards and regulatory guidance for establishing loan loss reserves. We recommended that the Financial Accounting Standards Board (FASB) and the bank and thrift regulators develop more definitive authoritative standards for accounting for loan loss reserves.

With regard to derivatives accounting and disclosure issues, we reported that accounting standards for derivatives, particularly those used for hedging purposes by end users, were incomplete, inconsistent, and had not kept pace with business practices. We also reported that proposed disclosure standards for derivatives, while an improvement over existing standards, still needed to be strengthened. We made recommendations to FASB on these standards.

Also, in connection with our work on derivatives, we reported that strong internal control systems; independent, knowledgeable audit committees; and public reporting on internal controls were critical to firms engaged in complex derivatives activities and should play an important role in ensuring sound financial operations and protecting shareholder interests of these firms. We noted, however, that the FDIC Improvement Act's (FDICIA) corporate governance requirements did not apply to all major dealers and end users of complex derivative products. We encouraged boards of directors that had not already adopted these types of requirements to do so. We recommended that regulators of major over-the-counter derivatives dealers establish specific corporate governance requirements and that the Securities and Exchange Commission ensure that its registrants that were major end users of complex derivative products establish and implement such requirements.

Our work with representatives from the Committee of Sponsoring Organizations (COSO) resulted in an addendum to the COSO framework for internal control assessments and reporting, which includes safeguarding of assets as a major area of controls to be evaluated and reported on in conjunction with assessments of controls over financial reporting. We believe that, with this important addendum, the COSO framework is an effective approach to evaluating and reporting on internal controls over

---

financial reporting and safeguarding of assets, including the type of risk-management controls over derivatives activities. We recently provided FDIC a proposed revision to the related FDICIA regulations to incorporate this addendum, which should now allow for attestation by the independent accountant on controls over safeguarding of assets.

---

## Key Open Recommendations

### Pension Benefit Guaranty Corporation's Management and Control Systems

In our audit of PBGC's fiscal year 1993 financial statements, we found that PBGC continued to progress in dealing with significant system and internal control weaknesses and in addressing key recommendations made in our reports on the Corporation's financial statements. (GAO/AFMD-92-1 and GAO/AIMD-93-21)

This progress enabled us, for the first time, to express an opinion on each of PBGC's financial statements. PBGC, however, continues to face weaknesses in financial systems and internal controls. Our report on the fiscal year 1993 audit made additional recommendations to address weaknesses in the assessment of contingent liabilities for the multiemployer fund. PBGC is addressing these weaknesses and, as part of the fiscal year 1994 financial statement audit, we will continue to assess its progress. (GAO/AIMD-94-109)

### Resolution Trust Corporation's Internal Control System

In conducting our fiscal year 1993 financial statement audit of RTC, we found that RTC had progressed significantly in addressing the internal control weaknesses related to safeguarding assets and financial reporting that we identified in our report on our 1992 audit. RTC's actions during 1993 fully resolved the one weakness we had considered material and all the conditions we reported in 1992.

Our 1993 financial statement audit of RTC disclosed several additional internal control weaknesses, which we did not consider to be material, related to general controls over some of RTC's computerized information systems, posting securitization-related wire receipts, and reconciliations of receiverships' asset balances to detailed asset records. RTC had already begun correcting all these weaknesses during fiscal years 1993 and 1994. In our 1993 report, we reported that the actions, if effectively implemented, should result in correcting the problems we had identified, and we recommended that RTC monitor the implementation and the

progress of the corrective actions. As part of our audit of RTC's 1994 financial statements, we will assess RTC's success. (GAO/AIMD-94-148)

## Federal Deposit Insurance Corporation's Internal Control System

Our fiscal year 1992 financial statement audits of the three funds administered by FDIC disclosed several internal control weaknesses affecting FDIC's ability to ensure proper safeguarding of assets and complete and accurate financial reporting. Our report on FDIC's internal controls as of December 31, 1992, recommended that FDIC improve internal controls for overseeing contracted asset servicing entities and for ensuring that estimates of recoveries on assets acquired in resolving failed institutions were calculated accurately and consistently. In our 1993 financial statement audits of the three funds, we found that FDIC had progressed significantly in addressing key recommendations from our 1992 report.

FDIC, however, continues to have weaknesses in controls over asset servicing entities and its recovery estimation process for assets acquired through resolution activity. Our report on our fiscal year 1993 audits made additional recommendations to address weaknesses in asset servicer oversight and the recovery estimation process. Our 1993 report also recommended better enforcement of policies and procedures to address weaknesses identified in FDIC's time and attendance reporting process. FDIC worked to address these weaknesses in 1994, and we monitored its progress as part of our 1994 financial statement audits. (GAO/AIMD-94-135)

## Review of Bank and Thrift Examinations

Our review of bank and thrift examinations performed by FDIC, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision disclosed that the examinations had been too limited to fully identify and determine the extent of deficiencies affecting the safety and the soundness of insured depository institutions. In our reports, we made various recommendations to the regulators to improve the scope and the quality of the examinations. These recommendations focused on the need to take a more proactive approach to the examination of banks and thrifts, including more emphasis on assessing internal controls, representative sampling of the loan portfolios, and development of a sound methodology for assessing the adequacy of loan loss reserves.

The receptiveness to our recommendations varied among the four regulatory agencies. Progress in implementing the recommendations has also varied with nearly full implementation by one regulator and substantial rejection of the recommendations by another. We will continue

	<p>to monitor the agencies' progress to assess the effectiveness of changes in the examination process. (GAO/AFMD-93-13 and GAO/AFMD-93-14)</p> <p>In our summary report on the examination review, we recommended that the Congress determine the appropriateness of the present regulatory structure. Since that time, several bills have been introduced and are still pending that propose changes to the current regulatory structure. (GAO/AFMD-93-15)</p>
Freddie Mac's and Fannie Mae's Accounting for Costs of Foreclosed Property	<p>In our report on Freddie Mac's and Fannie Mae's accounting for costs of foreclosed property, we recommended that FASB and the American Institute of Certified Public Accountants (AICPA) address ambiguities and potential conflicts in the accounting standards in this area. These recommendations included the need for AICPA to revise language in Statement of Position (SOP) 92-3 implying that selling costs were not permitted to be recognized as part of loan loss reserves, but rather must be recognized only after foreclosure of the loan. We recommended also that FASB and AICPA work together to establish consistent guidance for recognizing selling costs for all loan types. AICPA has already begun revising SOP 92-3, while FASB has agreed to consider the issue of consistent guidance for selling costs under consideration as a potential future project. (GAO/AIMD-94-75)</p>
Government Corporations' Management Reports	<p>We recommended that, to improve the usefulness of the CFO Act's audit and reporting requirements for government corporations and to enhance the consistency of management reporting to the Congress, OMB work closely with the heads of government corporations to establish an appropriate framework for the corporations to prepare the required management reports. OMB agreed to provide the corporations both the guidance it prepares for the executive agencies and technical assistance as necessary. (GAO/AIMD-94-73)</p>
Related Products With Open Recommendations: Corporate Audits	
Product Title	<p>Asset Management System: Liquidation of Failed Bank Assets Not Adequately Supported by FDIC System (GAO/IMTEC-93-8)</p>



Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue Professional Liability Claims (GAO/T-GGD-92-42)

Bank and Thrift Regulation: Better Guidance Is Needed for Real Estate Evaluations (GAO/GGD-94-144)

Bank and Thrift Regulation: Improvements Needed In Examination Quality and Regulatory Structure (GAO/AFMD-93-15)

Bank Examination Quality: FRB Examinations and Inspections Do Not Fully Assess Bank Safety and Soundness (GAO/AFMD-93-13)

Bank Examination Quality: OCC Examinations Do Not Fully Assess Bank Safety and Soundness (GAO/AFMD-93-14)

Bank Insider Activities: Insider Problems and Violations Indicate Broader Management Deficiencies (GAO/GGD-94-88)

CPA Audit Quality: Status of Actions Taken to Improve Auditing and Financial Reporting of Public Companies (GAO/AFMD-89-38)

Credit Unions: Reforms for Ensuring Future Soundness (GAO/GGD-91-85)

Employee Benefits: Improved Plan Reporting and CPA Audits Can Increase Protection Under ERISA (GAO/AFMD-92-14)

Farm Credit System: Farm Credit Administration Effectively Addresses Identified Problems (GAO/GGD-94-14)

Farm Credit System: Repayment of Federal Assistance and Competitive Position (GAO/GGD-94-39)

Federal Home Loan Bank System: Reforms Needed to Promote Its Safety, Soundness, and Effectiveness (GAO/GGD-94-38)

Federal Reserve System Audits: Restrictions on GAO's Access (GAO/T-GGD-94-44)

Financial Audit: Federal Deposit Insurance Corporation's Internal Controls as of December 31, 1992 (GAO/AIMD-94-35)

**Financial Audit: Federal Deposit Insurance Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-135)**

**Financial Audit: Pension Benefit Guaranty Corporation's 1992 and 1991 Financial Statements (GAO/AIMD-93-21)**

**Financial Audit: Pension Benefit Guaranty Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-109)**

**Financial Audit: Resolution Trust Corporation's 1993 and 1992 Financial Statements (GAO/AIMD-94-148)**

**Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Fund (GAO/AFMD-92-1)**

**Financial Derivatives: Actions Needed to Protect the Financial System (GAO/GGD-94-133)**

**Government Corporations: CFO Act Management Reporting Could Be Enhanced (GAO/AIMD-94-73)**

**Government-Sponsored Enterprises: Freddie Mac's and Fannie Mae's Accounting for Costs of Foreclosed Property (GAO/AIMD-94-75)**

**1992 Bank Resolutions: FDIC Chose Methods Determined Least Costly, But Needs to Improve Process (GAO/GGD-94-107)**

**1992 Thrift Resolutions: RTC Policies and Practices Did Not Fully Comply With Least-Cost Provisions (GAO/GGD-94-110)**

**Pension Plans: Stronger Labor ERISA Enforcement Should Better Protect Plan Participants (GAO/HEHS-94-157)**

**Premium Accounting System: Pension Benefit Guaranty Corporation System Must Be An Ongoing Priority (GAO/IMTEC-92-74)**

**Private Pensions: Protections for Retirees' Insurance Annuities Can Be Strengthened (GAO/HRD-93-29)**

**Resolution Trust Corporation: Analysis of Selected Asset Sales and Financial Data (GAO/GGD-94-37)**

**Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs (GAO/GGD-93-2)**

**Resolution Trust Corporation: Better Analyses Needed Before Terminating Asset Management Contracts (GAO/GGD-94-147)**

**Resolution Trust Corporation: Better Assurance Needed That Contractors Meet Fitness and Integrity Standards (GAO/GGD-93-127)**

**Resolution Trust Corporation: Ineffective Management of HomeFed Bank Environmental Services Contracting (GAO/GGD-94-62)**

**Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process Could Be Improved (GAO/GGD-93-116)**

**Resolution Trust Corporation: Oversight of SAMDA Property Management Contractors Needs Improvement (GAO/GGD-94-5)**

---

## Defense Financial Audits Issue Area (Budget Function 990)

GAO Contact: David M. Connor, 202/512-9095

---

### Impact of GAO's Work

Our work has concentrated on the financial and accounting policies, practices, internal controls, and systems the Department of Defense (DOD) uses to account for, control, and report on its billions of dollars of inventories, weapon systems, equipment, and other assets. Our audits have shown that many DOD financial systems are weak, outdated, and inefficient and cannot routinely produce relevant, timely, and accurate information on assets controlled by DOD nor produce the results and the costs of DOD's operations. Also, our audits have illustrated to the Congress, DOD, and the public the critical need for more reliable financial information and effective controls and systems to strengthen accountability and control over DOD's multibillion dollar investment in equipment and inventories.

In particular, our work was instrumental in gaining DOD officials' acknowledgment of the extent and the severity of DOD's financial management problems and the obstacles it faces in bringing adequate financial management to the department. The Secretary's January 1994 annual management report to the President and the Congress acknowledged that financial management complacency had permitted pervasive and detrimental weaknesses to exist in DOD financial management operations. The report cited several fundamental causes of DOD financial management problems, including "...vertically oriented disparate organizations, predominance of physical over financial controls, and complacency about financial management problems."

Such a forthright admission of serious weaknesses placed DOD, for the first time, in a better position to comprehensively and realistically address the weaknesses. DOD took the first steps necessary to correct its fundamental financial management weaknesses. One of the major actions DOD took in response to our recommendations was establishment of a Senior Financial Management Oversight Council to provide a forum for review and discussion of financial management improvement issues.

Also, our training, extensive encouragement, assistance, and oversight was a critical factor in ensuring the success of the DOD audit community in performing financial audits mandated by the Chief Financial Officers (CFO) Act of 1990. These organizations are devoting substantial efforts and resources to conducting the audits required by the CFO Act.

---

## Financial Statement Audits

Our financial statement audits of the Air Force and Army identified weaknesses in the basic processes used to develop the financial information managers needed for effective management and oversight, as well as accountability for DOD's extensive inventories of weapon systems, equipment, supplies, funds expended, and liabilities incurred. Because of this, our financial audits resulted in (1) identification of serious problems in DOD's financial operations; (2) improvements in DOD's ability to safeguard its assets; (3) DOD's implementation of corrective actions that yielded significant improvements in the integrity and the reliability of agency financial information; and (4) improvements in financial accounting and reporting that, if built upon, will ultimately enable DOD to better meet not only its own management information needs but also the reporting objectives of the CFO Act. We testified in April 1994 that our financial audit work had demonstrated that expanding and making permanent the requirement for audited financial statements in DOD, as well as for agencies governmentwide, was critical to ensuring basic accountability and making available the facts needed to run the government more efficiently.

In November 1993, we reported that the Army's system for recording and reporting real property at installations did not provide complete and accurate information on the quantity and the type of Army structures and facilities. We specifically pointed out the need for such information in developing real property maintenance budgets and in providing baseline information needed to make base realignment and closure decisions.

In December 1993, we reported that the Army's budget execution system had fundamental weaknesses that limited the Army's ability to ensure its compliance with the Antideficiency Act. The report also pointed out that inaccurate reporting could cause the Army to underestimate its future required outlays.

Also, we worked with the Army Audit Agency in its first audit of the Army's fiscal year 1993 financial statements. A significant result of this effort was to continue and strengthen the cooperation fostered during our fiscal year 1991 and 1992 audits of the Army's financial statements.

With our assistance and oversight, the Air Force Audit Agency completed its audit of the Air Force's fiscal year 1992 consolidated financial statements—its first financial statement audit. In addition, we reviewed this audit and provided suggestions for improving future audits.

---

Internal Controls

Our reports and testimonies highlighted for both the Congress and DOD the importance of effective internal controls and the consequences when they break down. Our audits focused on identifying whether DOD's internal controls ensured that its financial management systems could accurately capture, process, and report on day-to-day transactions involving billions of dollars.

In April 1994, we testified that weak internal controls over disbursements had resulted in millions of dollars in overpayments to contractors and illegal payments, such as about \$3 million in fraudulent payments to a former Military Sealift Command supply officer. We testified also that ineffective internal controls had resulted in an estimated \$7.8 million in unauthorized payroll payments to "ghost" soldiers and deserters. Our testimony also pointed out that, to date, DOD had collected over \$1.7 million of this amount. Further, in August 1994, we sent a letter to the Director of Defense Finance and Accounting Service Center—Cleveland and the Assistant Secretary of the Navy for Financial Management pointing out that weak internal controls resulted in a \$163 billion error in the Navy's fiscal year 1993 Treasury Report on Financial Position (SF-220).

---

Key Open  
Recommendations

Although DOD increased its ability to accurately account for and report on its financial operations and the financial status of its resources, much more remains to be done. It is important for DOD to pursue short-term and intermediate improvements, as well as long-term system enhancements. The following recommendations are among the most important recommendations that have yet to be fully implemented.

Army Programs

In December 1993, we reported that the lack of sustained DOD leadership had impaired the Army's ability to strengthen financial accountability. We recommended that the Acting DOD CFO (1) develop and implement a comprehensive plan, with specific milestones, for identifying and monitoring improvements in DOD and Army financial management, including personnel qualifications, organizational structures, and systems used to carry out Army financial management, and (2) revise existing policies and procedures to more clearly delineate the roles of the various DOD and Army organizations regarding Army financial management responsibilities. (GAO/AIMD-94-12)

Our November 1993 report on the Army's Industrial Fund (AIF), now part of the Defense Business Operations Fund, showed that AIF, which has annual revenues of nearly \$3 billion, had not achieved its goal of breaking

even over time because billing rates had not been set at levels to recover all costs and because excess direct labor capacity at depots had increased overhead costs. The report recommended that the Secretary of Defense direct the DOD Comptroller to (1) set prices based on realistic estimates of all the costs that would be incurred in providing goods and services to AIF customers, (2) adjust prices only by factors directly related to the costs expected to be incurred, and (3) request congressional appropriations whenever accumulated prior year losses were adversely affecting the operation of the fund. (GAO/AIMD-94-16)

In October 1993, we reported that the reliability of weapon system cost information in the Army's Selected Acquisition Reports to the Congress and DOD and in Army reports used to support critical cost decisions was highly questionable. Our report contained recommendations for improving how these costs were identified and for ensuring that the Congress received useful, accurate information on weapon system costs. (GAO/AIMD-94-10)

In June 1993, we reported that we could not express an opinion on the Army's fiscal year 1992 financial statements, in part, because corrective actions had not been completed on previous recommendations and the weaknesses we previously reported still existed. Specifically, our August 1992 report on the Army's fiscal year 1991 financial management operations and financial reporting contained recommendations for improving overall financial management by (1) enhancing internal controls and accountability over assets and resources, (2) developing reliable financial performance measures, and (3) improving integration of logistics and financial systems. These recommendations were not fully implemented in fiscal year 1992. (GAO/AFMD-92-82)

#### **Air Force Programs**

Our November 1992 report on Air Force depot maintenance, a Defense Business Operations Fund activity, recommended that DOD implement procedures to more accurately determine costs for billing customers, improve billing practices, and ensure compliance with Defense policies regarding Fund operations. (GAO/AFMD-93-5)

#### **Navy Programs**

In June 1993, we issued a report recommending that the Assistant Secretary of the Navy for Financial Management act to correct the \$13.6 billion of unmatched disbursements in the Standard Accounting and Reporting System, one of the Navy's major accounting systems. (GAO/AFMD-93-21)

Our March 1993 report on the Navy's depot maintenance industrial fund, a Defense Business Operations Fund organization, showed that the fund had losses totaling over \$790 million for fiscal years 1989 through 1991 because it had not recovered all costs incurred in providing customers with goods and services. The recommendations focused on ensuring that (1) prices were based on realistic estimates of the costs that would be incurred in providing the goods and services to customers and (2) prices were not adjusted by factors not directly related to the costs incurred, such as the recovery of prior year losses. (GAO/AFMD-93-18)

---

## Related Products With Open Recommendations: Defense Financial Audits

### Product Title

Air Force Depot Maintenance: Improved Pricing and Financial Management Practices Needed (GAO/AFMD-93-5)

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245)

Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources (GAO/AFMD-90-23)

Financial Management: Army Conventional Ammunition Production Not Effectively Accounted for or Controlled (GAO/AFMD-92-57)

Financial Management: Army Industrial Fund Did Not Recover Costs (GAO/AIMD-94-16)

Financial Management: Army Lacks Accountability and Control Over Equipment (GAO/AIMD-93-31)

Financial Management: Army Real Property Accounting and Reporting Weaknesses Impede Management Decisionmaking (GAO/AIMD-94-9)

Financial Management: Defense's System for Army Military Payroll Is Unreliable (GAO/AIMD-93-32)

Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82)



**Financial Management: Inadequate Accounting and System Project Controls at AID (GAO/AFMD-93-19)**

**Financial Management: Internal Control Weaknesses Impede Air Force's Budgeting for Repairable Items (GAO/AFMD-92-47)**

**Financial Management: Navy Industrial Fund Has Not Recovered Costs (GAO/AFMD-93-18)**

**Financial Management: Navy Records Contain Billions of Dollars in Unmatched Disbursements (GAO/AFMD-93-21)**

**Financial Management: Poor Internal Control Has Led to Increased Maintenance Costs and Deterioration of Equipment (GAO/AFMD-93-8)**

**Financial Management: Reliability of Weapon System Cost Reports Is Highly Questionable (GAO/AIMD-94-10)**

**Financial Management: Strong Leadership Needed to Improve Army's Financial Accountability (GAO/AIMD-94-12)**

**Navy Financial Reports (GAO/AIMD-94-166R)**

---

Information  
Resources  
Management—  
General Government  
Division Issue Area  
(Budget Function 990)

GAO Contact: Hazel E. Edwards, 202/512-6418

---

Impact of GAO's Work

Information technology systems are the lifeblood of the federal government, sustaining vital functions, such as tax collection and drug interdiction. Yet, it is increasingly clear that managing the federal government's information technology is a monumental task involving complex technologies and billions of dollars. In many cases, federal agencies are facing the enormous challenge of developing or modernizing vital systems to ensure that the public receives the services it expects and deserves.

Our work on information technology systems complements the work of GAO's General Government Division. Of significance is our work in the tax policy and administration, administration of justice, and financial institutions and markets areas.

Tax Policy and Administration

Our continuing examination of the Internal Revenue Service's (IRS) multibillion dollar Tax Systems Modernization (TSM) Program pointed out inadequacies in IRS' plans for interim projects and highlighted critical gaps in technical guidelines for TSM. As a result of our work, the Congress reduced IRS' fiscal year 1995 TSM request by \$339 million and required that IRS satisfy the House and Senate Appropriations Committees that it was resolving specific program and project management issues. In addition, IRS has scaled back its plans for initiating interim projects and has agreed to develop technical guidelines or standards for TSM.

During our testimony at a congressional hearing, we reported that unresolved IRS systems security weaknesses posed a high risk to taxpayer data. Consequently, the Congress pressed the agency to improve system security, reduce unauthorized browsing of taxpayer accounts by employees, and increase detection of fraudulent returns. Our work in this area has heightened awareness of security to such an extent that the Congress asked the Office of Management and Budget and GAO to designate IRS tax-filing fraud as a high-risk area.

---

Administration of Justice

The Accounting and Information Management Division testified jointly with the General Government Division on the reauthorization of the Judicial Automation Fund, which has provided over \$350 million over the past 4 years to improve automation in federal courts. As a result, the Administrative Office of the United States Courts agreed to (1) develop a strategic business plan to which the automation plan would be linked, (2) improve oversight of court automation efforts, and (3) finalize and implement life cycle management standards to ensure quality systems design and implementation.

Our initial work reviewing the U.S. Customs Service's redesign of its Automated Commercial System (ACS)—projected to cost \$100 million over the next 5 years—revealed problems, which we discussed with Customs staff. In response to our concerns, Customs (1) altered the organizational placement of its ACS redesign team to facilitate better coordination and (2) created an inventory of existing system problems for use as a monitoring tool to ensure that these problems would be resolved in the redesign.

Our testimony on Federal Bureau of Investigation (FBI) wiretapping capabilities provided timely information (1) confirming the technical difficulties of wiretaps in today's environment of advanced telephone technology and services and (2) stating that the cost of modifying the public telephone network to preserve wiretapping capabilities could range from hundreds of millions to billions of dollars. This work supported legislation to sustain the FBI's ability to perform its mission.

Financial Institutions and  
Markets

Our work at the Federal Deposit Insurance Corporation (FDIC) and the Resolution Trust Corporation (RTC) improved those agencies' use of information to manage agency functions. For example, during our review of FDIC's information systems that support asset disposition, we found that FDIC had not analyzed its various disposition strategies to determine which ones could produce the greatest return for the government. We met with FDIC managers and discussed how the analyses could improve asset management. FDIC management agreed with our findings and recognized the need to analyze asset information to assess disposition strategies.

At RTC, our work on data integrity revealed that 57 percent of the active loan records in the Central Loan Data Base—with a total book value of \$20 billion—contained one or more errors in the information describing the loans. As a result, the agency reduced the error rate, providing more accurate information on which to base loan management decisions.

---

Key Open  
Recommendations

Of the reports containing open recommendations, most of the key recommendations have been implemented, and action has begun on all remaining recommendations. In addition, some of our agency-specific reports and testimonies often fall into other issue areas. Consequently, key recommendations in areas such as tax policy and financial institutions are covered in the appropriate issue area sections of this report. Finally, over the last few years, we have worked closely with the Congress and IRS to recommend program management actions that IRS should take to reduce the risk of spending funds on projects that will not support tax system modernization.

Our testimony on the Justice Automation Fund disclosed that the judiciary's long-range automation plan was not linked to a strategic plan that provided a clear vision of the judiciary's mission, goals, and objectives. Without such a link, there was no assurance that automation would help meet the judiciary's missions, goals, and objectives; address high-priority needs; and use scarce resources effectively. Nor was there effective audit oversight of automation in the local courts. We recommended that the Congress reauthorize the Fund for less than the 5 years that the judiciary had requested. We also recommended that during the reauthorization period, the judiciary report annually to the Congress on progress in (1) developing a strategic business plan for the U.S. courts, (2) implementing a long-range information resources management plan based on that strategic plan, and (3) achieving effective audit oversight of court automation efforts. Shortly after our testimony, the Congress passed legislation to reauthorize the Fund for 3 years and included language in the reauthorization act requiring the U.S. courts to implement our recommendations. U.S. court officials are addressing those recommendations. (GAO/T-GGD/AIMD-94-176)

---

Related Products With  
Open Recommendations:  
Information Resources  
Management—General  
Government Division

Product Title

Asset Management System: Liquidation of Failed Bank Assets Not Adequately Supported by FDIC System (GAO/IMTEC-93-8)

**Collecting Back Taxes: IRS Phone Operations Must Do Better**  
(GAO/IMTEC-91-39)

**Debt Management: More Aggressive Actions Needed to Reduce Billions in Overpayments** (GAO/HRD-91-46)

**Environmental Enforcement: EPA Needs a Better Strategy to Manage Its Cross-Media Information** (GAO/IMTEC-92-14)

**FAA Information Resources: Agency Needs to Correct Widespread Deficiencies** (GAO/IMTEC-91-43)

**Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates** (GAO/PEMD-93-25)

**Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems** (GAO/GGD-91-28)

**Information Management: Immigration and Naturalization Service Lacks Ready Access to Essential Data** (GAO/IMTEC-90-75)

**Judiciary Automation Fund: Reauthorization Should Be Linked to Better Planning and Reporting** (GAO/T-GGD/AIMD-94-176)

**Justice Automation: Tighter Computer Security Needed** (GAO/IMTEC-90-69)

**Occupational Safety and Health: Assuring Accuracy in Employer Injury and Illness Records** (GAO/HRD-89-23)

**Tax Administration: Federal Agencies Should Report Service Payments Made to Corporations** (GAO/GGD-92-130)

**U.S. Government Securities: More Transaction Information and Investor Protection Measures Are Needed** (GAO/GGD-90-114)

---

Information  
Resources  
Management—Health,  
Education, and  
Human Services  
Division Issue Area  
(Budget Function 990)

GAO Contact: Frank W. Reilly, 202/512-6408

---

Impact of GAO's Work

This issue area focuses on information systems needs of federally funded health and human services programs. These programs, which are administered by federal, state, and local government agencies, touch the lives of nearly every U.S. citizen, providing benefits in such areas as medical benefits and assistance, aid to families and children, social security, veterans benefits, education, and pension and unemployment insurance. Each month, over 100 million payments are made to recipients. Outlays for these programs were about 55 percent of the almost \$1.4 trillion in 1992 federal outlays and are expected to climb to well over 65 percent of the \$2 trillion in federal outlays expected in the year 2000.

Automation is critical to delivering these benefits to the public. Automated systems are essential if government, at all levels, is to effectively and efficiently manage these programs and ensure timely delivery of benefits. Investments in automation are expected to cost tens of billions of dollars through the end of the century.

Our assignments focus on the steps that the federal and state governments need to take to ensure that current systems are modified and future systems are developed to adequately support health, education, and human services programs and become an integral part of much broader management strategies to improve public service and reengineer—rather than just automate—inefficient paper-burdened operations. As such, our work complements the administration's initiatives to reinvent government and reform our nation's health care and welfare systems.

We see vast opportunities in both federal and state governments for improving information resources—hardware, software, data, and people—resulting in billions of dollars in savings. We have issued reports covering federal health care program systems at the Departments of Defense (DOD), Veterans Affairs, and Health and Human Services (HHS);

---

national health care reform systems; welfare programs systems at the federal and state levels; and earned benefits programs systems at the Social Security Administration, the Veterans Benefits Administration (VBA), and the Pension Benefit Guaranty Corporation (PBGC).

---

## Key Open Recommendations

### Department of Health and Human Services

In June 1994, we reported on HHS actions to implement national and state systems for child welfare payments. Since these systems were just beginning to be developed, we made several recommendations to the department to help it work with state agencies in developing the new systems. These recommendations included (1) working with welfare experts to identify and obtain additional information necessary for developing federal, state, and local child welfare policy; (2) determining the functional capabilities of a comprehensive statewide automated information system and the feasibility of developing a data dictionary of common elements; (3) establishing an approach to routinely collect, and disseminate information on, innovative state and vendor systems; and (4) working with states, vendors, and information systems experts to determine the key capabilities needed by a comprehensive automated system and provide a model of this system to states in order to aid in system development efforts. (GAO/AIMD-94-37)

Also, in June 1994, we reported on the automated systems of HHS' Job Opportunities and Basic Skills Training Program (JOBS) and found that they did not focus on the program's employment objectives. We recommended that HHS (1) work with appropriate state agencies to determine how technology could best be used to achieve the overall JOBS program objectives, (2) incorporate these features into the system guidance for use by states, and (3) continue to work with states to correct problems with JOBS data and disseminate the data to other states to improve overall data quality. (GAO/AIMD-94-44)

Public Health Service: In 1991, we reviewed how the Public Health Service's Agency for Health Care Policy and Research (AHCPR) had explored ways in which automated medical records could be used. We found that AHCPR did not have a strategic plan and corresponding budget to bring about greater use of automated medical records and that it had not established completion milestones for its research. This situation still exists. Any future health care reform proposals are likely to require greater

use of automated medical information, which further highlights the continued importance of these recommendations. (GAO/IMTEC-91-5)

Health Resources and Services Administration: In 1993, we reported that the National Practitioner Data Bank, operated by the Health Resources and Services Administration (HRSA), was experiencing several problems. We made a number of recommendations and HRSA has been working since then to correct the problems noted. HRSA, however, still needs to improve communications with reporting and querying organizations to encourage them to use social security numbers to improve the timeliness of query responses. HRSA also needs to institute additional safeguards to ensure that its current hard copy paper system is more accurate from a security perspective and that its new electronic system to be developed is a secure data network. (GAO/IMTEC-93-1)

Health Care Financing Administration: During 1994, we reported on the Health Care Financing Administration's (HCFA) Medicare Transaction System (MTS) and found that HCFA top management had not been involved in the planning, the acquisition, and the management of the project; that information resources management (IRM) officials had not participated in the project; and that because of the problems found, the agency needed to keep congressional appropriations and oversight committees apprised of the project's progress, problems, milestones, and costs as the system was developed and deployed. HCFA has agreed to implement our recommendations. During 1995, we will report on the progress that has been made on the MTS project. (GAO/HEHS/AIMD-94-79)

#### Department of Veterans Affairs

Veterans Benefits Administration: In November 1992, we reported that VBA's acquisition of information resources for modernization was premature and that the contract award should be postponed. In December 1992, VBA awarded the first of three planned contracts for the modernization. In 1993, however, the Office of Management and Budget negotiated an agreement with the department to redirect VBA's modernization effort and establish annual service improvement goals. As of the end of the first year of the negotiated agreement, VBA had not met its first-year service improvement goals and service had continued to deteriorate. We plan to continue to monitor VBA's modernization effort as well as its progress in meeting the goals for service improvement. (GAO/IMTEC-93-6)

#### Department of Defense

During 1992, we reported on the readiness of DOD's Composite Health Care System (CHCS) for worldwide deployment. We recommended that the



Congress not approve CHCS for worldwide deployment until the department had completed several actions. Since our report, DOD, to improve CHCS, has been working on correcting the problems noted. But it has yet to issue a new detailed plan for worldwide deployment that includes deployment costs and a configuration management strategy. We are continuing to monitor DOD's progress in producing this new deployment plan. (GAO/IMTEC-93-11)

In July 1994, we reported on the tools and the methodology DOD used to manage CHCS performance. We reported that, to provide the performance management that was warranted in a state-of-the-art system, such as CHCS, tools must be obtained that could measure response times and resource utilization, determine the causes of problems, project workload and system configuration changes, and reliably measure system reserve capacity. (GAO/AIMD-94-61)

Pension Benefit Guaranty  
Corporation

In 1992, we reported that PBGC must give priority attention to developing and operating its premium accounting system, especially in regard to hiring management and technical support staff. PBGC dedicated a senior manager to develop the new system and hired a contractor to perform its day-to-day operations of the system when it becomes operational. Although PBGC has taken steps to obtain some technical and IRM expertise through contractors, PBGC officials have stated that strategic information management would still not be addressed for several years. Thus, PBGC continues to operate by addressing short-term needs without addressing the root cause of its IRM weaknesses. We plan to continue to monitor the implementation of the premium accounting system and other IRM activities at PBGC. (GAO/IMTEC-92-74)

---

Related Products With  
Open Recommendations:  
Information Resources  
Management—Health,  
Education, and Human  
Services Division

Product Title

Child Welfare: HHS Begins to Assume Leadership to Implement National and State Systems (GAO/AIMD-94-37)

**Composite Health Care System: Outpatient Capability Is Nearly Ready for Worldwide Deployment (GAO/IMTEC-93-11)**

**Health Information Systems: National Practitioner Data Bank Continues to Experience Problems (GAO/IMTEC-93-1)**

**Medical ADP Systems: Automated Medical Records Hold Promise to Improve Patient Care (GAO/IMTEC-91-5)**

**Medical ADP Systems: Defense's Tools and Methodology for Managing CHCS Performance Need Strengthening (GAO/AIMD-94-61)**

**Medicare: New Claims Processing System Benefits and Acquisition Risks (GAO/HEHS/AIMD-94-79)**

**Premium Accounting System: Pension Benefit Guaranty Corporation System Must Be An Ongoing Priority (GAO/IMTEC-92-74)**

**Prescription Drugs: Automated Prospective Review Systems Offer Significant Potential Benefits for Medicaid (GAO/AIMD-94-130)**

**Social Security Administration: Risks Associated With Information Technology Investment Continue (GAO/AIMD-94-143)**

**Veterans Benefits: Acquisition of Information Resources for Modernization Is Premature (GAO/IMTEC-93-6)**

**Welfare to Work: JOBS Automated Systems Do Not Focus on Program's Employment Objective (GAO/AIMD-94-44)**

---

Information  
Resources  
Management—  
National Security and  
International Affairs  
Division Issue Area  
(Budget Function 990)

GAO Contact: Jack Brock, 202/512-6240

---

Impact of GAO's Work

Information resources are essential to the agencies we cover—the Department of Defense (DOD), the National Aeronautics and Space Administration, the State Department, and the Agency for International Development (AID). These agencies annually spend billions of dollars acquiring and operating computer and communications systems. DOD alone accounts for over half of the federal government's expenditure for computers and software, including those embedded in weapon, space, and command and control systems. These agencies, however, continue to have difficulty in using technology effectively to accomplish their many diverse missions.

Our work has helped these agencies improve operations and financial management and address the many problems they have encountered in managing information resources. Our accomplishments include the following:

- Because of our work examining DOD's massive corporate information management (CIM) initiative to streamline business processes and modernize automated systems, DOD made key changes that will greatly enhance CIM's chances for success. In response to our recommendations, DOD developed a CIM strategic plan and established an Enterprise Integration Executive Board and an Enterprise Integration Corporate Management Council to more effectively manage CIM. Several congressional committees used this work, coupled with our assistance in analyzing the fiscal year 1995 budget, to improve oversight and reduce the budget request by over \$200 million.
- Our reports and testimonies on DOD's financial management operations alerted the Congress that DOD's financial operations were in disarray. For example, our work on the \$77 billion Defense Business Operations Fund (DBOF) pointed out weaknesses in DOD's ability to properly manage DBOF.

- Our work was used extensively by the defense authorizing committees in the fiscal year 1995 budget process and was the basis for legislation. Our disbursement work was used in Senate hearings to highlight the need for more effective financial management and Chief Financial Officers (CFO) Act implementation. Our work also resulted in a \$820 million reduction to DOD's fiscal year 1994 budget request.
- Our review of the Navy's planned \$2 billion TAC-4 computer procurement resulted in significant improvements to the acquisition. Our work resulted in increased competition, better contract administration, and a cost avoidance of over \$800 million.
- DOD continued to have problems developing computer systems embedded in its weapon and command and control systems. Our reports on the C-17 and F-22 aircraft programs showed that hardware and software development was still not being effectively managed and, as a result, continued to cause schedule delays, cost overruns, and performance shortfalls. Our report on the Cheyenne Mountain Upgrade noted that the program was 8 years behind schedule and nearly \$800 million over budget and concluded that system requirements could not be met without an overall data-processing architecture. DOD is taking actions to address these problems.
- Our work at the international agencies resulted in many changes to improve overall accountability and information resources management (IRM) operations. For example, at AID, the CFO is taking major steps to (1) improve AID's financial management systems, (2) institute a strategic planning process to help define AID's mission, and (3) develop an agency business plan for AID's IRM program. At State, the Under Secretary for Management is spearheading an agencywide improvement effort to implement a new integrated financial management system intended to improve overall accountability and solve longstanding internal control problems that we identified in prior years.
- Our work was also influential in improving several high-technology initiatives. For example, our work on DOD's Electronic Data Interchange (EDI) Program, intended to enable paperless business transactions, was used by the Office of Management and Budget (OMB) to develop plans for the governmentwide electronic acquisition network and by the Congress in its major procurement reform legislation. We also presented a GAO-wide seminar on EDI. Similarly, our work on DOD's Continuous Acquisition and Life-Cycle Support initiative should bring about dramatic improvements in

this program to automate the reams of paper and technical data needed to support today's weapon systems. Finally, our report on the Advanced Research Projects Agency's High Performance Computing and Communications (HPCC) Program was highly publicized and influential in improving this important "information superhighway" initiative.

---

## Key Open Recommendations

We are working with several congressional committees and agency officials to implement our key open recommendations. They cover a broad cross section of IRM, financial management, and technical issues. For example, our report on DOD's telecommunications infrastructure concluded that additional strategic planning was needed and that roles and responsibilities for managing telecommunications resources needed to be more clearly defined. We are working with the Defense Information Systems Agency to improve telecommunications planning and management. (GAO/IMTEC-93-15)

Our report on DOD's EDI program recommended that the Secretary of Defense develop a strategic plan, a standard departmentwide approach for implementing EDI, and communications policies and procedures needed to support EDI implementation. We recommended also that the military services and DOD agencies defer acquisition of EDI products and services until these plans were complete. We continue to work with OMB and DOD to improve the EDI program. (GAO/AIMD-94-17)

Also, we are working with the Congress and DOD officials to implement several open recommendations in the financial management area. For example, we testified and reported, on the basis of our work on the Army and Navy industrial fund and Air Force depot maintenance operations, that DOD's practice of increasing prices to recover prior losses was inconsistent with a basic DBOF tenet and that prices should instead reflect the actual cost incurred. We recommended that this practice not be allowed and that, instead, prior year losses be reconciled through the appropriations process. There is much debate over the method to be used to recover prior year losses. We are working with the House and Senate Authorization and Appropriations Committees to get DOD to better explain and improve its practices for DBOF management. (GAO/AFMD-93-5, GAO/AFMD-93-18, and GAO/AIMD-94-16)

Our work on the Advanced Research Projects Agency's HPCC Program identified weaknesses in the program that could slow technological progress and prevent the agency from achieving its goals. We made

recommendations intended to broaden participation in the program and better facilitate research on high-performance computing. We are working with the agency to implement our recommendations. (GAO/IMTEC-93-24)

Also, we are working with the State Department and AID to implement several key open recommendations. At AID, we recommended that the CFO match disbursements with appropriate obligations, maintain accurate system and property records, update systems' documentation, and develop a strategic IRM plan. (GAO/AFMD-93-19)

Similarly, our State Department report recommended that the Secretary develop an agencywide strategic IRM plan and a management structure to oversee all agency system improvement projects. We recommended also deferring contracting for the Integrated Financial Management System until State determined how the system would solve longstanding financial management problems and how high-risk areas would be addressed. (GAO/AIMD-94-141)

---

**Related Products With  
Open Recommendations:  
Information Resources  
Management—National  
Security and International  
Affairs Division**

**Product Title**

Air Force Depot Maintenance: Improved Pricing and Financial Management Practices Needed (GAO/AFMD-93-5)

Defense Communications: Defense's Program to Improve Telecommunications Management Is at Risk (GAO/IMTEC-93-15)

Defense IRM: Business Strategy Needed for Electronic Data Interchange Program (GAO/AIMD-94-17)

Financial Management: Army Industrial Fund Did Not Recover Costs (GAO/AIMD-94-16)

Financial Management: Inadequate Accounting and System Project Controls at AID (GAO/AFMD-93-19)

**Financial Management: Navy Industrial Fund Has Not Recovered Costs**  
(GAO/AFMD-93-18)

**Financial Management: State's Systems Planning Needs to Focus on**  
**Correcting Longstanding Problems** (GAO/AIMD-94-141)

**High Performance Computing: Advanced Research Projects Agency**  
**Should Do More to Foster Program Goals** (GAO/IMTEC-93-24)

**Defense Business Operations Fund: Improved Pricing Practices and**  
**Financial Reports are Needed to Set Accurate Prices** (GAO/AIMD-94-132)

---

Information  
Resources  
Management—Policy  
and Issues Area  
(Budget Function 990)

GAO Contact: Christopher Hoenig, 202/512-6406

---

Impact of GAO's Work

Our work continues to show how agencies lack critical information needed to analyze programmatic issues, improve service levels, control costs, and measure results. Information technology projects frequently are developed late, fail to work as planned, and cost millions of dollars—even hundreds of millions of dollars—more than originally expected. Fundamental changes are needed in agency information management practices, or the vast potential for reducing costs and improving service quality through information technology investments will not be fully realized.

In this regard, our work has been instrumental in (1) building and establishing criteria for strategic information management principles and practices and (2) transferring knowledge and techniques to the federal agencies and oversight community. Our accomplishments to date include the following:

- We have helped establish the foundation for a defined set of strategic information management practices in our report entitled Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology. Over 12,000 copies have been distributed to date, making it the second most requested GAO report in fiscal year 1994.
- We have released an exposure draft of a Strategic Information Management Assessment Toolkit for agencies to use in assessing the effectiveness of their existing information management practices. Over 110 organizations have requested this toolkit. We have also produced a similar guide for use by GAO evaluators that will provide a common structure for evaluating agencies' strategic information management results.
- We have given over 120 briefings to senior executives in the federal government and been invited to speak at 11 governmentwide forums on the strategic information management practices recommended in the Strategic Information Management Assessment Toolkit exposure draft.



- The Office of Management and Budget has incorporated our strategic information management practices into its latest revision of Circular A-130, "Management of Federal Information Resources," which establishes major governmentwide policies for managing information technology.
- We have helped strengthen the current legislative foundation by working with the Senate Committee on Governmental Affairs to get key strategic information management provisions added to the Paperwork Reduction Act of 1994, the primary legislative vehicle that establishes governmentwide policy for managing information technology. Legislation has been introduced in the Senate to that effect.
- We have obtained strong support for our strategic information management practices from the Senate Committee on Governmental Affairs, 10 Cabinet secretaries, and over 20 other federal agency heads. In addition, the General Services Administration has incorporated many of the practices into its proposed information resources management (IRM) review guide.
- We have piloted our strategic information management assessment approach and toolkit at the Department of Housing and Urban Development, which has resulted in development of a department action plan for improvement, including creation of an information technology investment review process.
- We have worked jointly with our Accounting and Information Management Division's IRM core groups, program divisions, and agency officials to identify and initiate pilot audits of strategic information practices using our assessment framework at the Internal Revenue Service, the Customs Service, the Social Security Administration, the Department of Energy, and the Health Care Financing Administration.

---

Key Open  
Recommendations

None.

Related Products With  
Open Recommendations:  
Information Resources  
Management—Policy and  
Issues

Product Title

Computer Matching: Quality of Decisions and Supporting Analyses Little  
Affected by 1988 Act (GAO/PEMD-94-2)

Premium Accounting System: Pension Benefit Guaranty Corporation  
System Must Be An Ongoing Priority (GAO/IMTEC-92-74)

---

Information  
Resources  
Management—  
Resources,  
Community, and  
Economic  
Development Division  
Issue Area (Budget  
Function 998)

GAO Contact: Joel C. Willemsen, 202/512-6253

---

Impact of GAO's Work

Information resources are essential to the key agencies covered by the Resources, Community, and Economic Development Division—the Departments of Transportation, Agriculture (USDA), Commerce, Housing and Urban Development (HUD), and Energy and the Environmental Protection Agency (EPA). These agencies annually spend billions of dollars acquiring and operating computer and communications systems to help achieve critical missions, ranging from ensuring safe air travel to overseeing loan portfolios.

Our work helped these agencies improve operations and address the many problems they encountered in managing their information resources. Our accomplishments include the following:

- At the Department of Transportation, the Federal Aviation Administration (FAA) canceled its original procurement strategy for a major data processing acquisition and instead developed a dramatically improved and less costly strategy. This revised strategy led to FAA's awarding a \$508 million contract—about \$1 billion less than originally planned. In addition, FAA implemented several important programmatic improvements, such as establishing a Chief Information Officer position.
- Our efforts at Agriculture led to several major achievements. For example, (1) USDA canceled an unjustified computer acquisition at the Federal Crop Insurance Corporation and (2) the General Services Administration withdrew its \$2.6 billion delegation of procurement authority to USDA for a major modernization program for the farm service and rural development agencies.

- The Secretary of Commerce agreed to implement our recommendation to appoint a single manager to be responsible for developing a systems architecture to guide the modernization of the National Weather Service.
- Reports and testimonies on EPA's management of its information technology alerted the Congress to the magnitude of problems with inaccurate and incomplete water quality data. Our work also spurred the agency to begin improving data sharing between its various programs to enable comprehensive environmental risk assessments.
- Our report on HUD's information resources management (IRM) program (1) uncovered several critical causes of HUD's longstanding problems and (2) persuaded the department to embark on an agencywide effort to address many of the methods articulated in our recent report on the best information management practices at leading private and public organizations.
- Our review of information resources at the Department of Energy exposed serious internal control weaknesses, leading the department to identify IRM deficiencies as a material weakness and to develop an action plan to correct them.

---

## Key Open Recommendations

We are working with agency officials to implement our key open recommendations. These cover a broad cross section of agencies and IRM issues. For example, at FAA, our review of the IRM program found that the agency lacked a strategic IRM plan and that it needed to raise the level of knowledge of its staff. In response, FAA developed a draft strategic plan and a draft training plan. FAA expects these plans to be finalized within the next year. (GAO/IMTEC-91-43)

Our August 1994 report on USDA's Info Share Program, a \$2.6 billion effort to modernize and reinvent the department's farm service and rural development agencies, found that agency managers were not taking the necessary steps to redesign agency business processes. Instead, the program was being used as a vehicle to buy information technology and further automate the current way of doing business. We therefore recommended that the Secretary refocus Info Share to ensure that business process reengineering was properly planned, conducted, and implemented and defer the award of planned nationwide contracts. USDA stated that it was committed to this refocusing and has begun to address our recommendations. (GAO/AIMD-94-156)

Our report on the Automated Weather Interactive Processing System—the centerpiece of the National Weather Service’s modernization—identified several areas of risk. Although Commerce has not yet fully implemented our recommendation to address outstanding issues on government and contractor responsibilities, software development, and portability and security requirements, we plan to continue working with department officials to ensure that these issues are resolved. (GAO/IMTEC-93-12BR)

We are working also with officials to address our key open recommendation to the Secretary of Commerce on assessing whether the Patent and Trademark Office’s plans for its automated patent system are justified. (GAO/AIMD-93-15)

At EPA, we are working with officials to implement several open IRM-related recommendations. For example, we recommended that the Administrator appoint a Chief Information Officer, who would report to the Administrator, have full-time IRM responsibilities, and could effectively influence IRM investments at all levels to meet agency goals. (GAO/AIMD-93-8)

We also recommended that the EPA Administrator, to strengthen EPA’s overall ability to accomplish its cross-media mission, complete the agency’s IRM strategy and plan, coordinate, and budget for cross-media information resources and activities. (GAO/IMTEC-92-14)

Further, we recommended that EPA also conform with generally accepted IRM practices for developing automated systems supporting its Office of Pesticide Programs. (GAO/IMTEC-93-5)

Our report on HUD’s IRM program found numerous longstanding problems. We recommended several actions to address them, including

- establishing strategic business and IRM planning processes and developing and maintaining up-to-date plans that would be clearly linked to each of the others;
- establishing a data management program to support integrated departmentwide systems and ensuring that the organization responsible for this program had sufficient authority to coordinate development of standards for common data; and

- eliminating weaknesses in computer security controls over automated systems and installations that stored, processed, transmitted, or used sensitive or privacy data.

HUD is addressing these recommendations. (GAO/AIMD-94-34)

The Department of Energy is working to address key open recommendations concerning its overall IRM program and its security program for information resources. For example, we recommended that the Secretary obtain staff with appropriate management and technical skills to implement improved IRM practices. (GAO/IMTEC-92-53)

In addition, we recommended that the Secretary assign the leadership responsibility for planning and managing departmentwide information resources security to a single organization. (GAO/IMTEC-92-10)

---

**Related Products With  
Open Recommendations:  
Information Resources  
Management—Resources,  
Community, and Economic  
Development Division**

**Product Title**

Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53)

Energy Information: Department of Energy Security Program Needs Effective Information Systems (GAO/IMTEC-92-10)

Environmental Enforcement: EPA Needs a Better Strategy to Manage Its Cross-Media Information (GAO/IMTEC-92-14)

Environmental Protection: EPA's Plans to Improve Longstanding Information Resources Management Problems (GAO/AIMD-93-8)

EPA Toxic Substances Program: Longstanding Information Planning Problems Must Be Addressed (GAO/AIMD-94-25)

FAA Information Resources: Agency Needs to Correct Widespread Deficiencies (GAO/IMTEC-91-43)

**HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34)**

**Information Resources: USDA Lacks Data on Major Computer Systems (GAO/AIMD-94-31)**

**Patent and Trademark Office: Key Processes for Managing Automated Patent System Development Are Weak (GAO/AIMD-93-15)**

**Pesticides: Information Systems Improvements Essential for EPA's Reregistration Efforts (GAO/IMTEC-93-5)**

**Toxic Substances Control Act: Legislative Changes Could Make the Act More Effective (GAO/RCED-94-103)**

**Toxic Substances: EPA Needs More Reliable Source Reduction Data and Progress Measures (GAO/RCED-94-93)**

**USDA Restructuring: Refocus Info Share Program on Business Processes Rather Than Technology (GAO/AIMD-94-156)**

**Weather Forecasting: Important Issues on Automated Weather Processing System Need Resolution (GAO/IMTEC-93-12BR)**

**Weather Forecasting: Systems Architecture Needed for National Weather Service Modernization (GAO/AIMD-94-28)**

---

## Legislative Reviews and Audit Oversight Issue Area (Budget Function 990)

GAO Contact: David L. Clark, Jr., 202/512-9489

---

### Impact of GAO's Work

Accountability for program results requires that government managers have financial management systems that provide accurate, reliable, and timely financial information so that programs can be managed efficiently and effectively, the extent to which program goals are achieved can be measured, and government office heads can make informed decisions. Chief Financial Officers and Inspectors General (IG) have concluded that the benefits of reviewing internal controls and the related financial statement audits bring a much needed rigor to financial reporting and highlight where the real problems are. As with any well operated enterprise, the investment in audited financial statements is essential to building reliable systems and providing accountability.

Our work focused on improving the financial management of legislative branch operations and activities of the Administrative Office of the United States Courts. In addition, we reviewed the management of the Bureau of Indian Affairs' (BIA) trust funds and White House expenditures to improve their operations and control. To improve the effectiveness of the audit work performed by other auditors, we reviewed their work and reviewed the implementation of the Single Audit Act to improve the act's usefulness.

Regarding our legislative branch work, our financial statement audits of several legislative entities (such as the House and Senate Sergeants at Arms) and other legislative programs and operations (such as the Congressional Award Program and the Library of Congress) resulted in a number of improvements in their internal controls and accounting systems. Likewise, our audits of the financial management support provided by the Administrative Office of the United States Courts for independent counsels and our reviews of White House expenditures resulted in improvements in cost management.

Our reviews of the IGs and other audit organizations resulted in additional audit coverage, better resource usage, and improved quality of work, as well as the removal of impairments to IG independence and authority. In addition, our audit resolution work prompted the Office of Management and Budget (OMB) to begin revising its audit followup guidance to ensure



that agencies acted on IG audit recommendations. As a result of our work on the audits of private employee benefit plans, legislation is being drafted by the Department of Labor that would encourage better plan management and better protect the interests of plan participants and the government. We continue to work with congressional committees on legislation that would increase responsibilities for detecting and reporting irregularities.

---

## Key Open Recommendations

### Legislative Branch Operations

In the first-ever attempt to audit the financial operations of the Library of Congress, we found that the Library's financial and accounting records were in such poor condition that we could not audit significant account balances. Because of weaknesses in financial management operations, the Library's ability to account for and control its collection of an estimated 89 million books and other materials was limited. We recommended that the Librarian of Congress (1) establish accounting and internal control policies and procedures to ensure compliance with applicable accounting standards and (2) develop an overall financial management improvement plan. (GAO/AFMD-91-13)

### Mandated Audits

The Department of the Interior's Indian trust fund management problems are longstanding and permeate all facets of the trust fund management business cycle. They include the lack of accurate information, inadequate management of resources, weaknesses in trust fund management systems and internal controls, and failure to prudently invest trust funds. We recommended that BIA reconcile its trust funds and develop a strategic plan for ensuring proper management of them. (GAO/T-AFMD-91-2, GAO/AFMD-92-38, and GAO/T-AIMD-94-99)

### Intergovernmental Auditing

In our continuing reviews of offices of IGS, we concluded that improvements to the IGS' strategic planning would improve the implementation of the IG Act at 34 designated federal entities. We recommended that these IGS develop strategic plans for a 5-year period. The plans should assess their respective entities' risks, describe the strategies for eliminating the risks, detail the resources required and available to implement the strategies, and provide measures to evaluate their progress. In addition, these plans should be included in the first semiannual report of each fiscal year so that entity heads, OMB, and the Congress are informed of the offices of IGS' resource needs. (GAO/AIMD-94-39)

Over the years, federal managers have not paid adequate attention to implementing IG recommendations, which has rendered audit resources less effective and has resulted in losses in federal programs and operations. The audit resolution problems are attributable, in part, to outdated guidance in OMB Circular A-50, "Audit Followup," on closing audit recommendations. We recommended that OMB revise the circular to require agencies to close audit recommendations and provide the necessary documentation to verify the closure when (1) agreed-upon corrective actions had been implemented, (2) alternative actions had been taken that essentially met the auditors' intent, or (3) circumstances had changed and the recommendations were no longer applicable. (GAO/AFMD-92-16)

Our reviews of the quality of audits by nonfederal auditors have identified weaknesses in the audits of private employee benefit plans so serious that the audits' reliability and usefulness were questionable. We recommended that the Congress amend the Employee Retirement Income Security Act (ERISA) to (1) eliminate ERISA's limited scope audit provision, (2) require reporting on the adequacy of internal controls by plan administrators and auditors, (3) provide for direct reporting to the Department of Labor of fraud and serious ERISA violations, and (4) require peer review of plan auditors. (GAO/AFMD-92-14)

During the past several years, well-publicized cases of financial irregularities in many companies and financial institutions (such as those in the savings and loan industry) have raised serious questions about corporate accountability, the effectiveness of corporate governance and regulation, and the adequacy of audit requirements. We have supported congressional efforts to amend banking laws and securities laws to increase both management's and the auditor's responsibilities for detecting and reporting irregularities. We have recommended that the Securities and Exchange Commission (1) ensure that managers of public companies publicly report on their responsibilities for financial statements and internal controls, (2) require the auditor to review and publicly report on the management report, and (3) adopt a requirement for public companies to establish audit committees. (GAO/AFMD-89-38)

The single audit process is an important oversight tool for the nearly \$200 billion in federal financial assistance provided to state and local governments each year. We recommended revising the criteria to determine the entities and programs subject to single audit, improving the content of single audit reports, and shortening the time frame for

---

publishing and strengthening the impact of the reports. We recommended also increasing recipient entities' responsibilities for internal controls over federal funds and improving guidance to auditors. (GAO/AIMD-94-133 and GAO/AFMD-89-72)

---

### Related Products With Open Recommendations: Legislative Reviews and Audit Oversight

#### Product Title

Air Force Audit Agency: Opportunities to Improve Internal Auditing  
(GAO/AFMD-90-16)

Application of Laws: Comments on the Congressional Accountability  
Act—S. 2071 (GAO/T-OGC-94-2)

Audit Resolution: Strengthened Guidance Needed to Ensure Effective  
Action (GAO/AFMD-92-16)

Bureau of Indian Affairs' Efforts to Reconcile and Audit the Indian Trust  
Funds (GAO/T-AFMD-91-2)

CPA Audit Quality: Status of Actions Taken to Improve Auditing and  
Financial Reporting of Public Companies (GAO/AFMD-89-38)

Employee Benefits: Improved Plan Reporting and CPA Audits Can Increase  
Protection Under ERISA (GAO/AFMD-92-14)

Financial Audit: First Audit of the Library of Congress Discloses  
Significant Problems (GAO/AFMD-91-13)

Financial Management: BIA Has Made Limited Progress in Reconciling  
Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38)

Financial Management: Status of BIA's Efforts to Reconcile Indian Trust  
Fund Accounts and Implement Management Improvements  
(GAO/T-AIMD-94-99)

Inspectors General: Action Needed to Strengthen OIGs at Designated  
Federal Entities (GAO/AIMD-94-39)

---

**Navy Inspectors General: Investigations of Complaints and Inspection Practices Need Strengthening (GAO/AIMD-94-128)**

**Single Audit Act: Single Audit Quality Has Improved but Some Implementation Problems Remain (GAO/AFMD-89-72)**

**Single Audit: Refinements Can Improve Usefulness (GAO/AIMD-94-133)**

---

## Program Evaluation and Methodology Issue Area (Budget Function 990)

GAO Contacts: Kwai-Cheung Chan, 202/512-3092, and Robert L. York,  
202/512-5885

---

### Impact of GAO's Work

Congressional committees require evaluative information on federal government programs and issues, and they look to the congressional agencies, including GAO, to provide it. Sound program evaluations are also valuable tools for better management in government. To help improve the quality of evaluative information available to the Congress and to federal agencies, we evaluate various executive agencies' programs, usually at the request of congressional committees. These studies generally fall into one of four areas—(1) determining the intended and unintended effects of an existing program, (2) identifying the potential effects of a proposed program, (3) assessing the quality of information available, and (4) reviewing executive branch evaluation functions and studies.

In many evaluation reports, we make recommendations to agency officials to (1) correct problems identified in existing programs, (2) increase their awareness of potential effects of proposed programs, (3) improve the quality of information they are collecting and analyzing, and (4) develop more fully their own capability to perform high-quality program evaluation. Thus, though these studies are often used initially by the Congress in its deliberations on specific programs, they are also intended to bring about improvements by the agencies as well.

In some cases, our program evaluations have provided demonstrations of novel or substantially improved designs and methodologies for evaluating or measuring the extent of program effectiveness or answering evaluation questions of general interest. Thus, the results of our work have frequently helped others in the evaluation field perform their work.

---

### Key Open Recommendations

Because our program evaluation and methodology studies concern many different issue areas, some are discussed in related issue area sections of this publication.

#### Transportation: Traffic Congestion and Air Quality

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 emphasized the link between traffic congestion and urban air pollution and the need to address both problems jointly through local planning

efforts. Our 1992 report identified several obstacles to achieving ISTEA's goals in these areas and recommended that the Secretary of Transportation report to the Congress midway through the reauthorization cycle (fiscal year 1995) on its activities to overcome these obstacles. We noted in particular the need to perform and widely disseminate evaluations of the effectiveness of transportation demand management measures in reducing both congestion and pollution. (GAO/PEMD-93-2)

Defense: Strategic Nuclear  
Triad

On the basis of our series of eight classified reports on the U.S. strategic nuclear triad, we made five specific recommendations to the Department of Defense (DOD) in our June 10, 1993, unclassified testimony to the Senate Governmental Affairs Committee. To date, DOD has not completed action on three of these recommendations, as follows: (1) that additional operational testing of the B-1B bomber be done to verify essential improvements in reliability and electronic countermeasures and to remove remaining uncertainties concerning range performance; (2) that the cost-effectiveness of the Air Force's proposed life-service extension of the Minuteman III intercontinental ballistic missile be the subject of additional, rigorous review; and (3) that the Navy continue flight testing for the D-5 submarine-launched ballistic missile at an annual rate sufficient to maintain an understanding of actual missile performance at a high level of confidence. (GAO/T-PEMD-93-5)

National and Public Health  
Issues

Our report on the three major sources of information about illegal drug use showed that the nation lacked good evidence on which to gauge progress in drug control. Surveys of households and high school students do not cover the populations at highest risk and, for those who are surveyed, self-reports of drug use are questionable. We recommended that the Secretary of Health and Human Services make new efforts to validate the commonly used self-reports and expand special studies of high-risk groups to fill the gaps in current surveys. (GAO/PEMD-93-18)

Vocational Rehabilitation

Our 8-year followup evaluation, using unique computer-matched wage and service data, showed that there were only modest long-term successes of the federal-state program that provided services to help persons with disabilities become employed and more independent and be integrated into the community. We also found unexplained disparities in the extent of services purchased for clients of different races. We recommended that the Secretary of Education find out why these disparities existed and strengthen evaluation in a number of ways. (GAO/PEMD-93-19)

---

## Peer Review of Grant Proposals

We examined grant selection in three federal agencies that use peer review—the National Institutes of Health (NIH), the National Science Foundation (NSF), and the National Endowment for the Humanities (NEH). We found that the rating of grant proposals was related to gender at all the agencies and to race at NSF. We also found at all the agencies that an applicant's track record was related to scores. Concerning the criteria used to evaluate proposals, the agencies do little to ensure that reviewers have an accurate and similar understanding of the criteria and rating scales. The reviewers of proposals are not necessarily considering the agencies' formal criteria consistently. Finally, we found that unwritten or informal criteria were used by panels at all three agencies. We recommended that the Directors of NIH and NSF and the Chair of NEH increase the monitoring of discrimination, including conducting tests comparing blind with conventional reviews, to ensure that gender, race, and ethnic discrimination are not affecting scores given by peer reviewers. (GAO/PEMD-94-1)

## Computer Matching

Government agencies have conducted computer-matching programs in recent years in an effort to stem waste, fraud, and abuse in federal benefit programs. To provide improved analyses of these programs and to protect individuals' privacy, the Congress passed the Computer Matching and Privacy Protection Act of 1988. Concerned about how agencies have implemented this act, we identified 71 computer-matching programs at 14 federal agencies involving 447 separate matching agreements. We reviewed 277 of these agreements. We found that the quality of the cost-benefit analyses being conducted needed improvement. For example, in 41 percent of the agreements reviewed, agencies either had not developed any estimates of costs and benefits or had estimated one but not the other. We recommended that the Office of Management and Budget Director (1) expedite the publication of minimum standard criteria for cost-benefit analyses and specify which cost and benefit elements must be included and (2) instruct agencies to establish procedures to track costs concurrently and measure costs and benefits retrospectively to determine whether estimated benefits were actually achieved. (GAO/PEMD-94-2)

## Pollution Prevention

Our evaluation identified 105 state pollution prevention programs nationwide and found major differences in how these state programs operated. Both regulatory and nonregulatory programs exist. We found that many state programs claiming to conduct pollution prevention activities were inordinately involved in waste recycling, treatment, and/or disposal. Many state programs evaluate the progress of their program

activities. The indicators used to monitor progress vary greatly, however, and many do not sufficiently document how well programs are working. In addition, the methods used invite respondent bias. Finally, the data are unsuitable for aggregating nationally, and they also do not allow the determination of pollution prevention program effectiveness, even at the state level.

We recommended, among other things, that the Environmental Protection Agency (EPA) Administrator ensure that state pollution prevention programs emphasize source reduction rather than recycling, treatment, and disposal of waste; improve data collection processes such that state program efforts can be evaluated; and establish criteria within the related grant program for measuring the success of source reduction efforts undertaken. (GAO/PEMD-94-8)

#### Water Pollution: Control of Toxic Substances

EPA implements the control of toxic pollutant discharges into waterways through seven “core” activities spread across a number of programs. We identified 13 types of information required to analytically support these 7 activities and found that 5 fell short in implementing the quality assurance steps needed to produce accurate information. Also, the current permit process does not limit the vast majority of toxics being discharged from the nation’s facilities. Although most of these toxics are “nonpriority” pollutants, they can and do pose human health and aquatic life risks. Finally, we tried to examine the risk implications of uncontrolled pollution cases identified, but the majority of cases could not be evaluated because the criteria were lacking by which to assess whether discharges posed an unacceptable risk. We recommended that the EPA Administrator (1) initiate immediate efforts to address the information quality assurance problems we had identified in the five toxic control activities and (2) expand the use of the Toxic Release Inventory data base to identify nonpriority pollutants being discharged to water that should be considered for control through the permit process. (GAO/PEMD-94-9)

#### Food and Drug Administration (FDA) User Fees

The Congress passed the Prescription Drug User Fee Act of 1992 to authorize user fees that would “provide the FDA with sufficient additional resources to significantly expedite the drug approval process.” A critical question is whether the act has allowed safe and effective new drugs to become available to patients earlier than they were available before user fees were collected. The legislation requires FDA to report to the Congress annually on changes in the amount of time that drug applications are under review at the agency. However, reductions in the amount of “FDA review time” do not necessarily translate into drugs’ becoming available to



the public more quickly. Therefore, we recommend that FDA include “time to market” in its annual report to the Congress. This measure would answer the question of whether the combined actions of FDA and the pharmaceutical firms were speeding new drugs to the public or not. (GAO/PEMD-94-26)

#### Operation Desert Storm

Our report addressed the possibility that U.S. veterans of the Persian Gulf War may be experiencing reproductive dysfunction as a result of their service in the war. Steps taken by DOD before, during, and after the war did not identify various potential reproductive toxics we found to be present during the war, and the activities undertaken to monitor servicemen and servicewomen for reproductive dysfunction after the war have major shortcomings. Therefore, we recommended that (1) the Secretary of Veteran Affairs use a revised questionnaire to reregister the more than 20,000 Gulf War veterans who had already responded to an earlier, significantly less complete questionnaire and (2) the Secretary of Defense undertake actions to make additional scientific inquiry into possible causes of the problem, collect additional baseline data to help identify the existence of potential current and future problems, and develop procedures to better inform and protect U.S. servicemen and servicewomen in the future. (GAO/PEMD-94-30)

---

#### Related Products With Open Recommendations: Program Evaluation and Methodology

##### Product Title

Computer Matching: Quality of Decisions and Supporting Analyses Little Affected by 1988 Act (GAO/PEMD-94-2)

Drug Abuse Research: Federal Funding and Future Needs (GAO/PEMD-92-5)

Drug Use Measurement: Strengths, Limitations, and Recommendations for Improvement (GAO/PEMD-93-18)

Educational Achievement Standards: NAGB’s Approach Yields Misleading Interpretations (GAO/PEMD-93-12)

FDA User Fees: Current Measures Not Sufficient for Evaluating Effect on Public Health (GAO/PEMD-94-26)

**Hazardous Waste Exports: Data Quality and Collection Problems Weaken EPA Enforcement Activities (GAO/PEMD-93-24)**

**Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates (GAO/PEMD-93-25)**

**Medical Technology: For Some Cardiac Pacemaker Leads, the Public Health Risks Are Still High (GAO/PEMD-92-20)**

**Operation Desert Storm: Questions Remain on Possible Exposure to Reproductive Toxicants (GAO/PEMD-94-30)**

**Paperwork Reduction: Agency Responses to Recent Court Decisions (GAO/PEMD-93-5)**

**Peer Review: Reforms Needed to Ensure Fairness in Federal Agency Grant Selection (GAO/PEMD-94-1)**

**Pesticides: A Comparative Study of Industrialized Nations' Regulatory Systems (GAO/PEMD-93-17)**

**Pesticides on Farms: Limited Capability Exists to Monitor Occupational Illnesses and Injuries (GAO/PEMD-94-6)**

**Pollution Prevention: EPA Should Reexamine the Objectives and Sustainability of State Programs (GAO/PEMD-94-8)**

**Public Health Service: Evaluation Set-Aside Has Not Realized Its Potential to Inform the Congress (GAO/PEMD-93-13)**

**Traffic Congestion: Activities to Reduce Travel Demand and Air Pollution Are Not Widely Implemented (GAO/PEMD-93-2)**

**The U.S. Nuclear Triad: GAO's Evaluation of the Strategic Modernization Program (GAO/T-PEMD-93-5)**

**Vocational Rehabilitation: Evidence for Federal Program's Effectiveness Is Mixed (GAO/PEMD-93-19)**

**Water Pollution: Poor Quality Assurance and Limited Pollutant Coverage Undermine EPA's Control of Toxic Substances (GAO/PEMD-94-9)**

# Quick Reference—Electronic Edition

---

## Introduction:

This electronic edition contains the details for GAO's open recommendations. This PC-based software allows you to use several text search and retrieval options to find either summaries of key open recommendations or the details of open recommendations.

---

## How to Install:

To load the software on your hard drive (7.5MB required):

1. Place program disk 1 in your disk drive.
2. Type the drive designation of your drive and the word "INSTALL".

For example, type "B:INSTALL". Press <Enter>.

3. Follow the instructions on the screen.
4. If you are updating a previous version, the install program will replace the old files with new ones.

Notes: 1. The default subdirectory is \OPENREC.  
2. Disk 2 of 2 is the "LAST" disk.

---

## How to Start:

To run the program:

1. Change to the drive and subdirectory where the software has been loaded.

Type "C:". Press <Enter>. Type "CD\OPENREC". Press <Enter>. Type "OR". Press <Enter>.

2. When the Introductory Menu is displayed, highlight an option to learn more about this program. Press <Enter>.

---

## How to Search:

You may search for open recommendations by using a report number, title, date, name of a federal entity, congressional committee, name of GAO's point of contact, or any other word or phrase that may appear in the report.

To perform this search, use the numerous options provided on the search menus. Most menus have similar options and require the following general steps:

1. Start at the Introductory Menu, highlight "MAIN". Press <Enter>.
2. At the Main Search Menu, highlight the option to locate the information you want. (See Search Options.) Press <Enter>.
3. At the next menu, indicate how much information you want to extract and where you want the output to go. (Figure 1 shows the menu screen.) Press <Enter>.
4. To perform the search, type a word or phrase. Press <Enter>.

The most recent report is listed first.

5. To review the open recommendations for a specific report shown on the list of titles, highlight the "REPORT NUMBER". Press <Enter>.
6. Use the <PgDn> and arrow keys to scroll through the open recommendations and related information.
7. When using special lists to narrow a search (see Search Options), you perform the search (in step 4 above) by displaying the special list. Type a word or phrase to get a subset of relevant terms or type "ALL" to get the entire list of terms. Press <Enter>.

**Figure 1. Output Menu Options**

	Output Destination		
	Screen	Printer	File
1. Report: title	:A	:E	:I
2. Report: title and hit count	:B	:F	:J
3. Report: title and abstract	:C	:G	:K
4. Full information, including recommendations	:D	:H	:L
!HELP			
MAIN!OPTION			

Note: Menu provides information in ascending order, with least detail provided first, most detail in fourth menu option. However, full information on a selected report, including recommendations, is available from all menu options.

---

Second, highlight your desired term on the list. Press <Enter>.

8. To rerun your last search after selecting another output option, press <Enter> without entering new search words.

---

## Notes on Figure 1

1. Menu option 2 takes longer but will give you a count of the reports meeting your search criteria.

2. Menu option 4 directly provides the open recommendations and related information for the most recent report that meets your search criteria. Additional reports will follow in the order they were issued.

3. If chosen, output can be sent to the printer at LPT1.

4. If chosen, output can be sent as ASCII text to the disk file that you designate.

---

## Search Options:

### Report Summary—Open Search:

The Main Search Menu includes six options to help you narrow or expedite your search:

Allows you to locate open recommendations using a report number, title, date, job code, or any other word or phrase that may appear in the report.

This includes “!OPTIONS” which provides a way to obtain custom askSam queries and reports (for those who know the askSam programming language).

### Issue Area Summary Search:

Allows you to identify the impact of GAO’s work and key open recommendations that deserve priority. You may search using key words or a table of contents.

### GAO Thesaurus Terms Search:

Allows you to locate open recommendations using terms indexed to major subjects in GAO reports.

### Congressional Committees Search:

Allows you to locate open recommendations by the congressional committee or subcommittee having primary interest in or jurisdiction over subjects discussed in GAO reports.

### Recommendation Addressees Search:

Allows you to locate open recommendations that were addressed to a specific executive department, agency, or congressional committee.

---

GAO Issue Areas Search:	Allows you to locate open recommendations by GAO's programming issue areas within its operating divisions.
-------------------------	--

---

---

## How to Refine Searches:

To refine a search, you can use the following:

1. To look for a phrase in the exact order, enclose your search words in "[ ]".
2. You can use wildcard characters to substitute for a single character or a group of characters.  
  
"\*" can represent a group of characters. For example, use "ACCOUNT\*" to get ACCOUNTING, ACCOUNTANT, and ACCOUNTS.  
  
"?" can represent a single character. For example, use "F-1?" to get F-15, F-16, and F-18.
3. Combine search words or phrases with connectors—" {and} "; " {or} "; " {not} "—to narrow or broaden a search.

---

## How to Quit:

1. The Escape key (i.e., "Esc") may be used at any time to cancel a search or backup to a previous menu.
2. To quit this program and return to the DOS prompt (at any menu option), highlight "QUIT". Press <Enter>.

---

## Local Area Networks (LAN)

This electronic version is LAN-compatible and can be used by multiple users simultaneously. To use this software on a LAN system, the Run Time EXE (RT.EXE) must be replaced with the Run Time Network EXE (RTN.EXE) file. The RTN.EXE is on Disk 2 of 2. The startup batch file will need to be changed from "RT START" to "RTN START". Also, the DOS SHARE program must be loaded.

---

## How to Get Help:

1. At the Introductory Menu, highlight "How to use this software". Press <Enter>.
2. On any menu screen, highlight "!HELP". Press <Enter>.

---

### **Ordering Information**

**The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.**

**Orders by mail:**

**U.S. General Accounting Office  
P.O. Box 6015  
Gaithersburg, MD 20884-6015**

**or visit:**

**Room 1100  
700 4th St. NW (corner of 4th and G Sts. NW)  
U.S. General Accounting Office  
Washington, DC**

**Orders may also be placed by calling (202) 512-6000  
or by using fax number (301) 258-4066, or TDD (301) 413-0006.**

**Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (301) 258-4097 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.**

---

**United States  
General Accounting Office  
Washington, D.C. 20548-0001**

<p><b>First-Class Mail Postage &amp; Fees Paid GAO Permit No. G100</b></p>
--

**Official Business  
Penalty for Private Use \$300**

**Address Correction Requested**

---