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**U.S. GENERAL ACCOUNTING OFFICE:  
STAFF VIEWS ON THE PRESIDENT'S  
FISCAL YEAR 1983 BUDGET PROPOSALS**



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**MARCH 5, 1982  
OPP-82-1**

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ASSISTANT COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

The President's fiscal year 1983 budget targeted areas in which Federal dollars could be saved by legislative actions.

We thought it would be useful if GAO provided the views of our staff on these and other budget-reduction proposals. Our analyses of the descriptions provided by the President in the document entitled "Main Themes and Additional Budget Details," is based on work we have completed or have in process.

Should you want more detailed information on the material which we have enclosed, the name and telephone number of the appropriate GAO staff member to contact is provided at the end of each discussion paper.

A handwritten signature in black ink, appearing to read "H. S. Havens", is positioned above the typed name.

Harry S. Havens  
Assistant Comptroller General

OPP-82-1



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**FEDERALISM**

**President's Proposals Addressed:**

**Health Block Grants**

**Low Income Home Energy and Emergency  
Assistance Consolidation**

**Rental Rehabilitation Grants**

Proposal - EXPAND THE USE OF HEALTH BLOCK GRANTSSupplementary GAO DiscussionGAO Views

On April 2, 1981, GAO testified before the Senate Committee on Labor and Human Resources on the Administration's health block grant proposals. During those hearings, we stated that the Administration's proposals offered the Congress a unique opportunity to resolve many of the problems GAO has identified over the last several years in the administration of Federal categorical grant programs. We endorsed the concepts of (1) consolidating separate categorical programs having related objectives and serving similar target populations, (2) placing management responsibility for similar programs in the same agency, (3) giving the States greater flexibility to match resources with needs and priorities, and (4) resolving the problems frequently created when Federal project grants are awarded directly to local organizations, bypassing relevant State agencies.

We support the continued efforts toward consolidating related grant programs. We particularly support the consolidation of the migrant health care program with the primary care block. Work previously done by our office showed that in 1979, 63 percent of the health centers receiving migrant health funds also received community health center (now the primary care block) funds. About 72 percent of the funding at that time was channeled to the jointly funded centers.

For all practical purposes, the community health center and migrant health center programs operated side by side. Their programs were similar, and their funds often combined to provide services at

individual centers. There were good reasons for integrating these program operations and these reasons also argue for further program consolidation.

Relevant GAO Reports

Problems in the Structure and Management of the Migrant Health Program  
(HRD-81-92, May 8, 1981)

GAO Contact

J. William Gadsby, 443-3596

President's  
Proposal -

CONSOLIDATE THE EMERGENCY ASSISTANCE  
PROGRAM INTO THE LOW INCOME ENERGY  
ASSISTANCE BLOCK GRANT

GAO Supplementary Discussion

GAO Views.

The Emergency Assistance Program was authorized by the Congress in 1967 to financially assist States in providing temporary assistance in time of emergency to needy families with children. States may either provide cash or arrange for the provision of such items as food, clothing, rent, utilities, or medical care. The Federal Government pays half of the emergency assistance expenditures.

In 1978, we reported (HRD-78-65, 04/05/78), that HHS allowed States wide latitude in developing their emergency assistance programs and had not developed uniform guidelines for approving and monitoring State plans. HHS's position was that the Social Security Act permits a State to specify the emergencies it will cover, and that State programs need not cover every conceivable emergency. HHS, therefore, approved a variety of plans--some containing restrictive provisions on eligibility and coverage, and others covering almost any emergency situation.

One result of this policy was about 40 court cases challenging the legality of State plans containing restrictions on eligibility and coverage. In some cases, the courts upheld the restrictions on eligibility and coverage; in others, they did not. As a result, States found that they could not rely on instructions and interpretations from HHS in determining what type of plan is permissible. The States also found it difficult to operate the program because of conflicting court opinions. Faced with this situation, at least four States dropped out of the program. Another result of HHS allowing the States wide latitude in developing their programs had been the use of emergency assistance funds for questionable purposes.

We recommended several actions to improve HHS's operations of the program. We also recommended that the Congress reconsider the need for the Emergency Assistance program because (1) few States participated in the program, (2) many States provided emergency assistance by other means such as the AFDC Special Needs program, and (3) States used the Emergency Assistance funds for nonemergency situations.

We further recommended that if the Congress determines the program should continue, it should review the positions of HHS and the courts concerning eligibility and the type and extent of emergencies covered and then, if necessary, amend the Social Security Act to clearly indicate congressional intent.

In December 1980 we noted in a follow-up report--Implementing GAO's Recommendations on the Social Security Administration's Programs Could Save Billions (HRD-81-37, 12/31/80)--that HHS issued guidelines to States which dealt with the approval of State plans and drafted instructions which clarify the degree of latitude States have in defining who is eligible for coverage under the program. These guidelines and instructions were based on HHS's interpretation of a Supreme Court ruling and other court decisions which appear to support HHS's policy of allowing States to redefine the types of emergencies to be covered and of providing States with latitude in determining the needy families with children who can participate. HHS had not, however, developed uniform guidelines concerning the uses of funds in the program and on how State programs should be monitored to assure uniformity in the use of funds. Therefore, we reiterated that Congress should reconsider the need for the Emergency Assistance program.

Since the issuance of our follow-up report in December 1980, a report prepared for HHS by the Institute for Research on Poverty at the University of Wisconsin showed that 45 States reported having one or more statewide emergency assistance or special needs programs. These 45 States reported an average of four separate statewide programs, including the Emergency Assistance and the AFDC Special Needs programs.

Also, HHS terminated the State of New York's practice of paying for AFDC recipients' fuel costs for an entire winter with Emergency Assistance funds which was contrary to the Federal Law for Emergency Assistance. An AFDC recipient's need for fuel assistance should have been provided through other programs such as the Low Income Energy Assistance program.

Accordingly, in evaluating the Administration's proposal, Congress should still reconsider the need for the Emergency Assistance program

Relevant GAO Reports:

Should Emergency Assistance For Needy Families Be Continued? If So, Program Improvements Are Needed (HRD-78-65, April 5, 1978)

Implementing GAO's Recommendations On The Social Security Administration's Programs Could Save Billions (HRD-81-37, December 31, 1980)

GAO Contact: Neil N. Miller 523-9076

President's  
Proposal - RENTAL REHABILITATION GRANTS

GAO Supplementary Discussion

GAO Views: The proposal to create a rehabilitation block grant program in conjunction with the administration's new voucher proposal has merit, particularly if the Congress concurs in the elimination of other production or supply-oriented programs as proposed by the administration. It also has the potential to be effective in upgrading a badly deteriorating rental housing stock at lower cost than past mechanisms. It should, however, be carefully implemented to make sure that it does not inadvertently hurt those tenants least able to afford adequate housing. This could be ensured by including geographic and income related targeting mechanisms limiting the extent of rehabilitation expenses done in conjunction with the program, and assuring that those units rehabilitated were actually substandard or deteriorated prior to inclusion in the program.

The administration's proposal for a Rental Rehabilitation Block Grant in fiscal year 1983 is aimed at preserving the nation's rental housing stock in low- and moderate-income neighborhoods and assisting low- and moderate-income tenants. This program would provide grants to States and units of local government for up to one-half the cost of rehabilitating multifamily rental properties. After the rehabilitation is completed, the units will be made available to low-income tenants with housing certificates provided under the Modified Section 8 Housing Certificate program. The acute need for this rental rehabilitation is underscored by HUD estimates that of the 30 million rental units nationwide, 2 million are seriously deficient and another 4 million have significant inadequacies. Approximately 30,000 rental units would be rehabilitated annually under the program, with an anticipated average grant of \$5,000 per unit.

This block grant program is expected to have several advantages over the programs it replaces--the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund. Among these possible advantages are more efficient and less costly economic subsidies, greater incentives to encourage rehabilitation of multifamily rental properties by localities, and concentration on low-income tenants through linkage with the Modified Section 8 Housing Certificate Program.

Local programs similar to the administration's proposal are already being utilized by many cities under the Community Development Block Grant (CDBG) program. Based upon preliminary results of a current GAO evaluation of CDBG housing activities, we estimate that roughly 30-35 percent of all entitlement jurisdictions expend some funds for rehabilitation of privately owned multifamily rental housing. Of these, 25 percent reported that they combined that assistance with the section 8 existing program. Thus, the

transition to a new program of this nature might be quite rapid in many jurisdictions.

In the past, rehabilitation grants and loans have been conditioned upon the continued use of the housing for low- and moderate-income households. On the other hand, past experience with single-family rehabilitation under CDBG and section 312 has shown that in the absence of clear guidelines on targeting, many communities fail to assure that benefits go to low- and moderate-income households. When working through intermediaries such as landlords it becomes even harder to carefully target benefits. Thus, consideration should be given to targeting the units in the rehabilitated building to low- and moderate-income tenants. Further, limiting the subsidy, by statute, to low- and moderate-income census tracts might be advisable.

Another issue to examine is whether a limit should be placed on the total expenditure for rehabilitation or on the subsequent value of the unit after rehabilitation. Some limit might be considered on the extent of rehabilitation which would be allowed since sizable rehabilitation expenses would necessarily mean substantial increases in rents to those occupying the buildings. Limiting the rehabilitation expense would also tend to ensure that the Federal grant money did not go to support unnecessary or extravagant improvements but rather tended to bring substandard and deteriorating units up to code. An analogous problem which has arisen in substantial rehabilitation under past programs was the tendency to maximize rehabilitation expenses regardless of the original condition of the building in order to raise the tax savings provided by accelerated depreciation. In the past, rents and subsidies under categorical programs such as section 8 were often as high or higher for rehabilitated properties than they were for new construction. Even when costs for development were lower, the indirect subsidies can increase total subsidy costs beyond new construction.

Finally, in some locations a rehabilitation block grant might be ineffective in that the overall rental housing stock is inadequate. In this circumstance, housing vouchers would be ineffective and rehabilitation could not add to the stock. If Congress wishes to target some aid to these localities, then some provision for limited grants for new construction might be a workable alternative.

Relevant GAO Reports: GAO is currently drafting a report on Housing Block Grants based upon field work and a nationwide survey of CDBG entitlement cities. Staff members are available to provide a briefing on this work. Other relevant reports are PAD-78-13, CED-80-19, and CED-81-98.

Contact: William Gainer, (426-1780).

REFORMING ENTITLEMENT PROGRAMS

President's Proposals Addressed:

Food Stamps  
Child Nutrition Programs  
Special Milk Program  
Aid to Families with Dependent Children  
Child Support Enforcement  
Medicaid  
Medicare  
Supplemental  
Security Income  
Combined Welfare Administration  
State Responsibility for Errors in Welfare Programs  
Trade Adjustment Assistance Weekly Cash Benefits  
Redwood Employee Protection Program  
Federal Employee Injury Compensation  
Railroad Retirement and Railroad Unemployment  
and Sickness Insurance



**President's Proposal: Amend the Food Stamp Program**

**GAO Views:** Among other things, it is proposed that able-bodied food stamp applicants begin job search activities when they apply for assistance. GAO generally supports this concept. Regarding a closely related issue involving food stamp recipients working for the value of the food stamp benefits they receive, we reported that a mandatory 30-day job-search period (as was then in effect) before being assigned a workfare job was unnecessary. We said that the effectiveness of the food stamp workfare concept could be improved by requiring eligible participants to report to the workfare office for interview and work assignment as an integral part of the benefit application process. The Congress has revised workfare program design to enable such procedures to be used. The same principle would seem appropriate for the food stamp program's work registration provision. Earlier, we had pointed out that promptness in implementing the food stamp program's work registration requirements would be a key factor in improving employment results.

**Relevant GAO Reports:** CED-81-117  
CED-78-60

**GAO Contact:** Stan Sargol (447-7883)

President's Proposal: Change Child Nutrition Programs,  
Including the Special Milk Program

GAO Views: The Administration's proposal includes eliminating the special milk and summer feeding programs, converting the school breakfast and child care food programs into a general nutrition assistance grant, and eliminating Federal participation in nutrition education activities. Our past work showed that some low-income families participated simultaneously in as many as six different Federal programs providing food assistance. This multiple participation was specifically sanctioned in the legislation authorizing most food programs. As a result, some needy households could receive more in food benefits than the average amounts American families of comparable size spend for food. Such multiple program combinations included food stamps, school lunch, school breakfast, special milk, the summer feeding program, and the child care feeding program. Estimates of the amounts of such overlaps and potential savings were not readily available in all cases but we determined that the overlap between food stamps and school lunch alone would run over a half a billion dollars a year. Although we did not recommend that specific programs be terminated in order to eliminate the overlaps, we did recommend that USDA explore further this matter of overlaps and propose such changes in the authorizing legislation as may be necessary to eliminate the overlaps.

In our past reports on the summer feeding program, we reported that the program has had continually recurring problems. Although progress had been made to tighten controls over the program, major abuses--such as poor quality food, inadequate food storage facilities, and overstated sponsor reimbursement claims--continued. In the area of child care feeding, we reported that improved management was necessary to ensure that nutritious meals were served to children at healthful feeding sites, that sound fiscal accountability be maintained, and that incidents of fraud and abuse be obviated.

During a review of the school breakfast program we noted that

- disagreement exists on whether the program is needed in particular schools and on the role of the family versus the schools in providing breakfast,
- lack of information on the nutritional status of children makes it impracticable to determine whether a specific nutritional assistance program like the school breakfast program might be needed or not needed, and
- communities should have a voice in decisions to provide or not to provide a breakfast program in their school district.

Our current review of nutrition education activities shows that many experts agree that educating school children is the most effective way to develop a nutritionally informed population. In addition, nutrition education in the schools has the potential for reducing food waste in Federal feeding programs and in the home, and for reducing the Federal Government's need to (1) disseminate nutrition information to the public and (2) provide nutrition education

for specific target groups outside of schools. With improved management and administration, USDA's Nutrition Education and Training (NET) Program can develop into an integrating force to bring public and private education efforts together to enable more efficient use of limited resources through (1) the increased sharing of information on the benefits and pitfalls of past nutrition education efforts, (2) the development of nutrition education assessment tools, and (3) better coordination of nutrition education efforts.

Relevant GAO Reports: CED-78-90, CED-78-113, CED-79-12, CED-80-33,  
CED-80-35, CED-80-91, CED-81-81, CED-82-8

GAO Contact: Stan Sargol (447-7883)  
Bill Gahr (275-5525)

President's  
Proposal -

AFDC PROPOSALS TO REDUCE BENEFITS  
AND TIGHTEN ELIGIBILITY REQUIREMENTS

GAO Supplementary Discussion

GAO Views.

The Administration has proposed several changes to the AFDC program which would limit the number of families who qualify for assistance as well as reduce the benefit amounts for those that do qualify. Generally, these proposals are similar to those enacted in the Omnibus Budget Reconciliation Act of 1981.

Because most of these proposals have a July 1, 1982, effective date, it is questionable whether the States will be able to meet this timeframe and realize the estimated savings. Many of the proposed changes will require a significant administrative effort by the States at a time when many of the extensive changes to the AFDC program required by the Budget Reconciliation Act are just now being implemented. Some States have not yet implemented all the changes required by the Budget Act which were effective October 1, 1981.

To implement the changes to the AFDC program proposed in the 1983 budget, information will have to be obtained from recipient families concerning minor child resources, unrelated adult income, and household size for prorating shelter and utility costs, and independently verified, which amounts to another wholesale redetermination of eligibility. Furthermore, State legislative impediments will most likely necessitate emergency or special sessions for State legislatures that have adjourned to conform State law with Federal policy requirements.

Problems at the Federal level could also delay the implementation of changes proposed in the 1983 budget to the AFDC program. Regulations to guide the implementation of any changes to the AFDC program will have to be approved by OMB either concurrent with or after publication as interim regulations. Unless the 60-day public comment period provided for under the Administrative Procedures Act is followed before the regulations become effective, there are likely to be court suits brought to restrain or postpone implementation, which happened in several States with the changes to the AFDC program required by the Budget Act of 1981.

Relevant GAO Reports:

Ongoing Work: Monitoring Implementation of P.L. 97-35 AFDC  
Changes and Regulations

GAO Contact: John Boyd, 523-9076

President's  
Proposal -

ALL STATES WILL BE REQUIRED TO  
ESTABLISH COMMUNITY WORK PROGRAMS

GAO Supplementary Discussion

GAO Views.

The Omnibus Budget Reconciliation Act of 1981, established Community Work Experience Programs (CWEP) as a State option under the AFDC program. The Administration now proposes to make CWEP mandatory.

CWEP/WIN Considerations

In evaluating this proposal the Congress should consider that the Administration is also proposing to seek no further funding for the Work Incentive (WIN) program. The objective of the WIN program is similar to CWEP; that is to assist and encourage AFDC recipients to obtain employment. Therefore, if the WIN program is not funded as the Administration proposes, then it may be desirable to require the States to implement CWEP.

CWEP/Food Stamp Workfare Considerations

The CWEP concept is similar to the Workfare program enacted in 1981 as an option to the States under the Food Stamp program. In both programs, welfare recipients would be required to work for benefits. GAO has issued three reports and testified twice before Congressional Committees on demonstration projects for the Food Stamp Workfare. These reports and testimony should be useful to the Congress in deciding:

- whether CWEP should be mandatory,
- if so, whether the mandated program should be the same as the current optional program,
- whether there should be a demonstration period for CWEP before requiring it in all states.

GAO believes that the Congress should take into consideration that many AFDC recipients are also Food Stamp recipients. Therefore, the Congress may wish to ensure that the requirements of CWEP and Food Stamp Workfare are consistent so that AFDC/Food Stamp recipients could be required to work for both types of benefits in either program. In striving for consistency, the Congress should note that currently the Food Stamp Workfare, which has been through an extensive demonstration program is optional to the States, whereas, under the Administration's proposal the AFDC-CWEP, with limited demonstration, becomes mandatory.

Relevant GAO Reports:

Preliminary Information on Workfare Pilot Projects  
(CED-80-129, September 30, 1980.)

Insights Gained in Workfare Demonstration Projects  
(CED-81-117, July 31, 1981.)

Food Stamp Workfare: Cost Benefit Results Not Conclusive  
Administrative Problem Continue  
(CED-82-44, February 19, 1982.)

GAO Person to Contact: Neil Miller 523-9076

President's  
Proposal -

RESTRUCTURING THE CHILD SUPPORT  
ENFORCEMENT PROGRAM

GAO Supplementary Discussion

GAO Views

The Child Support Enforcement Program (CSE) provides services to locate absent parents; establish paternity; and assist in the establishment and collection of court-ordered, administratively ordered, and voluntary child and spousal support payments. The program was enacted in an effort to require absent parents to support their children and thereby reduce spending for AFDC. The program covers both AFDC recipients and non-AFDC recipients.

Currently, the Federal Government pays 75 percent of State and local administrative costs for CSE agencies that establish paternity and collect support payments from legally liable absent parents. Where the absent parent's family is on AFDC, these collections offset AFDC costs. The Administration reports that these collections reduced Federal AFDC costs by \$268 million in 1981. The Federal share of collections under current law is projected to exceed \$500 million by 1987.

An added 15 percent (financed solely out of the Federal share of collections) is also made to States for "cooperating" in child support cases involving other States. States also receive special Federal financing for Court personnel who are involved in child support as part of their regular responsibilities.

The Administration proposes the following changes to the CSE program:

- restructure Federal matching to provide incentives for improved State and local performance,
- require States to retain 6 percent of child support collections for all non-AFDC cases as reimbursement for the costs of enforcement and collection, and
- strengthen the CSE identification and collection process.

These changes, according to the Administration, will increase AFDC collections and/or decrease the Federal share of CSE administrative costs by about \$150 million in 1983 and nearly \$900 million over the next five years. Increased child support collections will help offset Federal and State AFDC costs.

Although the details of the proposed changes are vague with regard to how States are to be encouraged to increase collections and to operate more cost-effective programs, we agree with the overall thrust of the Administration's proposals. Generally, we

have found, based on our past work, there are long delays in establishing paternity and ordering support and that efforts to collect delinquent payments are slow and insufficient. The proposed changes would reward States for better performance when collections increase.

Relevant GAO reports:

Wisconsin's Aid to Families With Dependent Children and Child Support Enforcement Program Could Be Improved (HRD-78-130, June 22, 1978)

New Child Support Legislation--Its Potential Impact and How To Improve It (MWD-76-63, April 5, 1976)

Collection of Child Support Under The Program of Aid to Families With Dependent Children (B-164031(3), March 13, 1972)

GAO Contact: Robert Gerkin 523-9076



President's  
Proposal -

ELIMINATE FEDERAL MEDICAID MATCHING

FOR STATE EXPENDITURES TO "BUY-IN"

MEDICAID ELIGIBLES INTO MEDICARE PART B

GAO Supplementary Discussion

GAO Views: Current law permits States to pay the Medicare part B premium for any Medicaid recipient who is also eligible for Medicare--called "buying in"--thereby making Medicare part B the primary payor for the services it covers. The State can claim Federal Medicaid matching for buy-in expenditures only for recipients who are categorically needy; i.e., Medicaid recipients who also receive or are eligible to receive cash assistance. The Administration proposal would eliminate this Federal matching. Current law also prohibits States from claiming Federal matching for the costs of health services provided to Medicaid recipients who are eligible for but not enrolled in Medicare part B if the services would have been paid for by part B if the recipient had been enrolled in it.

We reviewed the Medicare/Medicaid buy-in program and found that, because the legal requirements surrounding the buy-in program were so complex, States

- overclaim Federal sharing for Medicare part B premiums paid with Medicaid funds,
- underclaim for costs eligible for Federal sharing, and
- overclaim for ineligible medical costs.

We recommended that the Congress change the law to simplify Medicaid program administration related to the buy-in program and presented a number of options for doing so which also showed the effects on Federal and State costs (see HRD-79-96). The Administration proposal as outlined in budget materials is one of these options (option 3 in our report). However, this change would not eliminate one of the two main administrative problems we identified--the need to segregate part B type medical payments for dual eligibles who are not enrolled in Medicare. We suggest that, if the Congress decides to enact the Administration's proposal, it also consider eliminating the remaining administrative problem by repealing the requirement that States not claim Federal matching for part B type medical payments for dual eligibles not enrolled in Medicare.

Relevant GAO Reports:

Improvements Needed in the Administration of the Program  
to Provide Medicare Benefits for Welfare Recipients,  
B-164031(3), August 14, 1973

Simplifying the Medicare/Medicaid Buy-in Program Would  
Reduce Improper State Claims of Federal Funds,  
HRD-79-96, October 2, 1979

Contact: Thomas Dowdal ((301) 594-4890)

President's  
Proposal -

ELIMINATE MEDICARE SUBSIDY  
FOR PRIVATE ROOMS

GAO Supplementary Discussion

GAO Views: As indicated by the Administration's proposal, no legislation is needed to implement this change. Section 1861(V)(2)(A) of the Medicare Act has provided since its original enactment as Public Law 89-97 in 1965 that

"If the bed and board furnished as part of inpatient hospital services (including inpatient tuberculosis hospital services and inpatient psychiatric hospital services) or post-hospital extended care services is in accommodations more expensive than semi-private accommodations, the amount taken into account for purposes of payment under this title with respect to such services may not exceed an amount equal to the reasonable cost of such services if furnished in such semi-private accommodations unless the expensive accommodations were required for medical reasons."

Thus, as indicated in our prior reports, there never has been a question whether Medicare should eliminate the reasonable cost of the private room differential for Medicare reimbursement purposes, but rather whether the cost of determining what the reasonable cost differential is with regard to the 6,800 participating hospitals was commensurate to the savings that would result. The Administration's estimate of savings associated with this charge is \$54 million for 1983, which is about 0.1 percent of benefit payments to hospitals. Although we do not know how this initiative is to be implemented, in the past we have suggested that a standard private room cost differential be developed from a representative sample of hospitals to be applied across the board to avoid making more burdensome Medicare cost finding and cost reporting requirements for all hospitals. We believe this suggestion is valid at the present time.

Relevant GAO Reports:

Lengthy Delays in Settling the Cost of Health Services  
Furnished Under Medicare, B-164031(4), June 23, 1971.

Evaluation of Department of Health, Education, and Welfare's  
Proposed Regulation Affecting Medicare Reimbursements to  
Institutions (Report to the Senate Committee on Finance),  
B-164031(4), March 28, 1972.

Contact: Robert E. Iffert, Jr. (245-1572)

Department of Health and Human Services

President's

- Proposals - 1. REDUCE WASTE IN SERVICE UTILIZATION
2. ELIMINATE PROFESSIONAL STANDARDS  
REVIEW ORGANIZATIONS (PSROs)
3. REDUCE ADMINISTRATIVE COSTS OF  
MEDICARE CONTRACTORS

GAO Supplementary Discussion

GAO Views: In our opinion, these proposals should be viewed as interrelated. The first proposal could be implemented under current law, whereas the second and third proposals contemplate legislative action. The first initiative would give Medicare contractors greater responsibility for identifying overutilization of services and is estimated to save Medicare \$330 million in 1983. The second proposal involves legislation to eliminate PSRO review of Medicare services which has been focused on controlling unnecessary inpatient hospital care. The third proposal involves legislation to authorize large-scale competitive fixed-price contractors for Medicare intermediaries and carriers, which under present law is done under the Department's experimental authority. At present, the Medicare carriers have responsibility for identifying and controlling unnecessary utilization of ambulatory services. The third proposal also assumes the same funding level (\$704 million) for the Medicare contractors in 1983 as provided in 1982.

We believe that the basic question to be addressed is: If PSROs are to be eliminated and Medicare contractor funding levels are maintained at their existing levels, who is going to undertake the proposed initiative to identify and reduce overutilization and how is it going to be funded? Is it reasonable to assume that more administrative effort can be undertaken for the same money?

The proposal to eliminate PSROs was considered in connection with enactment of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, approved August 13, 1981), which essentially provided that by the end of 1982 the Department could terminate no more than 30 percent of the then existing PSROs.

As indicated in our March 23 and 24, 1981, testimony on last year's proposal to phase out the PSRO program, we believe that, in view of the uncertainty as to the cost effects of repealing the program and the time, energy, and money already invested to bring the program to where it is, we were unable to support the Administration's proposal until some alternative is postulated which would clearly be more effective. In our view, this condition has not been met.

In connection with the proposal to enact legislation to expand competitive fixed-price contracting under Medicare, we stated in our recent December 1, 1981, report (HRD-82-17) on this subject that, although we do not have a closed mind on this issue, the results of three competitive fixed-price contracts we reviewed have not demonstrated that competitive fixed-price contracting will work successfully in Medicare.

Relevant GAO Reports:

Improved Controls Needed over the Extent of Care Provided Hospital and Other Facilities to Medicare Patients, (B-164031(4)), July 30, 1971

HEW Progress and Problems in Establishing Professional Standards Review Organizations, HRD-78-92, September 12, 1978

Opportunities to Reduce Administrative Cost of Professional Standards Review Organizations, HRD-78-168, October 18, 1978

More Can Be Done to Achieve Greater Efficiency in Contracting for Medicare Claims Processing, HRD-79-76, June 29, 1979

Problems in Evaluating the Cost Effectiveness of Professional Standards Review Organizations, HRD-79-52, July 19, 1979

Need to Better Use the Professional Standards Review Organization Post-Payment Monitoring Program, HRD-80-27, December 6, 1979

Savings Claimed for the Oklahoma Hospital Utilization Review System Were Overstated, HRD-80-42, January 11, 1980

Testimony Before the Subcommittee on Health, House Committee on Ways and Means, Electronic Data Systems Federal's Performance as a Medicare Contractor in Illinois, April 28, 1980

Questions About the Cost Benefit Analysis of the Professional Standards Review Organization Program, HRD-80-93, June 12, 1980

Department of Health and Human Services Should Improve Monitoring of Professional Standards Review Organizations, HRD-81-20, December 29, 1980

Testimony Before the Subcommittee on Health, Senate Committee on Finance, on Proposal to Phase Out the Professional Standards Review Program, March 23, 1981

Testimony Before the Subcommittees on Oversight and Health, House Committee on Ways and Means, on Proposal to Phase Out the Professional Standards Review Program, March 24, 1981

Experiments Have Not Demonstrated Success of Competitive Fixed-Price Contracting Under Medicare, HRD-82-17, December 1, 1981

Testimony Before the Subcommittee on Health, Senate Committee on Finance, on the Use of Competitive Fixed-Price Contracting in Medicare, December 3, 1981

Contact: Robert E. Iffert, Jr. (245-1572)

President's  
Proposal -

BRING FEDERAL EMPLOYEES

UNDER MEDICARE PART A

GAO Supplementary Discussion

GAO Views: The proposal would require Federal employees and their employer (the Federal Government) to pay the Medicare Hospital Insurance (Part A) portion of the Social Security Payroll Tax (currently 1.3 percent on wages up to \$32,400). Currently, almost any American aged 65 or over can voluntarily enroll in Medicare's Supplemental Medical Insurance program.

The question of the appropriate relationship between the Medicare program and the Federal Employees Health Benefits (FEHB) program has been debated for the past 10 years. At present, Federal employees or annuitants can be eligible for both Medicare Part A by virtue of their or their spouses' employment in the private sector and for FEHB by virtue of their or their spouses' employment for the Federal Government. Under present law Medicare has been the primary or first payor of benefits, and FEHB has paid under its policies based on the residual amounts that Medicare does not pay.

Section 210 of the Social Security Amendment of 1972 (Public Law 92-603) required the Government to provide health insurance plans under the FEHB program which would supplement Medicare benefits. The intent was to give Federal employees and annuitants covered by both FEHB and Medicare an option under the FEHB program which would (1) provide better coordination for benefits not paid in full by Medicare and (2) reduce the premiums of the FEHB program. This requirement was repealed by section 103 of Public Law 94-182, effective December 31, 1975.

During consideration of the Omnibus Budget Reconciliation Act of 1981, approved August 31, 1981, there were several proposals for making Medicare a secondary payor to FEHB for people entitled to benefits under both programs; however, none were adopted. The rationale for these proposals was that Federal Civil Service retirees who qualify for Social Security benefits and thus Medicare Part A do so on the basis of much shorter or part-time periods of Social Security covered employment than do other retirees.

In our view, whatever the equities pro or con to the Administration's proposal, it should put an end to the debate as to whether Medicare or FEHB should be the primary payor. If Federal employees contribute to the Medicare Part A Trust Fund, then Medicare should be the primary payor. However, because of the uncertainty about the numbers of individuals with or entitled to dual coverage and the extent to which Federal employees or annuitants had contributed to Social Security, we are currently developing reliable data on

- the number of people covered by or entitled to both Medicare and FEHB,
- the Social Security employment history of people with dual entitlement,
- the kind of FEHB benefits people with dual entitlement elect to take, and
- the use of services by people with dual entitlement compared with the rest of the Medicare and FEHB populations.

Also, although it is clear that the Administration's proposal would produce short-term net increased revenues to the Medicare Trust Fund, we will also attempt to estimate the long-term impact.

Relevant GAO Reports:

Proposed Coordination Between Medicare and the Federal Employees Health Benefits Programs, MWD-75-99, August 4, 1975

Letter to the Honorable Vic Fazio, House of Representatives on a Medicare Supplement Option for Federal Employees Eligible for Medicare, January 18, 1982

Contact: Robert E. Iffert, Jr. (245-1572)



President's  
Proposals -

1. UPDATE THE MEDICARE PART B  
FEE SCREEN ON OCTOBER 1
2. LIMIT INCREASE IN THE MEDICARE  
ECONOMIC INDEX TO 5 PERCENT

GAO Supplementary Discussion

GAO Views: Medicare fee screens are currently based on data from 6 to 18 months old. Changing the date at which these screens are updated from July 1 to October 1 could mean that the data used would be from 9 to 21 months old. The proposal to limit to 5 percent the increase in the Medicare Economic Index (the percentage change in the index is the maximum percentage by which Medicare physician payments can be increased) is apparently justified by the Administration on the basis that total payments to physicians have increased faster than the index has. This rationale neglects to consider the fact that this situation is explained by a combination of increased numbers of Medicare eligibles, increased utilization of services, and increased intensity of services billed.

Currently, only about half of the physician claims submitted to Medicare are assigned; i.e., claims where the physician agrees to accept Medicare's determination of reasonable charges as payment in full. On unassigned claims the beneficiary is responsible for paying any amount by which Medicare reduces billed charges because of reasonable charge determinations; such reductions now average about 30 percent of billed charges. Therefore, half of the savings realized by the Government from these proposals would in fact be increases in beneficiary liabilities. Also, the proposals could result in further disincentives to physicians to accept assignment.

Relevant GAO Reports:

Reasonable Charge Reductions Under Part B of Medicare,  
HRD-81-12, Oct. 22, 1980

More Action Needed to Reduce Beneficiary Underpayments,  
HRD-81-126, Sept. 3, 1981

Contact: Thomas Dowdal ((301) 594-4890)

President's  
Proposal -

ELIMINATE WAIVER OF PROVIDER LIABILITY

FOR UNCOVERED MEDICARE SERVICES

GAO Supplementary Discussion

GAO Views: Under current law, Medicare will pay for uncovered or medically unnecessary services provided to a beneficiary if he/she and the provider did not know and could not reasonably have known that payment would not be made. This provision was added to the law in 1972 primarily to protect beneficiaries incurring liability for services provided to him/her and retroactively denied by Medicare based on the rationale that beneficiaries would not normally know that the services would not be paid and therefore should not be held financially responsible.

The Administration proposal would apparently remove this protection for institutional providers. We do not believe a change in law is necessary to accomplish this purpose when removal of waiver of liability protection is warranted. Medicare regulations (42 C.F.R. 405.195) set forth the criteria institutional providers must meet to be eligible for a waiver of liability. However, Medicare presumes that an institutional provider did not know a service would not be paid for if its denial rate is below prescribed amounts--2.5 percent for hospitals and home health agencies and 5 percent for skilled nursing facilities (see Medicare Part A Intermediary Manual, section 3433). This presumption could be administratively changed to help assure that only providers who in fact did not know a service would not be paid for would receive the waiver of liability protection. For example, the longer a provider has participated in the Medicare program, the more it should be aware of what types of services will not be paid, and the presumption criteria could be changed to reflect this.

Relevant GAO Report: None - work currently underway.

Contact: Thomas Dowdal ((301) 594-4890)

President's  
Proposal -

ELIMINATE DUPLICATE MEDICARE PAYMENTS

FOR PHYSICIAN SERVICES IN

HOSPITAL OUTPATIENT DEPARTMENTS

GAO Supplementary Discussion

GAO Views: The Administration proposal would reduce the payment level for services provided by physicians in hospital outpatient departments. The justification for this is that, while physicians practicing in private offices must include in their charges an amount to cover their overhead expenses (office rent on ownership costs, supplies, etc.), physicians practicing in hospital outpatient departments do not normally incur such expenses because the items in question are provided by the hospital and paid for by Medicare directly to the hospital. Thus, by not reducing physician payments for those practicing in hospital outpatient departments, a duplicate payment for physician overhead costs is made--one to the physician and one to the hospital. We believe a similar argument can be made for inpatient services provided by physicians who are employed by hospitals and that the proposal could be extended to such services.

Relevant GAO Report:

Problems in Paying For Services For Supervisory and Teaching Positions in Hospitals Under Medicare, B-164031(4), 11/17/71

Contact: Thomas Dowdal ((301) 594-4890)

President's  
Proposal -

REQUIRE COINSURANCE ON HOME

HEALTH SERVICES UNDER MEDICARE

GAO Supplementary Discussion

GAO Views: We have conducted several reviews of how Medicare payment rates for home health services are established and how utilization of these services are controlled. A number of our recommendations to improve the administration of the home health care program and thereby reduce or hold down its costs have not yet been implemented. In particular, in our recent report--"Medicare Home Health Services: A Difficult Program to Control," HRD-81-155, Sept. 25, 1981--we found that 27 percent of the visits made to a sample of beneficiaries at 37 selected home health agencies were not covered under the Medicare program or their coverage status was questionable. We made a number of recommendations designed to reduce the number of noncovered visits paid by Medicare, including a scheme to implement the requirement placed on HHS by the Omnibus Budget Reconciliation Act of 1981 to establish utilization guidelines for use in paying home health agencies. As of February 12, 1982, HHS had not responded to any of our recommendations.

While the Administration proposal to require Medicare beneficiaries to make copayments for home health care should provide beneficiaries with some disincentives to overutilization of their home health services, we believe implementation of our recommendations, either in combination with the Administration proposal or not, would provide greater assurance that noncovered home health care is not paid for by Medicare.

Relevant GAO Reports:

Home Health Care Services--Tighter Fiscal Controls Needed, HRD-79-17, May 15, 1979

Evaluation of the Health Care Financing Administration's Proposed Home Health Care Cost Limits, HRD-80-84, May 8, 1980

Response to the Senate Permanent Subcommittee on Investigations' Queries on Abuses in the Home Health Care Industry, HRD-81-84, April 24, 1981

Medicare Home Health Services: A Difficult Program to Control, HRD-81-155, Sept. 25, 1981

Contact: Thomas Dowdal ((301) 594-4890)

President's  
Proposal -

PERMIT THE RECOVERY OF SSI  
OVERPAYMENTS FROM OTHER SSA  
ADMINISTERED PROGRAMS

GAO Supplementary Discussion

GAO Views.

We agree with the Administration's proposal that would permit the Social Security Administration to recover SSI overpayments by offsetting such payments against money received from the Social Security Retirement, Survivors, and Disability Insurance programs (title II of the Social Security Act) and the Black Lung program. However, the Administration's proposal does not go far enough. Congress should consider expanding the Administration's proposal. GAO has recommended on several occasions that the Secretary of Health and Human Services should seek legislation to offset SSI overpayments against Social Security title II benefits as well as from other Federal benefit-paying programs. In our January 16, 1979 report--Social Security Should Improve Its Collection of Overpayments To Supplemental Security Income Recipients--we showed that over 580,000 former SSI recipients received income from other Federal benefit-paying programs and were overpaid about \$233 million in SSI benefits. Over 540,000 of the above received income from Social Security title II and were overpaid about \$209 million in SSI benefits. In November 1981, SSA informed us that it was in the process of forwarding to HHS a legislative proposal that would mandate cross-program offsets of SSI overpayments.

Furthermore, consideration should also be given to offsetting SSI overpayments against Federal income tax refunds.

Relevant GAO Reports:

Social Security Should Improve Its Collection Of  
Overpayments To Supplemental Security Income Recipients  
(HRD-79-21, January 16, 1979)

Implementing GAO's Recommendations On The Social  
Security Administration's Programs Could Save Billions  
(HRD-81-37, December 31, 1980)

GAO Contact: Dick Neuman, FTS 987-3010

President's  
Proposal -

COMBINED WELFARE ADMINISTRATION

GAO Supplementary Discussion

GAO Views.

The Administration proposes to end the current arrangement of matching most State administrative expenditures at 50 percent for the Food Stamp, Medicaid, and AFDC programs on an open-ended basis. In its place would be a single Federal payment, with no State match required, equal to 95 percent of the Federal share of fiscal year 1982 ongoing administrative expenses for all three programs combined. Some costs, such as anti-fraud and anti-abuse activities, that have been federally supported at a higher level, would continue to be funded at the higher level on an open-ended basis. Many Federal administrative requirements, such as different cost allocation and reporting requirements for the separate programs, would be reduced or eliminated.

The Administration believes this proposal will give the States flexibility to design efficient administrative mechanisms for public assistance programs that best meet beneficiaries' needs (the three programs are often jointly administered) and therefore should be able to realize substantial savings. Because States will not need to apply the full amount of State funds previously used to meet the matching requirement, they would have the incentive to operate more efficiently.

Our recent audit work on States' administration of the AFDC program has demonstrated that the States can improve their efficiency and cost effectiveness in a variety of ways. The reduced Federal support being proposed should provide a practical incentive for them to adopt the improvements we have recommended. For example, States, should objectively establish income maintenance worker performance goals of administrative efficiency and develop administrative budgets based on these goals as well as eliminate inefficient practices through the use of appropriate work measurement and other operational analysis techniques and work simplification methods. The States do not have management systems to produce appropriate cost and performance data to establish budgetary performance goals, maximize use of resources, and measure the cost effectiveness of day-to-day operations because HHS has not required them to develop this information.

In addition, the Federal assistance system generally has provided no incentive to States and their employees to improve productivity because the system does not consider efficiency in distributing funds and any savings that accrue from improved efficiency must be shared with the Federal Government in proportion to its matching of the costs involved. Under the proposal, any savings in administrative costs could be retained by the States.

If legislative and administrative changes are made to give States' access to additional information about welfare recipients' income and assets, and the States use this information to verify recipients statements concerning them, hundreds of millions could be saved by reducing erroneous assistance payments.

On the other hand, the proposal would eliminate incentive funding for such things as improved State management information systems. Whether the States could save enough through improved administrative efficiency to be able to afford to upgrade their systems, particularly with total Federal administrative funding being reduced, is open to question. Implementing the fiscal year 1983 changes to the AFDC program, as well as completing implementation of the extensive changes required by the Omnibus Budget Reconciliation Act of 1981 will not be done without cost. Any savings in assistance costs from, for example, recovery of overpayments, must be shared with the Federal Government. In addition, the fiscal year 1983 proposal to eliminate Federal participation in erroneous assistance payments in excess of 3 percent in fiscal year 1983, 2 percent in fiscal year 1984, and 1 percent in fiscal year 1985, will impose a significant financial burden on those States whose current payment error rates are significantly higher than these rates. The States' ability to reduce their error rates sufficiently and quickly to avoid Federal financial sanctions at the same time administrative funds are being reduced and significant program changes are to be implemented is questionable.

Also, the situation regarding Medicaid is different from AFDC and Food Stamps. Medicaid administrative funds are primarily expended for claims processing and provider certification. Any funding reduction in these areas could result in less stringent reviews of claims or in less assurance that providers meet the conditions necessary for Medicaid participation. In addition, with respect to recent changes to Medicaid and those proposed in the fiscal year 1983 budget, there will likely be implementation costs that could not be readily absorbed within reduced available funding.

#### Relevant GAO Reports

Millions Can Be Saved By Improving The Productivity of State and Local Governments Administering Federal Income Maintenance Assistance Programs (AFMD-81-51, June 5, 1981)

Concerns About HHS' Ability to Effectively Implement Incentive Funding For State Information Systems in AFDC (HRD-81-119, June 29 1981)

Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (HRD-82-9, January 14, 1982)

Analysis Of Four States' Administration of the AFDC Program: Management Improving But More Needs To Be Done (HRD-82-20, February 22, 1982)

Welfare Payment Reduced: An Improved Method for Detailing Erroneous Welfare Payments (GGD-78-107, February 5, 1979)

Results of Analysis of the Administrative Efficiency of the AFDC Program in Contra Costa County, California. (HRD-78-159, September 5, 1978)

GAO Contact: John C. Boyd, 523-9076



President's  
Proposal -

STATE FINANCIAL RESPONSIBILITY  
FOR ERRORS IN WELFARE PROGRAMS

GAO Supplementary Discussion

GAO Views.

The Administration proposes that the States assume full fiscal responsibility for erroneous payments in the State-administered AFDC, Medicaid, and Food Stamp Programs. This change would be phased in over four years, beginning on October 1, 1982, and would save an estimated \$900 million in Federal expenditures in 1983 and more than \$1.3 billion annually by 1986.

Currently, coordinated Federal-State quality control systems identify and measure benefit overpayments in each program. Federal regulations allow the assessment of financial sanctions against States with error rates in excess of established targets. Errors up to these target levels are permitted, and Federal funding for them is provided.

Under the Administration's proposal, Federal funding will be discontinued for payment error rates in excess of 3 percent in 1983. The maximum allowable error rate will decline to 2 percent in 1984 and 1 percent in 1985. Beginning in 1986, no Federal funding will be permitted for any erroneous payments in the AFDC, Medicaid, or Food Stamp program.

GAO believes that the threat of losing Federal funds because of excessive error rates has (1) created an adversary relationship between the Federal Government and the States, (2) created an incentive for the States to identify fewer errors, and (3) focused attention on error rates rather than corrective action. We believe that more emphasis should be placed on identifying the causes of errors and developing plans to minimize future overpayments. In addition, we believe that there are substantial weaknesses in the AFDC and Medicaid quality control systems which raise questions about the validity of the developed error rates as a basis for withholding Federal funds.

There would be an additional disparate effect on the Medicaid program because it covers people other than welfare recipients and is administered somewhat differently. The concept of achieving zero errors in Medicaid is not entirely relevant to the program's basic structure.

For all three programs, it is unrealistic to expect that zero error rates could ever be achieved. Even if agency-caused errors could be eliminated, it would not be possible to entirely avoid client-caused errors without an expensive and extensive surveillance network. The resulting intrusion into recipients' lives would not be compatible with the American concept of individual rights to privacy.

Also, our past and ongoing reviews of major cross-program issues and problems have shown that complexities and differences in the AFDC, Medicaid, and Food Stamp programs contribute significantly to management inefficiencies and results in high payment error rates. At the Federal level, although the programs basically serve the same individuals, they are planned and managed by different legislative committees and executive agencies, largely without concern for program interactions. At the State level, welfare department eligibility and quality control workers are faced with overlapping, duplicative, and conflicting Federal program requirements and procedures. Many States, on their own initiative, have taken various steps to improve their administrative processes and reduce Federal and State costs. The States, and others, believe that the program differences are the major barriers to administrative efficiency.

Lastly, we believe that, given the existing situation, it is questionable to require the States to bear the entire fiscal burden for erroneous payments, absent a concomitant Federal effort to streamline the programs and eliminate existing complexities.

Relevant GAO Reports:

Medicaid's Quality Control System Is Not Realizing Its Full Potential (HRD-82-6, October 23, 1981)

Better Management Information Can Be Obtained From the Quality Control System Used in the Aid to Families with Dependent Children Program (HRD-80-80, July 18, 1980)

U.S. Income Security System Needs Leadership, Policy, and Effective Management (HRD-80-33, February 29, 1980)

GAO Contact: John Carney, 523-9076.

President's Proposal: Phase In State Financial Responsibility For Errors in Welfare Programs and Combine Welfare Administration

GAO Views: The Administration proposes to phase-in full State financial responsibility for erroneous payments in the Food Stamp Program, Aid-to-Families-With-Dependent-Children, and Medicaid. Regarding the Food Stamp Program, we reported in 1977 that the Federal Government was losing over \$500 million annually because of overissued food stamp benefits. Due principally to benefit and participation increases since then, overissuances currently are near \$1 billion a year. For the 6-months ended March 31, 1981 (the latest period for which a nationwide figure is available), the error rate applicable to overissuances of food stamp benefits was 10.6 percent. Overall, the efforts made at the Federal, State, or local levels to stem the outflow of improper payments have not been effective. Also, States and local food stamp offices generally have not aggressively pursued identification and recovery of overissuances. Because food stamp benefits are totally financed by the Federal Government, there is a lack of financial incentive to devote more resources and effort to improving program integrity and recovering overissuances. Although the Congress has authorized higher rates of administrative cost reimbursement as incentives for reducing error rates and pursuing fraud, these measures have not had any notable overall effect on reducing errors and overissuances.

Although we are not commenting on the specific percentage of erroneous welfare payments for which States should be responsible, requiring States to gradually assume financial responsibility for overissuances of food stamp benefits would provide a major financial incentive to reduce errors. Because States depend on State-managed quality control reviews to determine the percent of program benefits paid erroneously, particular attention would have to be paid to the process and results of these reviews. Although quality control reviews in the Food Stamp Program are considered adequate for showing the incidence of errors, modifications may be necessary to establish more reliable information on the dollar amounts of overissuances for individual States and thus avoid disagreements regarding the amount of a State's liability. Additionally, systematic USDA verification work would be needed to provide a measure of validity of quality control review results.

Restructuring administrative operations and removing separate cost allocation and reporting requirements for the three programs as envisioned under the proposal could present opportunities for savings since the Food Stamp Program and AFDC are generally administered by and through the same State and local offices and are sometimes handled by the same caseworker. However, unless an error reduction and control mechanism, such as the proposed phase-in of State financial responsibility for errors, is adopted there is no assurance that, given a specific grant for administrative expenses as proposed, States would sustain or improve their administrative efforts for the Food Stamp Program for which the Federal Government pays 100 percent of the benefits provided, as contrasted with the AFDC and Medicaid

programs which the States help finance. Consequently, savings in administrative costs might be offset or exceeded by increased Food Stamp Program overissuances.

Relevant GAO Reports: CED-77-112 CED-80-33  
CED-82-34

GAO Contact: Stan Sargol (447-7883)

President's  
Proposal - ELIMINATING TRADE ACT CASH BENEFITS FOR ALL  
BUT THOSE ALREADY IN APPROVED TRAINING

GAO Supplementary Discussion

GAO Views: GAO has issued several reports which showed that, for the most part, the regular unemployment insurance program provides adequate benefits to import-affected workers and that the additional Trade Act cash benefits may cause these workers to remain unemployed longer than workers receiving only unemployment insurance benefits. The latest report, issued on January 15, 1980, assessed the act's worker adjustment assistance program nationwide and found that weekly cash payments helped few import-affected workers adjust to the changed economic conditions during their layoff because the payments were received by most in the form of a lump-sum payment after they had returned to work. The various processing delays that caused late payments to a great extent are inherent in the design of the program. Furthermore, most workers indicated that they experienced no severe economic hardship as a result of their layoff--which for most was not permanent--and were able to rely on regular unemployment insurance benefits and other income sources to meet their financial needs.

Relevant GAO Reports: HRD-80-11, HRD-78-153, HRD-78-53,  
HRD-77-152, ID-77-28.

Contact: C. I. (Bud) Patton, 523-8701



President's

Proposal - END OVERUSE AND EXCESSIVE BENEFITS UNDER THE  
FEDERAL EMPLOYEES INJURY COMPENSATION PROGRAMGAO Supplementary Discussion

- Alter the compensation rate for disability from a flat percentage of gross Federal pay to a formula based on 80 percent take-home pay.
- Transfer long-term disabled employees to civil service retirement rolls at age 65.

GAO Views: A March 9, 1981, GAO report entitled "Federal Employees' Compensation Act: Benefit Adjustments Needed to Encourage Reemployment and Reduce Cost" discusses these two issues in the President's proposal.

The first proposal to alter the compensation rate for disability from 66-2/3 and 75 percent of gross Federal pay to a formula based on 80 percent of take-home pay would reduce compensation benefits to higher graded beneficiaries. Currently, because compensation benefits are tax-free, some beneficiaries receive more money than their predisability net take-home pay. By establishing compensation based on 80 percent of take-home pay, the proposal would preclude injured workers from receiving more take-home pay than when they were working; thus, increasing somewhat the financial incentive for the employee to return to work.

The proposal is not identical to the one suggested in GAO's report. Although GAO was not sure what the benefit level should be, it believed that it would be more reasonable to work toward a benefit level of about 66-2/3 percent of gross preinjury wages. GAO agrees that the Administration's proposal to alter the compensation rate to 80 percent of take-home pay should provide

injured workers reasonable income to maintain a standard of living somewhat comparable to that which existed before the injury and at the same time provide a financial incentive for the employee to return to work.

GAO believes that the second proposal to transfer long-term disabled employees to civil service retirement rolls at age 65 is basically sound. GAO's March 1981 report recommended that compensation beneficiaries be transferred to the retirement rolls within 3 years of the time the employee would be eligible to retire. While the Administration's proposal calls for such a transfer at age 65, GAO believes it is not that out of line with its own proposal nor what is happening in the private sector. In 1978, a survey of private industry employees showed that 62 percent of the retirees were younger than age 65.

In GAO's opinion, a benefit associated with the proposal to convert FECA beneficiaries to the retirement rolls is that these beneficiaries could take reduced annuities so that survivors benefits could be provided. Currently, FECA recipients have no survivors benefits for nonwork related deaths.

Relevant GAO Report: HRD-81-19

--Eliminate the 45-day continuation of full pay while claims are being examined, extend the waiting period from 3 to 7 days before compensation can be paid, and permit agencies to advance compensation under the above formula in clear-cut cases while claims are being examined.



GAO Views: A June 11, 1979, GAO report entitled "Multiple Problems With the 1974 Amendments to the Federal Employees' Compensation Act" addressed this issue. GAO recommended that in order to reduce the number of minor and frivolous claims for compensation which divert Labor's efforts from more serious claims, to reduce the cost to taxpayers, and to give Federal employees an incentive to return to work, the Congress require that the 3-day waiting period for traumatic injuries be applied before continuation of pay, rather than 45 days later.

The report showed that the number of lost-time injury claims filed by Federal workers escalated sharply after the Federal Employees' Compensation Act was amended in 1974 to allow employees' pay to continue uninterrupted for 45 days after an injury. Previously, employees had to wait 3 days before receiving compensation. In fiscal year 1974 about 12,000 claims for compensation were filed for job-related lost-time traumatic injuries. Labor estimated that the number of claims would increase to about 100,000 a year by 1980. GAO believes that as many as 46 percent of all claims might be eliminated by a 3-day waiting period. GAO would expect that a 7-day waiting period, rather than the 3-day waiting period discussed in its report, would further reduce the number of minor and frivolous claims.

GAO has not recently taken a position regarding the continuation of full pay provision. However, in a 1973 report entitled "Need for a Faster Way to Pay Compensation Claims to Disabled Federal Employees," GAO discussed the time delays in making compensation payments. GAO suggested that the employing

agency keep the disabled employee in a pay status--continuation of pay--at a reduced rate of pay pending the filing of a claim and its review and approval.

The Administration's proposal to base compensation benefits on 80 percent of take-home pay with no continuation of pay provision bears some similarities to GAO's 1973 suggestion.

Relevant GAO Reports: HRD-79-80 and B-157593, Nov. 21, 1973.

Contact: Ed Tasca, 523-8706

Increased Revenues Possible If Full

Retirement Costs Were Recognized

GAO Views. Civil service retirement costs are understated because they are calculated on a "static" basis, whereby no consideration is given to the effect of future general pay increases and annuity cost-of-living adjustments on ultimate benefit payments. The static cost of benefits accruing annually under the civil service system is currently estimated to be 13.73 percent of pay, which is about equal to the combined rate of contributions being made to the retirement fund by agencies and their employees—generally, 7 percent of pay each. However, the estimated "dynamic" cost of the system, including factors for pay and annuity cost-of-living increases, is 36.81 percent of pay.

Funding retirement costs on a dynamic basis would not increase Federal outlays; however, it would require increased contributions from off-budget entities whose employees participate in the civil service retirement system and thereby increase Federal revenues. We estimate increased contributions would amount to over \$2 billion annually, most of which would be from the Postal Service.

Relevant GAO Reports. B-199649, December 15, 1980.

GAO Contact. Thomas Eickmeyer, 275-4062.

## Curtailing Special, Early Retirement Programs

GAO Views. With the tremendous costs associated with Federal retirement programs and the large unfunded liabilities that have accumulated, the contribution of generous early retirement benefits may just no longer be possible. Rather than encouraging people to retire early, we believe the Government's retirement policies should more appropriately be designed to encourage the retention of experienced personnel wherever possible.

The term "early retirement" can have different meanings depending upon the context in which it is used. To some, it may mean retiring before age 65, while to others, it may mean retiring before meeting a plan's requirements for normal retirement. For example, in context of the Nation's retirement programs in general, the civil service system's normal retirement age of 55 is quite early. However, it is not generally recognized that many Federal personnel can retire with immediate benefits even earlier than age 55. Almost all military members and around 40 percent of civilian employees retire before 55.

Early retirements in the Federal sector can be grouped into two general categories--(1) those persons who are working in jobs where the basic retirement provisions allow for retirement earlier than that usually available to other employees and (2) those persons who are allowed to retire earlier than they otherwise could have because of disability or some other event that precluded their continued employment to the normal retirement age.

Certain types of Federal personnel are allowed to retire early under the general presumption that their duties need to be performed by a young and vigorous work force. These include the military, foreign service, law enforcement and firefighter personnel, air traffic controllers, and others. We reviewed the historical development of these special benefit programs and found it difficult, in most cases, to clearly identify any current management or compensation policies that are being served by the programs as they are designed.

Federal law enforcement officers and firefighters are a good illustration. They may retire at age 50 after completing 20 years of service and receive an immediate annuity equal to 50 percent of their high-3 years average salary. In contrast, most other personnel covered by the civil service system must be at least age 60 to retire after 20 years of service and would receive an annuity equal only to 36.25 percent of their high-3 salary.

This early retirement policy was enacted more than 30 years ago to improve the quality of Federal law enforcement service by helping to maintain a young, vigorous work force. The special annuity formula is not intended to reward the employees for performing demanding or hazardous services. Rather, the more generous annuities are designed to make earlier retirement economically feasible.

We evaluated the reasonableness, effectiveness, and costs of this special early retirement program and concluded that the need for continuing it was questionable. There were several reasons for our conclusion. Perhaps the primary ones were the fact that employees covered by the special policy were not retiring much earlier than those who were not covered by it, and the costs of covered employees' benefits was considerably greater.

We found that over the policy's 30-year history, the average retirement age of covered employees ranged from only 1 to 3 years less than that of employees retiring under regular civil service optional retirement provisions. To achieve this 1 to 3-year reduction, the Government pays heavily. Based on actuarial estimates, the annual cost for the early retirement benefits is 61 percent more than what the cost would be to provide the same employees with regular benefits.

Relevant GAO Reports. FPCD-78-49, December 29, 1978.

GAO Contact. Thomas Eickmeyer, 275-4062.

## Unnecessary Voluntary Early Retirement

GAO Views. We recently completed a review of another special early retirement provision in the civil service retirement system whereby employees can volunteer to retire early (age 50 with 20 years of service or any age with 25 years) if their agency is undergoing a major reduction in force, major reorganization, or major transfer of function.

Before 1973, the law allowed only involuntary early retirements for employees who had lost their jobs through reductions in force. Beginning in 1973, the law allowed the Civil Service Commission (now the Office of Personnel Management) to authorize agencies undergoing major reductions in force to permit employees not directly affected by the reduction to retire early. The basic purpose of the law was to reduce involuntary separations, thereby saving the jobs of younger workers not eligible for immediate retirement benefits who might otherwise be separated.

The Civil Service Reform Act, effective January 1979, liberalized the voluntary early retirement program. It allows employees to retire early during major reorganizations and transfers of function. OPM's implementing regulations allow early voluntary retirements in organizations where no employee is being involuntarily separated.

Our review of the voluntary early retirement program at eight agencies revealed that the early retirements helped very little with the staffing problems the program was intended to correct. In many cases, all the early retirees were replaced by new hires.

The voluntary early retirement program is expensive. Our actuaries estimated that it would cost \$109 million in 1980. We believe the program, with proper controls, can be workable. However, as presently designed and administered, it is resulting in too many unnecessary retirements. We are concerned that (1) early retirement authorizations are not restrictive enough to insure a high probability of job savings, (2) agencies do not exhaust other management techniques for solving staffing problems before turning to the early retirement program, and (3) as the program was revised under civil service reform, employees can retire early even though none of the agency's employees are being adversely affected. Our report contained recommendations to the Congress for major changes to the program.

Relevant GAO Reports. FPCD-81-8, December 31, 1980.

GAO Contact. Thomas Eickmeyer, 275-4062.

Savings Possible from Standardizing Annuity

Reductions for Survivor Benefits

GAO Views. Significant unnecessary costs and inequities can be avoided by changing the methodology that is used to determine the amount of civil service annuity reductions for retirees who have elected survivor benefits. Under the method used by the Office of Personnel Management, newly retired personnel pay more than previous retirees for the same survivor benefit coverage. Computing the survivor benefit reduction the same way for new and previous retirees would eliminate this inequity and reduce expenditures from the retirement fund by at least \$77 million annually.

Relevant GAO Reports. FPCD-81-35, February 26, 1981.

GAO Contact. Thomas Eickmeyer, 275-4062.

President's Proposal - Limiting Cost-of-Living Adjustments to the Lesser of the Increase in the Consumer Price Index or the Annual Increase in Federal Pay

GAO Supplementary Discussion

GAO Views. The erosion of the purchasing power of retirement benefits is certainly a serious issue. Inflation shrinks the purchasing power of all Americans. While the established policy of full, automatic indexation of Federal retirement benefits is a laudable, humanistic objective, it is highly inequitable to others not similarly treated and costly. Historically, it has resulted in Federal retirees receiving far greater increases than active Federal employees. This has encouraged and continues to encourage valuable, experienced employees, particularly top officials whose pay rates have been depressed, to retire early rather than continuing to work.

Generally, the purchasing power of non-Federal retirees' income is only partially protected from inflation. They are no less deserving of full purchasing power protection; it is simply a matter of affordability. From an equity standpoint, we believe it is unreasonable to force taxpayers whose incomes (pay or retirement) are not fully protected from inflation to pay for full, automatic indexation of Federal retirees' benefits. Because of the costs involved, this places a financial burden on current as well as future taxpayers.

Accordingly, we urged the Congress to consider adopting a modified policy of less than full indexation of Federal retirement benefits. We suggested that annual adjustments for Federal civilian and military retirees could be limited to 75 percent of the Consumer Price Index (CPI) increase--the inflation protection generally provided to non-Federal retirees under social security and employer pension plans--or the adjustments could be based on the full CPI increase or the average percentage pay increase granted to active Federal employees, whichever is lower.

The Administration proposes limiting cost-of-living adjustments for military retirees to the lesser of the increase in the CPI or the annual increase in military basic pay. The cost-of-living adjustment for civilian retirees would be the lesser of the increase in the CPI or the annual increase in Federal employee General Schedule pay. Budget assumptions are 8 percent increase for military pay, 7.3 percent for the CPI, and 5 percent for General Schedule pay. Thus, military retirees would receive a 7.3 percent cost-of-living increase, and civilian retirees would receive 5 percent. To be fair, the level of the adjustment should be the same for civilian and military retirees. We estimate this would save an additional \$370 million beyond what is proposed in the budget by limiting military retiree increase to the civilian increase.

Relevant GAO Reports. MPCD-76-60, July 27, 1976; MPCD-78-2, November 17, 1977; PAD-79-22, August 15, 1979; B-130150, January 30, 1980; B-130150, July 1, 1980; B-199649, December 15, 1980.

GAO Contact. Thomas Riekmyer, 275-4062.



President's  
Proposal -

DEFEDERALIZATION OF THE RAILROAD  
RETIREMENT PROGRAM

GAO Supplementary Discussion

GAO Views.

In justifying the defederalization of the railroad retirement program, the President's budget cited information from GAO reports. Although GAO has raised questions about the Government's role and responsibilities in supporting the railroad retirement program, it did not propose that the program be defederalized. The issue of defederalization, as GAO sees it, is a public policy consideration that the Congress will have to decide. However, GAO believes that such an effort as the defederalization of the railroad retirement program before the start of fiscal year 1983 is very ambitious and may not be achievable. This defederalization will involve many complex matters that will have to be negotiated among the various interested parties.

In addition to GAO's reports referred to in the Administration's budget documents, GAO has three studies currently in process which provide the basis for the following comments.

One study involves a survey of the financial status of the railroad retirement unemployment and sickness program. The budget proposals involve abolishing the unemployment program and returning the function to the States. The administration also suggests that rail workers will become eligible for higher unemployment benefits typically available under the State unemployment insurance systems. Our preliminary data suggests that turning the unemployment program over to the States may face problems because some States' existing unemployment programs are in difficult financial condition. A number of States have had to borrow extensively from the general revenue funds of the U.S. Treasury. Our data also indicates that not all rail workers will necessarily become eligible for higher unemployment benefits as the budget proposals suggest.

Another GAO study is examining the financial interchange process between the Social Security and the Railroad Retirement Board. Preliminary indications are that, due to methodology problems and possible benefit calculation errors, significant adjustments may be necessary between the accounts of Social Security and the Board. These adjustments could be made prior to or as part of the proposed defederalization action.

A third GAO study is examining the impact of limiting the "windfall" benefits received by rail beneficiaries dually entitled to social security and railroad retirement benefits. In recent years, Congress has limited the appropriation for these benefits to less than that needed to pay the full windfall and, beginning in fiscal year 1982, the Board began paying a reduced windfall benefit based on the limited appropriations. The Administrations' budget proposal would continue this limitation.

As our study progresses, it should help show the impact of such limits on beneficiaries and how such resultant benefit reductions might be allocated.

Relevant GAO Reports:

Keeping The Railroad Retirement Program On Track--Government And Railroads Should Clarify Roles And Responsibilities (HRD-81-27, March 9, 1981)

Delays In Receiving And Investing Taxes Are Reducing Railroad Retirement Program Interest Income (HRD-81-112, September 24, 1981)

GAO Contact: Milan Hudak, FTS 987-3013

DISCRETIONARY SPENDING

President's Proposals Addressed:

Non-Nuclear Energy Research and Development  
Health Professions Education  
Federal Subsidy for Saint Elizabeths Hospital  
Modified Section 8 Housing Certificate Program  
Subsidized Housing: New Production  
Subsidized Housing: Tenant Rent Contributions  
Housing for the Elderly and Handicapped  
Public Housing Operation Subsidies  
Solar and Energy Conservation Bank  
Highways  
Maritime Assistance and Regulatory Reform  
Mass Transit Assistance  
Federal Railroad Assistance  
Federal Railroad Operations  
AMTRAK  
Appalachian Development Program  
Student Assistance  
Soil and Water Conservation  
NOAA Ocean and Weather Programs  
Fish and Wildlife Service  
National Park Service Programs  
Nuclear Energy Programs  
National Aeronautics and Space Administration  
Enterprise Zones  
Minority Business Assistance  
Community Development Block Grants  
Urban Development Action Grants

## NON-NUCLEAR ENERGY RESEARCH AND DEVELOPMENT

### Fossil Energy R&D

The administration is proposing further reductions in fossil energy research, requesting \$107 million in fiscal year 1983 in comparison with fiscal year 1982's request of \$417 million. The FY 83 rationale is similar to the rationale provided for reductions in the fiscal year 1982 budget. The current rationale includes:

- Energy industries are already making significant investments in energy technology developments and are able to make the necessary market-related decisions.
- In some case, e.g., coal gasification, the introduction of commercial processes is not technologically constrained, but rather depends on favorable economic conditions, so it makes little sense to continue Government R&D.
- The Government generally should concentrate on basic and long-term research rather than subsidize the development of company-specific processes.

Our work in fossil energy R&D has demonstrated a need to ensure, through a case-by-case examination of each technology's readiness for the market place, that Federal support is not cut off prematurely. Reference to near-term activities such as construction and operation of pilot and demonstration plants using company-specific processes beclouds the key issue of the technology's status and the timeframe for commercial production. The broad array of synthetic fuel technologies requires varying lead times and investment levels to resolve technical, economic, and environmental uncertainties prior to commercialization.

In a January 20, 1982, report, "Analysis of Federal Energy Roles and Structure" (EMD-82-21), we cautioned that in its attempts to distinguish between near-term and long-term technologies, DOE may have given too little attention to the actual status of a technology, as distinguished from the type of funding it has received. For example, although the Government has supported research, development, and pilot plants for certain coal gasification technologies for 10 years, our current work reveals that the plants have brought few answers about actual commercialization.

In a report to the Chairman, Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, (EMD-81-128, Aug. 17, 1981) we recommended that DOE establish specific definitions for long-term, high-risk, high-payoff fossil programs and direct that they be consistently applied to funding current and future research and development projects.

Our current work on high-Btu gasification questions the need for continued Government support of specific third-generation processes and research on certain materials and instruments. It appears that these activities will not improve substantially on second-generation costs or could be done by the private sector.

On the other hand, commercial demonstrations of first- and second-generation high-Btu processes will likely depend on Government support because of their huge capital investment and uncertain product costs. Because DCE is no longer funding demonstration plants or associated necessary environmental research, the Synthetic Fuels Corporation is being looked to as the source of Federal support. However, the legislation which established the Corporation sets objectives that will limit its support of high-Btu gasification.

Relevant GAO Reports. EMD-80-84, EMD-81-128, EMD-82-21,  
EMD-82-23

GAO Contact. Flora H. Milans - 353-3408

## Solar Energy

The administration proposes to further reduce Federal solar R&D efforts. In recent years, GAO has issued a number of reports on the Federal role in developing various solar energy technologies. Based on these reports and ongoing work, GAO believes that a determination of the extent of each solar technology's readiness for the marketplace is needed in deciding appropriate levels of Federal solar R&D.

The administration's fiscal year 1963 budget request proposes to reduce funds for solar energy R&D by 72 percent, to \$72 million. The administration intends to place greater reliance upon private industry, the marketplace, and existing tax credits, to determine the appropriate level of solar development and use. Thus, Federal R&D support for developing certain technologies has been significantly reduced, and for certain technologies that support is proposed for elimination entirely.

GAO is concerned that the proposed reductions are not based on a full knowledge of the marketplace's expected reaction. Eliminating Federal support for some solar technologies, such as active and passive solar space heating and solar hot water systems, seems appropriate. Such systems are cost-competitive today in certain parts of the country with the continuation of tax incentives, and with increasing costs of conventional fuels these systems should continue to move into the marketplace. However, a number of other solar technologies are not sufficiently close to being economically competitive and, with reduced or no Federal support, their further development will either proceed at a slower pace until costs can be reduced or they may be abandoned altogether.

One technology that will probably develop more slowly with reduced Federal support is solar photovoltaics. Recent GAO work indicates that industry is reluctant to make additional investments due to the high uncertainties and risks associated with making this technology economical. Consequently, the widespread use of photovoltaic energy systems will likely be delayed.

Other solar technologies may need costly, large-scale development to prove their potential and, without Federal support, industry's efforts may be dropped before such potential is determined. Ocean thermal energy conversion systems (CTEC) represents a case in point. In a report on CTEC, GAO noted that alternative systems and components were still in the research phase and involve long-term, high-risk research not likely to receive substantial support from private firms.

A sizable Federal investment amounting to about \$2 billion has been made to date in developing the various solar technologies. Before reducing the Federal role in solar energy development, a case-by-case examination of each technology's degree of

readiness for the marketplace should be made to understand clearly the likely marketplace reaction to reduced Federal support.

Relevant GAO Reports. EMD-79-55, EMD-78-40, EMD-80-41, EMD-79-19, EMD-81-10, EMD-81-62, and IL-81-63

GAO Contact. Thomas E. Melloy - 353-5720

## Geothermal Energy

The administration proposes to support long-term geothermal R&D which will not be conducted by the private sector, to terminate hydrothermal industrialization activities, and to complete Federal geopressured resource definition efforts. Based on past and ongoing work, GAC has some views on these proposals.

GAC reported in January 1980 that geothermal development had proceeded slowly and private industry's efforts had primarily focused on high quality hydrothermal resources. Industry had made only limited efforts to develop other resource areas due to the high costs, financial risks, and lack of proven technology for defining, extracting, and using most of the recoverable resources for electric applications. DOE's technology development efforts have resulted in some cost reductions, but have not yet sufficiently reduced the costs and risks involved to the point where industry would make significant investments. GAC believes the administration's proposal to continue support of long-term R&L--geochemistry, geoscience, and energy conversion research associated with moderate temperature hydrothermal resources--is in line with the technology advancements and improvements still needed.

Information gathered by GAC indicates, however, that without Government support of carefully selected hydrothermal demonstration activities, economic and technical uncertainties will remain, particularly with respect to the major portion of high-temperature resources. A case in point is the 50-megawatt binary demonstration plant at Heber, California. The administration's budget proposals for fiscal year 1982 had called for the termination of Federal funding of this project. During its budget deliberations, however, the Congress provided about \$8.6 million to keep the project going. Nevertheless, the administration's proposals for fiscal year 1983 again call for terminating Federal funding of the Heber project. The current proposals, while not specifically stating why Federal funding of this project is being terminated, point out that industrial capability is currently available to develop the most easily exploitable high-temperature resources, and that certain hydrothermal applications are currently cheaper than other energy alternatives. GAC reported in June 1981 that elimination of this demonstration project would impede the full development and use of hydrothermal resources. This project is aimed at demonstrating a technology that has not been well developed and is expected to be best suited for the major portion of the high-temperature hydrothermal resources in the United States. According to industry representatives, this demonstration project is needed to prove the technical and economic viability of the binary technology. Without a demonstration, the growth of geothermal energy will be slowed, since developers, utilities, and the financial community will not undertake development until

operating information is gained from commercial-size demonstrations.

The administration proposes to phase out Federal geopressured resources definition efforts based on the rationale that these resources will be further developed by the private sector as economic conditions dictate. GAO's recent work indicates that the benefits of expanding such efforts, as previously planned by DOE, were questionable. Expanding such efforts by drilling and testing additional wells would not add much to the expected results of DOE's existing resource definition efforts, nor to development of geopressured energy. Industry representatives also indicated that this resource will be developed, as the administration states, when economic conditions are right. Thus, phasing out Federal efforts to define the geopressured resource appears to be appropriate.

Relevant GAO Reports. EMD-80-36, EMD-81-110

GAO Contact. Thomas E. Melloy - 353-5720



## Energy Storage R&D

The administration has proposed to close out the energy storage R&D program in fiscal year 1983, including efforts on long-term, high-risk battery projects. It has, however, proposed to provide about \$7 million for basic research on electrochemistry and related fields, as well as for development of several near-term battery candidates as part of a multi-purpose conservation R&D program. Although GAO has only done limited work on DOE's energy storage program, based on previous and ongoing reviews of electric vehicles, GAO is concerned with some aspects of the administration's proposal since it would fund work on batteries which are, or close to being, commercial at the expense of work on long-term, advanced batteries.

For electric vehicles to become a widely commercialized, general purpose transportation option, long-term, advanced batteries, such as aluminum-air, lithium-metal-sulfide, or sodium-sulfide, will probably be required. In fiscal year 1983, work on these batteries is to be closed out. Because the battery candidates involved are long-term and high-risk in nature, the private sector is highly unlikely to develop them, thus jeopardizing the progress already made through Federal efforts. Moreover, a portion of the proposed \$7 million of fiscal year 1983 funding is for developing near-term batteries, namely lead-acid and nickel-iron. Lead-acid batteries have been commercial for years and nickel-iron batteries are being earnestly pursued by the battery industry. Federal funding of near-term battery candidates, while discontinuing funding for long-term advanced batteries, seems to run contrary to the administration's basic R&D philosophy. GAO believes, therefore, that Federal R&D on long-term advanced battery candidates should continue while the proposed funding of near-term batteries does not appear appropriate.

Relevant GAO Report. EMD-79-6

GAO Contact. Thomas E. Melloy - 353-5720

## Alcohol Fuels R&D

The administration proposes to phase out alcohol fuels R&D under the assumption that the technologies involved have reached the stage where the private sector can, over time, pursue further technological advancements. Based on past work on Federal alcohol fuels efforts, GAO questions this assumption.

In commenting on fiscal year 1982 budget proposals, GAO generally agreed with the administration's proposals to reduce Federal alcohol fuels subsidies for three principal reasons. First, ethanol production is commercial, as evidenced by over 100 million gallons being domestically sold each year. Second, existing tax policies and the removal of oil price controls enhance the economic competitiveness of alcohol fuels and hence the ability of private firms to continue technological improvements. Third, the majority of Federal alcohol fuels support activities have concerned the production and use of biomass-based alcohol (primarily ethanol), although another form of alcohol (methanol) has greater potential to replace gasoline. Therefore, excessive support for ethanol production and use could result in an economically unjustified commitment of resources to ethanol.

While agreeing with the reductions proposed last year, GAO has some concerns about this year's proposal. In FY 1982 the administration proposed and received \$10 million for alcohol fuels R&D. The R&D supported with these funds was described as "focused on mid- to long-term, novel, high-risk and high-payoff technologies." In its fiscal year 1983 budget proposal, the administration is now proposing to phase-out these efforts, asserting that the technologies are at a stage where the private sector can pursue advancements. GAO has not analyzed the development of the technologies involved in detail, but it is highly questionable that in 1 year the technologies were advanced from "long-term" R&D to a stage where the private sector can pursue developments without Federal support. At a minimum, such an assertion casts doubt on the credibility and consistency of the administration's decisionmaking process. It also does not address the issue that the technologies may not be further developed by the private sector alone without additional Federal support.

Relevant GAO Reports. EMD-80-73, EMD-80-88

GAO Contact. Thomas E. Melloy - 353-5720

President's  
Proposal -

LIMIT FUNDS FOR HEALTH PROFESSIONS EDUCATION  
Supplementary GAO Discussion

GAO Views

We believe that the objective of this proposal is reasonable in view of the September 1980 report of the Graduate Medical Education National Advisory Committee which projected that by 1990 the U.S. would have an excess of about 70,000 physicians. About one-half of this excess was attributed to the influx of foreign medical school graduates. We also support the continued effort to finance programs to encourage minorities to choose health careers.

In issued reports we have supported constraining assistance to medical students. An August 1978 GAO report concluded that it was doubtful that a separate Health Professions Loan Repayment Program was still needed to attract physicians to shortage areas. We recommended that Congress reconsider whether the loan repayment program for physicians should be continued since it had not induced substantial numbers of physicians to enter shortage areas, and it seems that many physicians participating in the programs received windfall repayment of their education loans by the Federal Government since they would have established their practice in those shortage areas anyway.

A November 1980 GAO report pointed out that the Department of Education (ED) and the Veterans Administration (VA) were providing financial assistance in the form of guaranteed student loans and educational benefits for several thousand U.S. citizens studying medicine abroad. Before authorizing guaranteed student loans for

studying abroad, ED is required by law to determine that the education and training is comparable to that provided by a U.S. school. The VA Administrator can deny or discontinue educational benefits if he finds that such enrollment is not in the best interest of the individual or the Government.

Our May 5, 1981, report pointed to the need to better coordinate and link the Department of Health and Human Services (HHS), and ED programs directed toward increasing the numbers of minority and disadvantaged individuals in the health professions.

Relevant GAO Reports

Progress and Problems in Improving the Availability  
of Primary Care Providers in Underserved Areas  
(HRD-77-135, August 22, 1978)

- Policies on U.S. Citizens Studying Medicine Abroad  
Need Review and Reappraisal  
(HRD-81-22, November 21, 1980)

Letter Report to the Secretary of HHS on Minority and  
Disadvantaged Programs  
(HRD-81-86, May 5, 1981)

GAO Contact

J. William Gadsby, 443-3596

President's  
Proposal - PHASE DOWN FEDERAL SUBSIDIES FOR SAINT ELIZABETHS HOSPITAL

Supplementary GAO Discussions

The proposed FY 1983 budget for St. Elizabeths Hospital (SEH) would reduce the SEH obligational authority by about \$31 million from the FY 1981 amount. The Administration suggests that this reduction will provide increased incentives to the District of Columbia (D.C.) to place certain classes of SEH inpatients in alternative community facilities. D.C. has been under a court order to relocate these patients since 1975.

In 1978 we reported that, despite the 1975 court order, D.C. had been unable to relocate patients primarily because adequate facilities are not available in the community. The Administration's proposal does not provide any evidence that this situation has changed. A 30 percent reduction in the SEH budget authority may force D.C. to place patients in facilities where little or no needed services are available and/or reduce the quality and quantity of services provided to those persons remaining as inpatients at SEH. Further, the relocation of large numbers of patients into the community could swell the roles of other social service programs in D.C. thus decreasing the quality and quantity of services provided by those programs. The Administration's proposal to require partial reimbursement from D.C. for patients remaining in SEH could also contribute to a reduction in services. These factors may well detract from the Administration's position that relocated patients would receive more appropriate care.

The Administration's proposed budget reduction, while consistent with the general move toward reduced Federal involvement in community services, does not address the unique nature of D.C.'s relationship

and reliance on the Federal Government in providing services to its citizens. The delivery of the most appropriate level of mental health services should be a cooperative endeavor between D.C. and the Federal Government and should be accomplished over a reasonable period of time.

Relevant Reports

St. Elizabeths Hospital and District of Columbia are  
Improving their Mental Health Services  
(HRD-78-31, September 27, 1978)

GAO Contact

J. William Gadsby, 443-3596

President's  
Proposal - MODIFIED SECTION 8 HOUSING

CERTIFICATE PROGRAM

GAO Supplementary Discussion

GAO Views: The administration's proposal to gradually replace the section 8 existing housing program with a voucher-like system of certificates may save budget dollars and has the potential to serve more households. However, serious questions remain regarding how effectively certificates serve those most in need. The phase out of HUD new construction programs, if approved by the Congress, coupled with the replacement of section 8 units with certificates, will eventually result in housing certificates becoming the primary active Federal program for assisting low income households. This represents a sharp acceleration in the shift in subsidized housing policy away from expanding the supply of housing toward improving household incomes. Arguments for a certificate or voucher-like approach generally center on its potential for reducing or moderating Federal outlays and its controllability in the Federal budget. Compared to past construction-oriented programs, which have a high per unit subsidy cost and require Federal budget commitments spanning decades, vouchers are viewed by many as a more efficient and equitable subsidy device.

We believe that the following issues are crucial to this change:

- The existing housing stock may not be adequate to fully support a housing certificate program. Whether or not there is an adequate supply of standard quality housing to meet the needs of potential certificate holders is crucial to the ultimate success of the program. A short supply of standard housing would very likely inhibit participation, especially for large families, or drive up the cost of such housing. We previously reported on the rental housing shortage that exists in many areas of the country. HUD has reported that no national rental housing shortage exists but does acknowledge evidence of shortages in certain local markets. The President's Commission on Housing also recognizes that tight housing markets may inhibit the effectiveness of a voucher program and that expansion of the housing stock may be needed. The Commission recommended a series of actions to expand supply. Their recommendations are analyzed in a separate GAO report.
- Several factors may inhibit participation among certain groups. In addition to supply shortages discussed earlier, for some low income households, such as large families and female-headed minority households, participation may be low. These households tend to already reside in substandard housing and may encounter discrimination when seeking standard housing. For them, participating in a certificate program

could mean having to move to a less desirable neighborhood, incurring moving expenses or convincing their present landlords to upgrade their housing to meet program standards. The severity of these inhibiting factors depends upon the rigidity of the standards used to judge housing adequacy. Program experience in section 8, which relies on the existing housing market, reveals a pattern of higher participation among small families and elderly households. These groups are likely to already inhabit standard housing, and are generally perceived as more desirable tenants, and can more readily afford standard housing.

Other groups not likely to be well served by the certificate program include low-income homeowners who appear to be excluded from certificates, rural residents who are generally underserved by assistance programs and groups with special housing needs such as the handicapped.

--It is difficult to prove certificates will be a less expensive subsidy strategy in the long run. Although various studies argue that a voucher or certificate program is less expensive than traditional production subsidies, we reported that in certain tight rental markets, a voucher-type program could be more expensive than new construction. Conflicting study results stem from difficulty in setting realistic assumptions on program rules, rates of inflation and changes in housing supply. In past production programs, the Government has shared with developers the risk that operating costs would increase sharply in return for some control over unnecessary rent increases. Under the certificate program, the Government can take advantage of the lower subsidy cost associated with existing units today, but tight rental markets could eventually make the certificate program very expensive if it keeps pace with market rents or ineffective if tightly controlled.

From a budgetary standpoint, savings can be achieved, if the subsidy is geared to some level below existing section 8 rent maximums. CBO estimates that if the certificate cap is set at 10 percent below current section 8 rent maximums, outlay savings would reach \$155 million through 1987.

--Effective program monitoring of certificates may be difficult. Because obtaining certificates is contingent upon renting standard quality housing, inspections of units could be an important part of program monitoring. In our review of section 8 inspection practices, we revealed significant weaknesses. Once certificates are in place, many PHAs may not be able to adequately perform inspections, which could affect program integrity.



Relevant GAO Reports: CED-80-11, CED-78-29, PAD-78-13, PAD-80-13,  
and CED-82-42.

Contact: Gary Boss, (426-1645).

President's  
Proposal - TERMINATION OF SUBSIDIZED

HOUSING-NEW PRODUCTION

GAO Supplementary Discussion

GAO Views: Although terminating new construction programs as posed by the administration may save budget outlays and provide the potential to serve more households, several issues merit close attention. The extent to which the Nation's existing housing supply is adequate in number and quality to meet the needs of low-income households has an important effect on the need for future production programs. Over 15 million Americans still live in substandard housing and reports of rental housing shortages suggest that the certificate program--the program designed to replace new construction--may not work effectively in all locations. Coupled with cutbacks in rural housing and assistance to low-income homeowners (who are not served by certificates according to budget proposals), significant housing supply gaps may persist. Certificates will not likely stimulate any rental housing construction to fill these gaps. The rental supply issue is the subject of continuing debate. We have reported on the rental housing shortage. Both HUD and the President's Commission on Housing acknowledge evidence of rental shortages in some areas. Recognizing supply shortages, the Commission suggests several initiatives which it feels may stimulate new construction which include providing tax incentives, encouraging private institutional support in meeting housing needs, and allowing new construction under community development block grants.

Another important issue is the long term cost of certificates versus new construction. We have reported that in some tight housing markets, a voucher-type program can be more costly in the long run than carefully administered production programs. Further, in the long run, construction programs can become quite cost effective. For example, properly maintained quality public housing units built 20 years ago presently have very low monthly subsidies although when built their rents would have been much higher than older, existing units in the market area. These subsidies could very easily be much lower than the level currently planned for the certificates. Evidence on cost comparisons, however, is rarely considered conclusive, due to methodological assumptions and economic variables affecting costs such as the rate of inflation.

Within the present subsidized housing programs, a number of actions may be taken to reduce the cost of subsidized housing and/or enable the limited available funds to reach more eligible households. Some examples are:

- Build more modest size subsidized housing with fewer amenities. New section 8 housing is often better than most housing in the market areas where it is located. Some assisted units are larger than necessary and contain such

costly amenities as central air conditioning, balconies or patios, carpeting, and garbage disposals even when these items are not uniformly provided in unassisted housing in the same markets. More recent work indicates that a similar situation exists in public housing. HUD has implemented new procedures for these problems but our monitoring of these indicates that these procedures may have little effect. For example, new size limitations on section 8 units are too high and would not necessarily have reduced sizes had they been in effect in the past.

- Get better use out of subsidized housing units. In our recent review of the Section 8 New Construction program, we found that over half of the 862 family housing units we visited were underused. The sources of this problem were the lack of effective incentives for project owners and managers to achieve optimum occupancy levels, combined with ineffective monitoring by HUD.
- Improve program administration. A wide variety of HUD actions are needed to improve program administration to reduce the costs and improve the efficiency of subsidized housing programs. These include improving procedures for setting fair market rents for the section 8 program which may also become a problem under the modified program, increasing cost consciousness among HUD program personnel, and initiating effective incentives for high quality management and long term ownership of new section 8 projects.
- Eliminate section 11(b) tax-exempt financing. This financing mechanism has resulted in substantially higher total costs for section 8 than either public housing or FHA-TANDEM, without offering any advantages. Higher expenditures result from the combination of tax-exempt bonds with the usual real estate tax incentives (which have just been increased) and certain cost-inefficiencies introduced by this mechanism.
- Finance state housing with taxable bonds. Disallowing tax-exempt bonds for State housing finance agencies in favor of taxable bonds would substantially improve the economic efficiency of any new construction alternative using this mechanism. A direct expenditure to subsidize interest rates could be substituted for the tax expenditure. This is presently possible under existing law.
- Disallow partially-assisted section 8 projects. The costs of providing subsidized housing are increased by allowing partially-assisted projects. This occurs because large TANDEM and tax subsidies are incurred on behalf of all units, not just those serving needy households. The result is that a large portion of TANDEM funds benefit middle income households. TANDEM is cost-effective when utilized

for 100 percent projects and can be less costly than all of the section 8 finance mechanisms except public housing.

--Place more emphasis on public housing. We believe that if any production continues, a larger proportion of assisted housing units should be built with this mechanism and that the Congress should provide direct funding shifts to achieve this objective. Public housing is cheaper in the short run, and also in the long run when off-budget costs such as tax expenditures are considered. It also needs a number of procedural changes to achieve possible cost savings.

Relevant GAO Reports: CED-80-59, PAD-80-13, CED-81-54, and CED-80-31.

Contact: William Gainer, (426-1780).

President's  
Proposal - SUBSIDIZED HOUSING: TENANT

RENT CONTRIBUTIONS

GAO Supplementary Discussion

GAO Views: GAO supported the provision of the Omnibus Budget Reconciliation Act of 1981 which increased the maximum allowable rent contributions paid by tenants living in HUD subsidized housing from 25 to 30 percent. It does, however, realize that precautions should be taken to assure that very low-income tenants are not unduly impacted by the cumulative effect of these and other cuts. Prior to enactment of the 1981 act, GAO recommended to HUD that it raise tenants maximum rental contribution required from program beneficiaries from 25 to 30 percent as authorized by the Housing and Community Development Amendments of 1979. At that time, however, HUD considered the provision to be discretionary and rejected it because it believed it would place an added burden on lower income tenants. GAO was of the opinion that HUD's position ignored the large number of needy households that received no subsidized housing assistance.

GAO notes that the proposed tenant rent contribution increases are limited to tenants living in HUD subsidized housing and do not include tenants in Farmers Home Administration (FmHA) projects financed under the Section 515 program. In this regard, the Omnibus Budget Reconciliation Act of 1981, requires the Secretary of Agriculture to, among other things, report to the Congress by March 1, 1982, on recommendations for FmHA contribution requirements which will achieve equity with HUD's assisted housing programs. GAO believes that before any increases are made in tenant rent contributions in FmHA projects the results of the Secretary's study and recommendations should be considered.

GAO also believes that tenants living in HUD-acquired multi-family housing projects should also have their rent ceiling raised possibly even beyond 30 percent where they are able to pay and the market would support such rents. In December 1979 GAO reported that a change in HUD's policy regarding rent charged to tenants in HUD-acquired, formally subsidized projects was resulting in tenants having their rents reduced at a project that HUD acquired. This change, made in May 1979, limited the rent charged at such projects to 25 percent of the tenants' income. Prior to this change tenants in HUD-acquired projects were charged the established rent and utilities that they previously had been paying to the private owner. The 25 percent limitation has reduced project revenues and increased losses. The resulting losses are absorbed by HUD's mortgage insurance funds. A rescission of this policy, requiring tenants to pay the already subsidized rents in effect prior to HUD's acquisition, would result in a reduction in HUD's mortgage insurance losses, and a resultant decrease in Federal outlays for assisted housing.

GAO believes that in every case care should be taken to monitor the impact that the proposed changes have on the lowest income tenants, particularly since other assistance programs benefiting low- and moderate-income tenants are being reduced. Assurance should be made that the lowest income tenants are not unduely harmed by the proposed changes.

In conjunction with increasing rent contributions, GAO also believes that complete and accurate reporting and verification of income is needed to ensure that only eligible families are assisted and that the level of assistance is properly calculated. Since 1971 GAO has issued a number of reports which have identified shortcomings in tenant income reporting and verification. These reports generally conclude that some tenants pay less than their fair share, and that poor verification of tenants' reported incomes exacerbates this problem.

Relevant GAO Reports: CED-75-321, CED-80-31, and CED-80-59.

Contact: Steven J. Wozny, (426-1780).

President's  
Proposal - HOUSING FOR THE ELDERLY AND HANDICAPPED

GAO Supplementary Discussion

GAO Views: The administration proposes to continue the section 202/section 8 program at a reduced level of 10,000 units in 1983--7,000 less than the 1982 level. The administration has also proposed reforms that will eliminate unnecessary amenities in these projects and other measures to reduce construction costs.

GAO supports the administration's efforts to reduce the costs of constructing new projects and has made several recommendations on ways to achieve this objective. At the same time, however, GAO realizes that there will be an impact on those targeted for help under these programs and that the impact may be particularly severe on the handicapped.

The administration proposes the modified section 8 housing certificate program as an alternative to the costly construction programs because it will assist more people and allow individuals being targeted to live independently and remain in their own units while at the same time reducing the portion of their income paid for housing. While this proposal may afford a way to provide a lower subsidy to more people it may not address the lack of accessible units for the handicapped. GAO reported in June 1981 that although no reliable statistics were available, officials in the Departments of Education, Health and Human Services, Housing and Urban Development and some national organizations serving people with handicaps all agree that accessible units were in short supply. Because accessible units are not now available, it appears the modified section 8 certificate program will not be an adequate substitute for the handicapped assistance provided by sections 202 and 8. These programs provide for the production of rental housing designed especially for the needs of the handicapped.

Relevant GAO Reports: CED-81-45.

Contact: Larry A. Goldsmith, (426-1645).

President's  
Proposal - PUBLIC HOUSING OPERATING SUBSIDIES

GAO Supplementary Discussion

GAO Views: The administration proposes to reduce the level of Federal payments required to operate public housing projects by (1) reducing the utility consumption levels funded by HUD; (2) cancelling current construction commitments and selling or demolishing some of the extremely high cost projects now in operation; and (3) strengthening lease and grievance regulations to make it easier to collect delinquent rents and to evict disruptive tenants. These efforts are in addition to its proposal to increase rents charged tenants living in public housing and other subsidized projects. GAO agrees that efforts are needed to hold down the operating subsidies provided to public housing authorities. However, the proposal to reduce utility cost funding levels based in part on intensive efforts to modernize public housing raises some concern.

Preliminary work GAO has performed in regard to HUD's public housing modernization program indicates that it may be as long as 5 years before modernization efforts have a significant impact on reducing utility costs. Until energy efficiency improvements are made to many projects public housing authorities and tenants may be unable to significantly reduce energy consumption regardless of their conservation efforts.

Curtailling the growth of the public housing inventory by placing greater reliance on the existing rental market may have merit in geographical areas having an excess supply of rental units available for low- and moderate-income tenants. However, in some areas of the country shortages exist and it may be necessary to increase public housing units to meet the need. Another alternative to building new units, however, is for public housing authorities and HUD to consider the availability and feasibility of utilizing HUD-acquired multifamily projects to meet public housing shortages. GAO is in full agreement with the proposal to strengthen lease and grievance regulations. For public housing to be successful in the future GAO believes that tenants are going to have to assume greater responsibility for maintaining projects' financial and physical integrity.

HUD's current system to fund public housing authorities--the Performance Funding System--was designed to encourage operating efficiency and to avoid fully funding operating deficits. Housing authorities that have cut costs and have operated efficiently may not have much latitude in their ability to rapidly reduce operating expenditures. Housing authorities that have been poorly run in the past, however, may be able to absorb funding reductions more easily since they would have much greater latitude to reduce costs through improved operating efficiency. GAO believes that some public housing authorities could substantially reduce their dependence on Federal operating subsidies by improving their



operating economy and efficiency. For example, in an April 1980 report, GAO reported that the Chicago Housing Authority exercised weak management and control over its procurement activities. Purchasing policies were readily circumvented. Controls designed to ensure free and open competition for large purchases were avoided through order splitting and open purchase orders. Also, basic procurement management information was not readily available and even the total amount of purchases could only be estimated. The authority did not know where and how it was spending its purchasing dollars and therefore could not adequately plan its purchases. The authority, facing imminent insolvency, had asked HUD for additional funds to clear its accrued deficit. GAO reported that the Performance Funding System may have been circumvented and the incentive for management efficiency and economy weakened.

Relevant GAO Reports: CED-80-93. Also, GAO is reviewing HUD's public housing modernization program, and staff are available to brief interested congressional committees.

Contact: Steven J. Wozny, (426-1780).

## SOLAR ENERGY AND ENERGY CONSERVATION BANK

The Solar Energy and Energy Conservation Bank was created by the Energy Security Act (P.L. 96-294, June 30, 1980) to promote the use of solar energy systems and conservation by making grants and subsidized loans to individuals who install solar systems in, or make energy conservation improvements to, residential or commercial buildings. The administration has not requested funds for the bank for fiscal year 1983. Since the Bank has not yet begun operations, GAO has not reviewed its activities. However, based on previous work on solar energy and ongoing work on energy tax credits, GAO, with some reservations, supports the administration's proposal not to now initiate bank operations.

Although the Congress appropriated \$121.25 million for fiscal year 1981, and another \$22 million for fiscal year 1982, for the Bank to start operations, to date the executive branch has not initiated operations. The administration rescinded, with congressional approval, \$121 million of fiscal year 1981 funding and is proposing to rescind all of the fiscal year 1982 funding. The administration's rationale for rescinding fiscal year 1982 funding and keeping the Bank from beginning operations is that market incentives should be relied upon, and subsidy programs that reward a few fortunate home or building owners should be resisted. The administration argues that if the Bank were to begin operations in fiscal year 1982, only about 9,300 individuals would benefit from the Bank's efforts. To place this argument in context, however, GAO notes that a portion of these funds were to be used for starting operations, including bringing staff on-board and carrying out promotional activities.

The basic issue is whether the subsidies to be provided by the Bank are needed. GAO's work to date relative to this issue has not been sufficiently comprehensive to provide any definitive answers. However, GAO's efforts related to tax credits in general and its work in the solar area does provide some useful insights:

- Interest subsidies such as those that would be offered by the Bank may not be as effective an incentive as energy tax credits for aiding the commercialization of solar heating.
- The act creating the Bank precludes an individual taxpayer from receiving benefits of both interest subsidies and the currently allowed tax credits.
- The Windfall Profits Tax Act of 1980 (P.L. 96-223, April 2, 1980) provided a 40 percent solar energy tax credit for residential use of solar energy systems. On the surface, it appears that individuals would opt for the tax credits since interest subsidies would result in a much smaller dollar benefit.

While GAO's efforts would seem to point in the direction that the Bank's subsidies could have limited usefulness, GAO cautions that more analysis remains to be done in the conservation area as well as solar energy relative to this issue. GAO notes, for example, that the full impact of the 40 percent solar tax credit--because of its relative newness--is not yet known and may not be known for some time.

Relevant GAC Report. EMD-79-19

GAC Contact. Thomas E. Melloy - 353-5720

GAO Views:

The 1983 budget calls for a half billion dollar reduction in Federal highway assistance and proposes focusing the Federal funding on the Interstate and Primary highway programs and reducing emphasis on those roads of principal interest to the States and localities. Such a reduction will require the State and local governments to give increased attention to funding the construction and preservation of these highways.

In March 1981, we issued a report entitled "Deteriorating Highways And Lagging Revenues: A Need To Reassess The Federal-Aid Highway Program" (CED-81-42).

This report points out that the condition of our Nation's highways, particularly the Interstate System, is declining, that billions of dollars will be needed to preserve these roads, and if timely action is not taken deterioration will accelerate and even more money will be needed. It concludes that decisions will have to be made as to the Federal-aid highway categorical programs that are to be retained, modified, deleted, or added; the respective funding levels; the method used to acquire the necessary funds; and the States' responsibilities, including matching ratios.

The report notes that lagging State and Federal revenues are compounding the problem of highway deterioration, but that the States have taken a number of actions to increase highway revenues and this trend is likely to continue. However, the report cautions that highways are only one of many competing demands on the States. Whether States can resolve these highway financing difficulties depends largely on what the public will accept in the way of

highways and increased taxes. Highway officials in most of the States visited perceived a need for continued State actions to increase revenues.

In this respect, a number of States are looking at variable motor fuel taxes that automatically increase as prices increase rather than the fixed cents-per-gallon tax used by most States and the Federal Government.

The report notes that while each penny of gasoline tax currently produces about \$1 billion annually, the total additional revenue actually generated by a tax increase could be adversely affected by decreased consumption that might result from the tax increase.

In another report issued in August 1981, entitled "Better Targeting Of Federal Funds Needed To Eliminate Unsafe Bridges" (CED-81-126), we point out that, according to the Federal Highway Administration, about \$41 billion will be needed to replace or rehabilitate the Nation's deficient bridges. The report notes that while Federal, State, and local funds are used to replace or rehabilitate the bridges, the largest single source of funding has been the Federal Highway Bridge Replacement and Rehabilitation Program which has provided some \$1 billion annually. The report concludes, however, that this program is not as effective as it could be because of its broad eligibility criteria--bridges most in need are not always selected and that States and local governments are not fully complying with the National Bridge Inspection Standard.

Relevant GAO Reports: CED-81-42, CED-81-126.

GAO Contact: J. Kevin Donohue, 426-1777.

PROPOSED CHANGES FOR MARITIME ASSISTANCE

GAO Supplementary Discussion

The Administration proposes (1) to continue not to request funds for construction subsidies, (2) to meet existing obligations, hold down escalating costs, and allow no additional operating subsidy commitments, and (3) to limit loan guarantee commitments to \$600 million.

GAO Views

GAO recently reported on maritime subsidy requirements which hinder U.S.-flag operators' competitive position. GAO pointed out that requiring U.S. operators to construct vessels in the U.S. using construction subsidies limits the operators' ability to compete because the construction subsidies, limited to 50 percent of cost, does not always compensate the operator. Also, by building in the U.S., operators are faced with higher construction financing costs and the loss of business opportunities because of longer construction times. GAO recommended that the Congress extend the authority to permit overseas construction of U.S. flag vessels which would permit a low level of funding in ship construction in future years.

Concerning the operating subsidy, GAO reported the Government needs to take action to meet its obligations on existing contracts by making more timely payments of money owed the operators. The report asks the Congress to consider revising the law concerning maintenance and repair costs to hold down the escalating subsidy costs for this subsidy element. Further, the report recommends that administrative revisions be made in the way subsidy contracts are made should the Administration change its no additional subsidy commitment position.

In regard to the loan guarantee limit of \$600 million, GAO does not have a recent report on this program. However, it would appear that to limit available financing guarantee commitments, the Administration should develop criteria to assure that vessel types which are more important for the national defense be provided the available guarantee money first.

Relevant GAO Report

Maritime Subsidy Requirements Hinder U.S.-Flag Operators' Competitive Position, CED-82-2, November 30, 1981.

GAO Contact

Ron Wood - 634-1967

## PHASE OUT OF FEDERAL MASS TRANSIT OPERATING SUBSIDIES

### GAO Views:

In February 1981, GAO reported on the results of its review of the Federal transit subsidy program and the transit industry's cost and revenue problems that led to the need for Government subsidies. GAO concluded that demand for transit operating subsidies is approaching crisis proportions. GAO's findings are similar to the Administration's. For instance, GAO found

--one reason for soaring subsidy demands is that operating costs, which increased from \$2.5 billion in 1973 to an estimated \$5.5 billion in 1979, are not being offset by productivity improvements. GAO identified three major problem areas preventing transit from operating efficiently and effectively. One of these concerned transit's problems in expanding service cost effectively into suburban areas, which are more costly to serve than dense urban areas.

--another reason for growing subsidy demands, is that transit systems have adopted and maintained unrealistically low fares even though operating costs are increasing.

Rather than recommending a phase-out of Federal operating subsidies, GAO recommended that UMTA undertake specific actions to improve mass transit efficiency and that Congress and UMTA develop policies to influence local areas to recover more of their costs from passenger fares. GAO also recommends that Congress amend the Urban Mass Transit Assistance Act of 1964 to change the method by which Federal funds are allocated to local areas, and a number of actions the Secretaries of Labor and Transportation could take to improve administration of the operating assistance program. GAO's positions are consistent with the administration's proposal in the sense that Federal operating subsidies should be reduced to encourage greater productivity and local control over mass transit. Such reductions should be accomplished over a period of several years, as proposed by the Administration, to allow transit systems and local governments sufficient time to seek alternative financing and/or adjust their level of service.

Relevant GAO Report: CED-81-28, "Soaring Transit Subsidies Must Be Controlled," (February 26, 1981)

GAO Contact: Jim Bonnell 275-3523



REFOCUSING RESEARCH AND TRAINING EFFORTS ON SHORT-TERM  
PRACTICAL SOLUTIONS TO THE MORE IMMEDIATE PROBLEMS  
FACING THE TRANSIT INDUSTRY

GAO Views:

In a January 1982 report to the Secretary of Transportation GAO reported on the Urban Mass Transportation Administration's research and development program. In this report GAO concluded the following:

- While UMTA recognizes that its research should be directed at what the transit industry needs, it has not designed a means of ensuring that its research program is directed at the most important, widespread industry needs. Furthermore, because UMTA does not require it, research program managers do not systematically identify and analyze industry needs so that research projects can focus on the highest priority needs.
- Similar research is being carried out by both UMTA and the transit industry in several areas. In cases where transit suppliers and operators are already involved in research, UMTA's funds would be spent more efficiently if UMTA worked cooperatively with industry in the research or offered to test, evaluate, and disseminate research results.
- Innovative products and techniques resulting from UMTA's research will not be deployed unless certain barriers can be overcome. These barriers include the cost of deployment, operation, or maintenance and the need to hire specially trained personnel to operate and maintain new technology. Program and project managers do not always attempt to identify potential barriers to deployment or assess whether they can be overcome. As a result, some transit officials view UMTA's research results as too complex or sophisticated for most transit operators to use and some transit industry representatives view UMTA's research results as unrealistic or impractical for actual transit operations.

In order to make UMTA's research results more acceptable and useful to the transit industry, improve the use of research funds, and steer UMTA away from research that private industry is willing and able to conduct on its own GAO recommended that the Secretary of Transportation direct the Administrator of UMTA to:

- Establish a policy requiring UMTA research offices to identify systematically the industry's needs within their individual mission and responsibility areas and analyze those needs to determine research priorities.
- Require program managers to assess thoroughly the transit industry's willingness and ability to carry out a proposed research project on its own. In cases where industry is developing or experimenting with innovative equipment, concepts, or techniques, limit UMTA's involvement to testing, evaluating, and disseminating the results.
- Require program managers to explore and identify potential barriers to industry's acceptance and use of proposed research and work to overcome these barriers as part of the research process.

Relevant GAO Report: CED-82-17, "UMTA's Research and Development Program Should Pay Closer Attention to Transit Industry Needs", (January 20, 1982)

GAO Contact: Steve Keleti 426-2125

FEDERAL MASS TRANSIT CAPITAL GRANTS WILL EMPHASIZE  
MODERNIZATION AND REHABILITATION OF EXISTING, PROVEN  
TRANSIT SYSTEMS

GAO Views:

GAO has done some work that address matters that are relevant to this redirection of the capital grant programs .

GAO issued a report in November 1980 which discussed DOT efforts to increase commuter use of transit and ridesharing and presented matters for consideration by the Congress regarding mass transit expansion and Federal funding for ridesharing. The report focused on Department of Transportation plans announced in later 1979 and early 1980 to (1) considerably increase mass transit funding to support a 50 percent increase in mass transit capacity and (2) to double the number of commuters that used ridesharing to commute to work. GAO expressed concern that the decision to support transit expansion was being unduly influenced by the energy situation and the availability of windfall profits tax revenues and not enough consideration has been given to potential adverse impacts of transit expansion on transit operating costs, deficits, and subsidies.

The report concluded that, although increasing capacity might produce significant percentage increases in the number of people who commute by transit, (1) the impact of these ridership increases on energy, congestion, and pollution will be small because the existing base of transit commuters is small, (2) the capital investment to expand capacity to support increased transit commuting would be substantial, and (3) the increase in operating costs associated with the expansion of peak-period transit service are likely to be considerably greater than the additional revenues that would be generated and thus there could be a considerable adverse impact on transit operating deficits. Furthermore, the report stated that Federal funding support for ridesharing should be given greater consideration because increased ridesharing could generate energy, pollution, and congestion benefits without a large capital investment and with little or no adverse impact on transit operating deficits.

The following views are based on preliminary work being done concerning the maintenance of transit buses. In continuing a program of mass transit capital grants while phasing out transit operating assistance grants, consideration should be given to structuring the capital grant program(s) so that there will be sufficient safeguards and/or incentives for transit systems to adequately maintain the equipment that is being acquired with Federal capital grant funds. As is presently the case in some States, a transit authority only has to pay a very small portion of the costs of new equipment but must pay most or all of the cost of maintaining the equipment. It is conceivable therefore that a transit authority might conclude that, in terms of their own out-of-pocket costs, it may be cheaper to reduce its maintenance effort and replace equipment sooner. For example, in one State, the combination of Federal and State

funding for capital expenditures cover 96.5 percent of the cost of the equipment. Consequently, under this situation, a transit authority would only have to pay \$5,250 each for buses selling for \$150,000.

Relevant GAO Report: CED-81-13, "Increasing Commuting By Transit And Ridesharing: Many Factors Should Be Considered," (November 14, 1980)

GAO Contact: Ralph Domenick 426-2125

Termination of the Federal Railroad  
Preferred Stock and Loan Guarantee Programs

GAO Views:

The Administration proposes to terminate these programs in 1983. In June 1980, we issued a report to the Congress on these programs that showed despite past benefits there was little demand for further assistance solely to overcome deferred maintenance.

When the Congress passed the Railroad Revitalization and Regulatory Reform Act of 1976 authorizing \$1.6 billion for the two programs to help the Nation's railroads overcome deferred maintenance, it expected the funds to be used up quickly. But 4 years later, much of the program authority was unused, and there seemed to be little remaining interest in assistance solely to overcome deferred maintenance.

We concluded that Federal assistance solely to overcome deferred maintenance was not essential. Marginal and bankrupt railroads do need Federal assistance for this purpose; however, most of them have already received assistance for essential parts of their systems. Other railroads that carry most of the freight either did not need or did not qualify for Federal assistance. We did not recommend that the programs be abolished because, at the time, the Department of Transportation had proposed altering the programs to provide restructuring assistance.

We agree with the Administration's rationale that the programs were originally intended to be of temporary duration while solutions to the rail industry's problems were sought, and that these solutions have now been largely achieved.

Relevant GAO Report:

Federal Assistance to Rehabilitate Railroads Should be Reassessed  
(CED-80-90, June 27, 1980)

GAO Contact:

Steve Keleti, 426-2125

President's  
Proposal -

TRANSFER THE ALASKA RAILROAD TO THE STATE OF ALASKA (NO 1983 FUNDING)

GAO Views:

The Administration proposed to give the Alaska Railroad to the State. GAO agrees that the Federal role in the Railroad is no longer justified and that giving it to the State is one option for ending Federal ownership and operation. Other options include selling the Railroad, either to the State or a private entity.

Private ownership of the Railroad might have some advantages over State ownership, but it might also have some disadvantages. For example, the issue of a public organization competing with private industry would disappear if the Railroad were privately owned. Also, private ownership could make it easier to decide whether to give the Railroad away or to sell it; a sale would seem appropriate to a private entity, while either a sale or a gift to the State might be justified.

Private ownership, however, might inhibit efforts to encourage economic or resource development by extending Railroad lines. Private owners might not want to take the risks involved. Also, private entities might not be interested in buying the Railroad. If the grain- and coal-hauling business materializes as some expect, however, the Railroad may become profitable enough to attract private ownership.

With Alaska's economic development and population growth, the State government seems capable--both economically and politically--of operating the Railroad if it is to remain in the public sector.

Of course, any transfer or sale would have to include conditions to assure continuation of basic rail services and to prevent unreasonable economic windfalls at Federal expense. A private buyer or transferee, for example, should not be permitted to abandon rail service and sell the associated right-of-way soon after obtaining it.

Relevant GAO Reports: CED-82-9

GAO Contact: J. R. Bolon, 488-8777, ext. 425

## Reduction in Federal Funding for AMTRAK

### GAO Views:

The Administration proposes to fund AMTRAK at a substantially reduced level, requiring labor, the States and passengers to supplement the reduced Federal contribution, and to terminate operation of the Cardinal Service. (Washington, D.C., to Chicago, Illinois). It contends that the \$600 million proposed budget would still allow for the operation of a national railroad passenger system. The proposed funding level, however, would limit any expansion of AMTRAK's operations and the potential for continued development of the system would be curtailed.

The AMTRAK Improvement Act of 1981, authorized \$788 million in Federal funding for fiscal year 1983 AMTRAK operations and \$735 million for fiscal year 1982. At the time of consideration of the authorizations, AMTRAK estimated a revised fiscal year 1982 annual funding need level for the year of \$853 million down from an initial estimate of \$970 million.

In fiscal year 1982, when the Administration proposed \$613 million for AMTRAK--\$735 million was in fact appropriated by the Congress--AMTRAK contended that at the \$613 million level a substantial cutback in the AMTRAK system would result and that AMTRAK would cease to operate outside the north-east corridor. The Federal Railroad Administration on the other hand believed that operations could be maintained outside the northeast corridor with that funding level but it could not estimate how much.

The Administration's proposed \$600 million funding for fiscal year 1983 would appear to have an impact not only in the planned year of operations but in future periods as well. The possibility of future route or train frequency expansion which AMTRAK in the past had considered under higher funding levels would probably be curtailed as well as the replacement of worn passenger cars.

The Administration also proposes that the reduced Federal funding level should be supplemented by revisions in salary and other compensation arrangements for AMTRAK employees and other railroad employees working for AMTRAK; by additional funding to be provided by States benefitting from AMTRAK service; and by additional contributions from passengers by way of increases in fares and ridership. While each of the above funding alternatives have been acknowledged by AMTRAK as having merit and should be pursued, AMTRAK has indicated that the chance of their being implemented in the near future would seem doubtful. Significant changes in labor union policies and agreements, as well as congressional action, would seem necessary to revise or alter current labor and other compensation arrangements that are the result of many years of negotiation with labor. At the present time various additional pressures are being placed on the State and local governments to assume various previously federally managed and funded programs. The addition of rail passenger services at this time would place further burdens on many areas of the country that are already in financial difficulty. Finally, increased fares may not result in increased revenues due to a decline in ridership, which has occurred in the past when fares were raised. Presently, the entire

transportation industry, surface as well as air transportation, is experiencing substantial declines in passenger levels due in large part to economic conditions so that any immediate increased ridership for AMTRAK is not likely.

Overall, while AMTRAK continues to depend overwhelmingly on Federal funding to maintain a national railroad passenger system, some progress has been made, notably in the upgrading of its operating equipment; improved service through better on-time performance; and the development of an operating plan to meet the congressionally mandated revenue-expense ratio of 50 percent in fiscal year 1982. The budget limits proposed would tend to limit the continued development of the system for the current as well as for future periods.

Regarding the Administration's proposed discontinuance of the Cardinal service, from Chicago to Washington, D.C., it should be noted that AMTRAK had in the current fiscal period discontinued the service for a period of about 3 months because it did not meet the congressionally mandated performance criteria. Congress, however, in the Department of Transportation Appropriation Act for fiscal year 1982, directed that AMTRAK continue the route, and the service was reinstated.

Relevant GAO Report: CED-81-93, Analysis of Proposal To Reduce AMTRAK's Federal Subsidy (April 9, 1981)

GAO Contact: Frank Polkowski, 383-3578



Appalachian Regional Commission

President's

Proposal - REDUCTIONS TO APPALACHIAN DEVELOPMENT PROGRAM

GAO Supplementary Discussion

GAO Views: Appalachian Regional Commission The Appalachian Regional Commission (ARC) was created as a national experiment in comprehensive Federal-State-local development planning aimed at correcting economic and social imbalances between Appalachia and the rest of the Nation. On April 27, 1979, GAO issued a report to the Congress on the commission's non-highway programs. The report concluded that despite the commission's contributions to the development of the Appalachian region, major problems have limited its success in meeting national objectives. For example, we found the commission's planning process to be incomplete at the multistate level because ARC's policy did not require States to address economic and social problems consistently when preparing their plans. Rather, ARC allowed individual States to select which problems to address and which to omit. This discretion leaves a gap in the Federal-State-local approach which the commission was intended to demonstrate. In addition, we found that inadequate written guidelines for State and district planners had permitted planning deficiencies to continue.

Aside from these problems, we also reported that (1) program goals and objectives at all planning levels were inadequate to measure progress, (2) allocation procedures appeared inequitable and inefficient resulting in the likely underfunding of some States while overfunding others, (3) administrative controls were inadequate for documenting and reporting on the disposition of Federal funds, (4) commission policy did not adequately address declining State financial support of the commission's non-highway programs, and (5) program evaluation was inadequate to ensure that ARC funds were having the greatest impact on solving regional problems. Although we did not recommend the elimination of ARC, we did conclude that it would be premature to consider expanding the commission concept nationwide, at a projected cost of \$1.5 to \$2 billion annually, until the issues discussed in our report were thoroughly considered and resolved. We pointed out in our report that ARC did not have a system for determining which geographic areas no longer needed ARC assistance. In this connection, ARC's Deputy Executive Director commented that as many as 140 of Appalachia's 397 counties may no longer require ARC assistance.

Relevant GAO reports: CED-79-50

Contact: Robert E. Allen, Jr. (377-5483)

President's  
Proposal - REDUCTION IN STUDENT ASSISTANCE

GAO Supplementary Discussion

GAO Views: The Federal Government provides billions of dollars in student aid each year under programs administered by the Department of Education, the Veterans Administration, and the Social Security Administration. These agencies have widely varying policies regarding satisfactory academic progress of students receiving assistance.

In December 1981 GAO reported that academic progress standards applied to students at 20 institutions of higher education were often inadequate and not always enforced. Although each of the schools had established standards, they were often poor measurements of academic progress. Some schools had not enforced the standards they had established, resulting in overpayments of more than \$1.2 million in Department of Education programs. Tighter academic progress standards would save Federal funds now being paid to students not making satisfactory progress.

Relevant GAO Report: Students Receiving Federal Aid Are Not Making Satisfactory Academic Progress: Tougher Standards Are Needed (HRD-82-15, December 3, 1981).

GAO Contact: Albert B. Jojokian 245-9623

President's  
Proposal -

ELIMINATION OF FEDERAL CONTRIBUTION  
TO NATIONAL DIRECT STUDENT LOAN PROGRAM

GAO Supplementary Discussion

GAO Views: The National Direct Student Loan program has been plagued by high default rates--16.04 percent as of June 30, 1979. As of that date outstanding defaulted loan balances exceeded \$730 million. Nearly 1,200 schools had default rates of 20 percent or higher; 315 schools had default rates exceeding 41 percent. Money recovered through collections of outstanding loans becomes available to schools to make additional loans.

In September 1981 GAO reported that schools it visited were making inadequate efforts to collect defaulted loans. In addition, collections by the Department of Education on defaulted loans submitted to it by the schools were limited.

The Department of Education has contracted with private collection agencies for future collections on defaulted loans which schools have submitted to the Department. Also, to motivate defaulters to pay their debts, the Department will allow credit bureaus to redisclose student loan default data to the general credit industry.

Relevant GAO Report: Stronger Actions Needed to Recover \$730 Million in Defaulted National Direct Student Loans (HRD-81-124, September 30, 1981).

GAO Contact: Albert B. Jojokian 245-9623

President's Proposal: Restructure USDA Soil and Water Conservation Programs

GAO Views: The Administration proposes to restructure USDA's soil and water conservation programs to achieve conservation benefits at lower cost. This restructuring process is to entail:

- Concentrating assistance on resolving high priority soil and water resource problems
- Maintaining the funding level for conservation technical assistance
- Initiating a pilot program of matching grants to States and localities for soil and water conservation activities, and
- Reducing total funding levels for conservation cost-share assistance and small watershed assistance.

GAO believes that USDA conservation assistance should be focused on high priority soil and water resource problems. GAO has reported to the Congress that USDA needs to (1) realign its conservation priorities and implement a system that would channel available resources to the most critically needed conservation practices, (2) aggressively seek out farmers whose lands have critical erosion problems and educate them on the necessity and benefits of applying effective conservation measures, and (3) provide the necessary technical assistance and followup assistance.

Subsequently, GAO reported that if the Congress decides to continue USDA's Resource Conservation and Development Program, it should drop the cost-sharing part of the program used to finance installation of project measures. GAO pointed out that other Federal programs are available to provide financial assistance for similar purposes.

Our January 28, 1982 analysis of USDA's 1981 Program Report--Soil and Water Conservation Act--issued November 1981, concluded that USDA's proposed preferred program for conservation could be ineffective and costly solution to the Nation's soil and water resource problems and that USDA needed a better analytical framework to meet congressional requirements stipulated in the Soil and Water Conservation Act of 1977. We said that, although USDA has spent considerable effort reviewing the adequacy of soil and water resources, it will not have the basis for the effective conservation program intended by the 1977 act until it:

- Conducts a thorough assessment of soil and water resource conditions to better define the problems.
- Evaluates the overall effectiveness and progress of ongoing soil and water programs.
- Evaluates sufficient alternatives for conserving U.S. soil and water resources.
- Analyzes the impact of other Government programs on soil and water resources to ensure the best use of limited resources and avoid duplication of effort among Federal agencies.

Relevant GAO Reports: CED-77-30, CED-81-120; CED-82-41

GAO Contact: Stanley Sargo1 (447-7883)  
Bill Gahr (275-5525)

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION  
(DEPARTMENT OF COMMERCE)

GAO Supplementary Discussion

GAO Views: The Administration proposes to eliminate the agricultural weather service. Although GAO has not formed an opinion on the need for such a service, we did conclude that agricultural weather service information is not being communicated effectively to users and potential users. Most users of weather program information we surveyed, including farmers, ranchers, agricultural businesses, and county agents said weather forecasts are at least marginally meeting their needs. About one-third of those responding to our questionnaire from areas covered by the agricultural weather program could not recall even hearing of agricultural forecasts and about one-half could not recall hearing of the advisories. However, those who did use the specialized forecasts said they preferred agricultural weather forecasts because they were more accurate. GAO said the program's roles, responsibilities, and goals for providing this special service were not clear. We recommended that the Congress (1) clearly define the National Weather Service (NWS) role and responsibilities in providing specialized weather service and (2) assure that NWS had adequate resources to fulfill its responsibilities. Congressional action has not been taken to implement these recommendations.

Relevant GAO Reports: CED-78-77 and CED-79-110

Contact: Frank V. Subalusky, 443-8691

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION  
(DEPARTMENT OF COMMERCE)

GAO Supplementary Discussion

GAO Views: The Administration plans to reduce funding for fisheries management. In May 1980, GAO pointed out that opportunities exist for the United States to make greater use of its nontraditional fisheries--those which have not been developed to their full potential. Development of such fisheries could have significant economic benefits, including creating jobs and expanding exports. GAO said the industry could be accelerated through legislative changes to (1) guarantee higher risk loans for initial ventures to harvest or process nontraditional species, and (2) supply funds to acquire used vessels and convert them to harvest nontraditional fisheries. In addition, we recommended that the Administrator of NOAA initiate a comprehensive study to assess the quality of U.S. seafood. Because of budget reductions in FY 1981, NOAA did not fund such a project. At that point, we recommended that NOAA review other options to support the evaluation. One option would include a cooperative effort utilizing National Marine Fisheries Service (NMFS) and industry resources.

Relevant GAO Reports: CED-80-73, CED-81-125, and Letter report dated June 22, 1981

Contact: Frank V. Subalusky, 443-8691

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION  
(DEPARTMENT OF COMMERCE)

GAO Supplementary Discussion

GAO Views: The Administration proposes to reduce Federal funding to Sea Grant Colleges. GAO reviewed the Sea Grant program in 1979 and reported that:

--Sea Grant projects appear to have limited application and are of little benefit to the identified user community.

--A follow-up evaluation of Sea Grant projects is needed to determine if the federally supported projects meet the expected goals and objectives.

GAO questioned projects at several universities because project results had not been communicated or disseminated to parties outside the Sea Grant institutions and also questioned whether the identified users of project results benefited from the research activity. GAO said improvements were needed in the administration of the program so that the day-to-day problems and needs of the marine community are addressed. Sea Grant officials disagreed with GAO's conclusions and did not take any special action as a result of the report.

Relevant GAO Report: Letter report dated October 25, 1979

Contact: Frank V. Subalusky, 443-8691



NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION  
(DEPARTMENT OF COMMERCE)

GAO Supplementary Discussion

GAO Views: The Administration plans to reduce funding for most weather modification projects. GAO reported in 1979 that a coordinated Federal approach to weather modification had never been established and was badly needed. GAO's review supported the findings of nearly 15 years of studies which disclosed (1) the lack of a national weather modification policy, (2) no central authority to direct the programs, (3) ineffective coordination, and (4) fragmented research. GAO illustrated the general problem by a discussion of rainfall augmentation projects, which are meant to produce additional useful rainfall over fixed areas. GAO reported that while some progress had been made, deliberate rainfall augmentation efforts had been disappointing and critical scientific questions remained unanswered.

Relevant GAO Report: CED-80-5

Contact: Frank V. Subalusky, 443-8691

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION  
(DEPARTMENT OF COMMERCE)

GAO Supplementary Discussion

GAO Views: The Administration proposes to reduce funding for NOAA's Coastal Zone Management (CZM) program. GAO's December 1976 and June 1980 reports discussed States' problems and progress in developing their programs. Both reports clearly indicated a lack of progress in carrying out the goals and objectives of the Coastal Zone Management Act, thus lending support to the proposal to reduce the program's funding. GAO found that States were experiencing delays in implementing their programs because of problems in obtaining State financial and political support. The public had not supported the States' programs and coordination between States and Federal agencies was poor. GAO recommended actions to improve NOAA's management of the program. NOAA has made some procedural changes in its management of the program, but reduced funding has limited NOAA's corrective actions.

Relevant GAO Reports: GGD-76-107 and CED-80-103

Contact: Frank V. Subalusky, 443-8691

President's Proposal - Fish and Wildlife Service

GAO Supplementary Discussion

GAO Views The President has proposed to save \$3.7 million by closing or transferring to States those fish hatcheries that produce fish for sports fishing within State waters and to save \$7 million by streamlining the organizational structure of Interior's Fish and Wildlife Service (FWS) and eliminating unnecessary overhead costs.

GAO pointed out in an August 24, 1981, report that the National Fish Hatchery System was not being effectively managed. FWS continued to operate hatcheries it considered excess to its needs and estimated that \$100 million was needed to rehabilitate greatly deteriorated hatcheries. In recent years FWS had tried to deemphasize programs to stock farm ponds and State-owned and -managed waters. Our report pointed out that the Congress had taken numerous steps to prevent the Service from reducing its stocking of farm ponds and State waters.

We also pointed out in the August report that FWS was not effectively managing its wildlife refuge system. FWS did not have current flyway management plans and operated marginal refuges. Over one-half of the refuges were not being adequately operated and maintained and FWS had a \$500 million rehabilitation construction backlog.

Our report recommended that Interior determine which marginal refuges and hatcheries could be eliminated, propose a plan to the Senate and House Appropriations Committees setting forth the reasons why they should be discontinued, and seek approval from the committees to close them.

Contracting with private fish hatcheries might be another way the Federal Government could save money. In a September 18, 1981, report, we pointed out that it was costly for the Corps of Engineers to acquire a fish hatchery to raise steelhead trout, a sport fish. The report pointed out that The Corps acquired the hatchery as part of its plan to compensate for steelhead trout losses caused by the Corps building dams on the Lower Snake River in Idaho. If the Government were to raise the fish, the cost could be about \$6 per pound, whereas if it contracts with commercial fish hatcheries, the cost might be as low as \$1 per pound.

We recommended that the Corps determine the cost effectiveness and capability of commercial hatcheries in the Lower Snake River area to raise steelhead comparable in quality to those raised in Federal and State hatcheries.

Relevant GAO Reports: CED-81-109, CED-81-107 and CED-82-18

GAO Contact: Roy J. Kirk, 376-8212

President's Proposal - National Park Service Program

GAO Supplementary Discussion

GAO Views The President proposed to (1) limit land acquisition to parcels subject to condemnation awards, emergency purchases, and high-priority conservation areas, (2) to restore and improve existing national parks with a \$525 million, 5-year initiative, and (3) eliminate the State recreation grant program.

National Park restoration and improvement--We have issued a number of reports citing numerous problems with the Federal Government's ability to manage concession operations as well as its own facilities to ensure that the Nation's recreation facilities meet health and safety requirements. The Federal Government and its concessionaires have a health and safety backlog far in excess of \$1 billion. For example, in October 1980, we reported that NPS needs \$1.6 billion to rehabilitate, upgrade, and replace facilities in the 333 unit National Park System to meet health and safety standards.

In response to these problems, the Secretary of the Interior proposed a 5-year program calling for a total of \$525 million to restore and improve recreation facilities. He proposed transferring \$105 million from the 1982 Land and Water Conservation Fund appropriation for land acquisition to restore and improve recreation facilities. The Congress, instead, authorized an additional \$105 million as a separate item for this purpose in fiscal year 1982. Continuation of the 5-year National Park Restoration and Improvement Program will contribute towards preserving the parks historical, natural and recreational resources and reducing health and safety hazards in the parks. Some possible alternatives for funding the improvements are: (1) raising user charges such as entrance and camping fees, (2) requiring concessionaires to make health and safety improvements on facilities they own or manage, and (3) using proceeds from the sale of nonessential land.

State recreation grants--States obtain funds for outdoor recreation projects from the Land and Water Conservation Fund on a 50/50 matching basis. In April 1981, we reported that the Department of the Interior must manage the State recreation grant program more effectively by requiring States to improve their planning, selecting and funding processes for providing recreation facilities.

Elimination of the State share of the fund could encourage States to use their own funds earmarked for land acquisition and development for the operation and maintenance of existing recreation facilities.

Historic preservation fund--In April 1981, we reported that States could and should play a greater role in helping Federal agencies fulfill their responsibilities to locate and identify archeological properties that may be affected by federally funded projects or are located on Federal land. Archeological sites having National, State and local significance are eligible for listing on the National Register of Historic Places. To encourage States to expeditiously develop meaningful preservation plans to help the Federal Government assess significance, we recommended that a higher portion of the Historic Preservation Fund grants be made available to the States so that State-wide plans could be formulated and implemented. The State Historic Preservation Office and plans could then serve as the focal point for Federal agencies when determining the significance of an archeological site.

Eliminating the Historic Preservation Fund in fiscal year 1983 and thereafter would cut off Federal funding of State historic preservation offices and greatly reduce their role in helping Federal agencies determine whether an archeological site is significant. This could result in Federal agencies spending more funds than it would save in trying to assess State and local significance. Without adequate State plans and criteria, almost any site can be justified as significant.

Limiting land acquisition--In December 1979, we reported that Federal land acquisition and management agencies, including the National Park Service (NPS), Department of the Interior, generally followed the practice of acquiring as much land as possible without regard to need and alternative to purchase unless specifically spelled out in legislation. We recommended that a policy be established on when to acquire land and when other alternative protection methods should be considered. We also recommended that the need to acquire land in existing parks be critically evaluated.

In a September 1981 report, we pointed out that, although NPS revised its land acquisition policy to give greater consideration to protecting areas through the use of easements, zoning, and cooperative agreements with State and local governments, it continued to purchase almost all land outright. During the period September 30, 1979, to December 31, 1980, NPS acquired an interest in 165,626 acres of land of which only 3 percent was acquired in other than fee simple. Before the change in policy, NPS had acquired less than 1 percent in other than fee simple.

Relevant GAO Reports: CED-80-14, CED-80-102, CED-80-115,  
CED-81-135, CED-81-61, and CED-81-32

GAO Contact: Roy J. Kirk, 376-8212

## NUCLEAR ENERGY PROGRAMS

### Water-Cooled Breeder Program

The purpose of the water-cooled breeder program is to determine whether existing types of nuclear power plants, called water-cooled reactors, can be modified to produce (or breed) more fuel than they consume. The type of fuel used is the major difference between existing reactors and the water-cooled breeder. The administration is proposing to phase out this program.

In a March 1981 report GAO addressed, among other things, whether the program should continue. At that time, the Department of Energy decided to extend the program 4 years at an additional cost of \$200 million. By doing this, the Department would have delayed obtaining information on the water-cooled breeder reactor's breeding potential until 1989--11 years after the originally scheduled completion date.

In opposition to this, GAO concluded that demonstrating the water-cooled breeder reactor's breeding potential as quickly as possible was the program's primary and most important goal. The Department and the nuclear industry needed this information to be able to compare this technology to other options and to make a decision on its further development and/or commercialization. Therefore, GAO recommended that the Secretary of Energy discontinue reactor operations by January 1982 and initiate the proof-of-breeding experiment at that time.

Thus, the administration's decision to retire the water-cooled breeder reactor and phase out the water-cooled breeder reactor demonstration program is consistent with our recommendation.

Relevant GAO Report. EMD-81-46

GAO Contact. John Harman - 353-4761

## Light Water Reactor Extended Burnup Program

The administration proposes to reduce funding of research designed to extend the useful life of light water reactor fuel. In a November 1981 report, however, GAO evaluated the cost effectiveness of the Extended Burnup Program and found that the potential economic benefits to ratepayers were substantially greater than the cost of continuing the program. In one case, for instance, Federal expenditures of \$33 million through fiscal year 1989 were expected to save the industry about \$12.7 billion through the year 2000--a cost-benefit ratio of 1 to 385.

Continuation of the program could (1) lead to significant improvements in the fuel efficiency and costs of operating current generation nuclear reactors, and (2) reduce requirements for spent fuel storage and/or reprocessing, uranium mining and milling, and uranium enrichment. The administration theorizes that these potential improvements will induce the private sector to carry on the research programs without Federal assistance. Even with these huge potential dollar savings, however, GAO found that it was questionable whether industry would continue funding of the research program at the level previously supported by the Federal Government because (1) developmental costs are sizeable, (2) there are some fuel performance risks to be overcome, (3) the potential economic benefits must be passed on by utilities as savings to ratepayers and (4) problems in obtaining rate relief from State utility regulatory commissions make it unlikely that sufficient research and development would be available for utilities to fully fund the program.

Relevant GAO Report. EMD-82-16

GAO Contact. John Harman - 353-4761



## Nuclear Spent Fuel Storage

The administration is proposing that commercial spent-fuel be stored at reactor sites until either reprocessing technologies or permanent isolation facilities are available. In support of this, the administration is conducting joint demonstrations with utilities aimed at developing and licensing new technologies that will expand the spent fuel storage capacity at commercial reactor sites. This is a departure from the previous administration's position proposing that the Federal Government provide away-from-reactor storage facilities for those utilities that were running out of on-site spent fuel storage space.

The position of the current administration generally agrees with that taken in a June 1979 GAO report. At that time, GAO determined that the requirements for interim, away-from-reactor storage facilities were smaller than estimated by the Department of Energy. On the other hand, there may be some need for such facilities in the near term as we progress toward the 1990's. However, GAO found that the commercial nuclear industry was technically capable of providing needed interim spent-fuel storage capacity, but had not fully explored all available on- and off-site storage options. In fact, the Department's policy to provide interim spent-fuel storage had caused uncertainties, delays, and cancellations in industry plans to increase spent-fuel storage capacity.

GAC concluded that the Department should not develop an interim spent-fuel storage program. Instead it should (1) concentrate its efforts on resolving whether commercial spent-fuel will be reprocessed and (2) commit itself to a timetable for devising methods for permanent spent-fuel storage. These were needed to provide some finality to the issue of spent-fuel storage and to give the nuclear industry a basis for planning storage requirements. For the shorter term, GAC recommended that the administration work with the nuclear industry to help it determine interim spent-fuel storage needs, meet necessary regulatory requirements, and develop a comprehensive storage program.

Relevant GAO Report. EMD-79-82

GAO Contact. John Harman - 353-4761

## Uranium Enrichment Revenues

The administration proposes a small increase in its uranium enrichment program for FY 1983 bringing the total program up to approximately \$2 billion. However, no appropriations are being requested because revenues estimated to be generated from the sale of enrichment services to domestic and non-U.S. utilities are expected to exceed costs with excess revenues carried forward to FY 1984. GAO has raised concerns over whether certain enrichment costs for additional capacity (\$600 million in FY 1983) are justified and advocated pricing changes that would increase revenues.

In a November 1980 report, GAO concluded that from the standpoint of ensuring the availability of U.S. enrichment services to meet foreign demand, it is not apparent that constructing additional enrichment capacity first authorized by the Congress in December 1975 is justified at this time. GAO recommended that in future budget requests to construct new enrichment capacity the Secretary of Energy should demonstrate that the new capacity is needed to (1) meet demand supported by realistic forecasts, or (2) enhance U.S. reliability as a nuclear supplier, or (3) achieve cost savings. Analyses of cost savings should fully and objectively consider options involving the use of advanced enrichment technologies now under development. Since GAO issued its report, the Department completed a cost savings analysis and GAO is currently reviewing that analysis and the Department's enrichment demand forecasts.

GAO has also advocated two changes in DOE's enrichment services pricing policies which could increase revenues and put DOE's enrichment activity on a more business-like basis. First, GAO has recommended that the Secretary of Energy add a reasonable charge to the current enrichment services price to begin recovering the cost of decommissioning enrichment plants. This would more accurately reflect the true costs of enrichment services and put the burden of paying the retirement costs on the recipients of enrichment services.

Second, GAO recommended that the Secretary of Energy seek legislation which would change the basis of the enrichment services price from cost recovery to a concept called fair value-- a pricing concept which would include factors that private industry would charge if it owned and operated enrichment facilities. Such a charge could assist in balancing the Federal budget. However, as GAO noted in June 1981 testimony before the Subcommittee on Energy Conservation and Power, House Committee on Energy and Commerce, the extent to which additional revenues from fair value pricing would accrue to the Government cannot now be estimated with confidence. Demand for enrichment services is down, there have been recent price increases, and substantial competition from foreign countries has emerged. Undoubtedly, such circumstances affect the price that could be charged in today's market for enrichment services under the fair value concept.

The Department has reservations about changing to fair value pricing due to the emergence of competition from foreign enrichers, which may jeopardize its ability to acquire new customers and retain its existing customers. GAO believes the potential loss of customers could be minimized through carefully formulated criteria for implementing fair value pricing which allows appropriate consideration of world market conditions.

Relevant GAC Reports. EMD-81-9, EMD-79-94, EMD-81-75, and  
EMD-78-66

GAO Contact. John Harman - 353-4761

Remedial Actions to Clean Up and Decommission Nuclear Facilities/Sites

The administration proposes slight increases in each of the following Department of Energy remedial action programs: Grand Junction; Uranium Mill Tailings; Formerly Utilized Sites; and, Surplus Facilities Management. GAO studied several aspects of these programs to clean up and decommission nuclear facilities and sites, including the adequacy of mechanisms to ensure that funds will be available when needed.

In a draft report recently sent to the Department and other Federal agencies for comment, GAO found that a number of facilities included in these remedial action programs were in need of decommissioning but had not been cleaned up because the Department lacked the necessary funds. GAO also found that since decommissioning of these facilities is usually a multi-year effort, funding should be appropriate to ensure that the entire effort is completed. Such funding continuity has not been provided in the past, and as a result, delays have occurred and overall costs for cleaning up inactive facilities have increased. In addition, similar funding problems are also expected for future Federal facilities that will need to be decommissioned.

GAO believes that because of the potential hazards inactive Federal nuclear facilities pose to the public's health and safety, the Congress may want to consider giving a high priority to decommissioning these inactive facilities. Consequently, the Congress should, at a minimum, consider closely examining Departmental funding priorities to determine whether additional funding for these programs could be provided.

Concerning the funding of remedial actions for future Federal facilities, GAO believes that Congress should consider establishing a reporting procedure that would provide it with the necessary information on the costs and trade-offs of cleaning up these facilities far enough in advance of the actual decommissioning need so that adequate funding can be provided.

Relevant GAO report. EMD-82-40--GAO plans to issue final report by May 1982.

GAO Contact. John Harman - 353-4761

GAO SUPPLEMENTAL DISCUSSIONS

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (Page 161)

Proposed Change

The 1983 budget for NASA provides for an overall increase of \$672 million. The overall increase is the net effect of increases for several high priority activities offset partially by decreases for lower priority activities. For space transportation, the budget provides increases for logistics and contractor support to assure timely transition of the Space Shuttle to an operational system. At the same time, major cost savings would be achieved through not initiating the development of the Venus Orbiting Imaging Radar mission and by reducing other lower priority science projects.

GAO believes the first 3 years of Space Shuttle operations will continue to significantly affect the National Aeronautics and Space Administration's (NASA's) budgets because NASA has committed itself to charging a flat price for Space Shuttle launches over this period, even though operations costs, which are continuing to increase, would not, and do not, support the current price.

At a time when NASA's programs are suffering due to budget constraints, NASA is committed to a Space Transportation System pricing philosophy/policy under which it must subsidize other users' launches on the Space Shuttle in the early years of operations. NASA is locked into a pricing policy that encourages Space Transportation System use at NASA's expense and at the expense of the space science, applications and aeronautics programs.

GAO has recommended that NASA's administrator (1) reevaluate the Space Transportation System's pricing and use fee policies with the objective of establishing a more equitable price to all users, and (2) in annual budget presentations to the Congress, clearly show NASA's subsidies by user class, that is, civil U.S. Government agencies, Department of Defense, and non-Government users.

Relevant Report: MASAD-82-15, February 23, 1982

Contact: Mr. Steven Kuhta - 275-3191

President's  
Proposal - ESTABLISHMENT OF AN

ENTERPRISE ZONE PROGRAM

GAO Supplementary Discussion

GAO Views: The administration proposes to establish enterprise zones as an experimental, free market approach for dealing with urban problems. The program's objectives would be: to create jobs in depressed inner city areas, especially for disadvantaged workers, and to redevelop and revitalize the geographic areas themselves. The program would offer several incentives to attract business to enterprise zones including tax relief, regulatory relief, and improvement in local public services. The incentives would be provided by the Federal, State, and local governments.

The administration is planning to designate up to 25 zones in each of the program's first 3 years. Based on this level of program activity, the administration has estimated that the program will cost the Federal Government \$310 million in fiscal year 1984, \$620 million in fiscal year 1985, and \$930 million in fiscal year 1986. A Department of Treasury analysis, upon which these figures are based, noted that these amounts are rough estimates because numerous factors regarding the program are unknown. These unknown factors include the life of a zone, the ultimate number of zones to be designated, their size, the number and types of firms and employees in each zone and the increases in economic activity in response to the incentives offered. Because of these unresolved factors, the actual Federal income tax revenues lost could be greater or less than the administration's estimates. In addition, the ultimate costs of enterprise zones will be difficult to control because the program will not rely on congressionally appropriated funding, but rather on incentives provided by the tax code.

The potential effectiveness of tax incentives to attract business to distressed areas was reduced with the enactment of the Economic Recovery Tax Act in 1981, which provided substantial tax cuts and investment incentives to businesses nationwide. Even before this new law, taxes were only one of several factors influencing business location decisions. In addition, the enterprise zone incentives may reward investments that would have occurred anyway. Further, nonrefundable tax incentives are of little value to businesses that do not have sufficient tax liability to use them. Many firms, particularly fledgling businesses, may not have sufficient liability to fully use the credits.

Enterprise zone employment incentives to encourage the hiring of the disadvantaged are similar to past initiatives which have been largely unsuccessful. There is no evidence that enterprise zone employment incentives will work better than their historical counterparts.

Relevant GAO Reports: GAO is currently doing work on the enterprise zone concept. GAO is prepared to brief interested congressional committees regarding this report.

Contact: Steven J. Wozny, (426-1780).

President's  
Proposal -

CHANGE IN TYPE OF ASSISTANCE PROVIDED

TO MINORITY BUSINESSES

GAO Supplementary Discussion

The President's proposal would "restructure" the Department of Commerce Minority Business Development Agency's (MBDA) management and technical assistance program to focus attention on the development of private sector market opportunities for minority businesses, and the Small Business Administration (SBA) would have lead responsibility for ensuring that minority firms have equal access to procurement opportunities in the Federal sector. The rationale was that by assigning specific responsibilities to MBDA and SBA for private and Federal sector promotional efforts for minority businesses, confusion over the relationship of MBDA and SBA programs would be eliminated.

GAO Views: The President's proposal is laudable in the context of attempting to clarify MBDA's and SBA's relationship, absent any statutory or other requirements. However, the law requires SBA to promote private sector and not primarily Federal sector opportunities as the proposal suggests. In a September 18, 1981, report to the Congress, GAO stated that Public Law 95-507 amended section 7(j)(3) of the Small Business Act which requires SBA to encourage large businesses (private sector) to place subcontracts with small and small minority firms. Almost all minority firms are "small" under SBA's definition. SBA is also authorized to provide incentives and financial assistance to those large businesses that aid in training and upgrading potential small and small minority contractors.

Not only does the law require SBA to promote private sector opportunities for minority firms, it also states that the President appoint a 10-member Advisory Committee to ensure its implementation and report annually to the President and the Congress.

GAO's report was critical of both SBA and the Advisory Committee for emphasizing Federal subcontracting opportunities instead of private sector subcontracting, as the law intended. GAO recommended that the Administrator of SBA, together with the Presidential Advisory Committee, develop a specific plan for promoting contracts and subcontracts for small and small minority businesses from the private sector, outside of Federal procurements. In addition, GAO recommended that the Administrator, together with the Presidential Advisory Committee, pursuant to the Small Business Act and Executive Order 12190, study and propose the incentives and/or assistance the private sector needs to help train, develop, and upgrade small and small minority businesses.

Relevant GAO report: CED-81-151

Contact: Robert E. Allen, Jr. (377-5483)



President's  
Proposal - MAINTAINING FUNDING LEVEL FOR THE

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

GAO Supplementary Discussion

GAO Views: The administration's proposal sets the fiscal year 1983 appropriation level for HUD's Community Development Block Grant (CDBG) program at \$3.456 billion, the same appropriated for fiscal year 1982. Because of inflation, however, the administration's fiscal year 1983 CDBG proposal represents a decline in the program's funding, in real terms.

Recognizing that the Federal resources available to meet the revitalization needs of our Nation's cities are limited, we have recommended that the Congress consider the following issues in attempting to improve the program's efficiency and effectiveness:

- Have all grantees concentrate their block grant funds in distressed geographic areas.
- Reduce the broad list of activities currently eligible under the program.
- Develop overall income eligibility requirements for recipients of block grant-supported rehabilitation.
- Limit eligible rehabilitation work to that which is essential to restore the housing unit to a safe, decent, and sanitary condition.

In passing the Housing and Community Development Amendments of 1981 the Congress required in Section 315 of the amendments that, no later than May 1982, the Secretary of HUD report to the Congress on administrative and legislative steps that can be taken to implement the above program initiatives. The committees may want to ask HUD about the status of HUD's report and how those issues would be applicable to State-run CDBG programs.

GAO is currently drafting a report assessing HUD's procedures for determining the extent to which low- and moderate-income persons actually benefit from the CDBG program. GAO is prepared to brief interested congressional committees regarding this and earlier GAO work.

Relevant GAO Reports: CED-80-137, CED-81-76, and CED-81-98.

Contact: Steven J. Wozny, (426-1780).

President's  
Proposal - MAINTAINING FUNDING LEVEL FOR THE

URBAN DEVELOPMENT ACTION GRANT PROGRAM

GAO Supplementary Discussion

GAO Views: The administration's proposal sets the fiscal year 1983 appropriation level for the Urban Development Action Grant (UDAG) program at \$440 million, the same amount appropriated for fiscal year 1982. HUD has recently completed a comprehensive study of the UDAG program and has concluded that, generally, the program has effectively assisted distressed cities and urban counties in promoting economic development. The study did identify certain program deficiencies, including, Federal funds being awarded for projects that would have been completed without the UDAG subsidy and overestimating anticipated project benefits. These deficiencies are similar to those which were uncovered during prior GAO reviews of selected UDAG grants. The Congress may want to ask HUD what specific corrective actions it plans to take to remedy these program weaknesses.

Relevant GAO Reports: CED-79-64, PAD-79-85, and CED-80-80.

Contact: Steven J. Wozny, (426-1780).

**THE NATIONAL SECURITY POSTURE**

**President's Proposal Addressed:**

**General Discussion  
Strategic Forces  
General Purpose Forces  
Mobility Forces  
Operations and Maintenance  
International Security Assistance**

## National Security Posture

Annual weapon system reviews conducted by GAO on certain systems are reported to the Congress each February. These selected reviews advise the Congress on program issues and problems. The planned rapid growth in defense expenditures in the next few years makes it especially important that GAO identify issues that directly impact the weapon system's deployment and effectiveness. The defense Fiscal Year 1983 budget funds specific programs to provide qualitative and quantitative improvements for strategic, general purpose, and mobility forces.

GAO has reported in the past that stretching out procurement of major weapon systems due to funding shortages is unsatisfactory. It perpetuates annual, agonizing decisions as to which programs to curtail and impairs readiness. We have recommended high need systems be procured efficiently even at the expense of other programs. Increasing production rates and selected use of multi-year contracting are viable acquisition strategies which, if judiciously used, could substantially reduce procurement costs. However, the weapon must have stable costs, perform as expected, and be supportable.

GAO believes that improving reliability of weapon systems should result in reduced operating and maintenance cost--once the system is deployed. Streamlining the acquisition process, and improving long-range planning and budgeting should further help to reduce acquisition costs. However, caution should be exercised when streamlining high technology acquisition programs. Joint development programs such as the Navy and Air Force development of the Advanced Medium Range Air-to-Air Missile (AMRAAM) should be encouraged.

Last March the Defense Department established a steering group to make recommendations for improving the acquisition of weapon systems. On April 30, 1981, some 31 specific management initiatives were adopted concerning a comprehensive implementation plan covering legislative changes, rewriting defense directives, identifying weapon systems for application of specific initiatives, and redirecting personnel. The sheer size of DOD requires time for new policy and procedures to permeate downward through the thousands of people involved. Attitude and established patterns must be changed. Persistent aggressive follow-up and examination of results is essential. All of the initiatives have merit and could result in substantial savings.

As a result of congressional interest, GAO is currently verifying the accuracy of savings resulting from cost avoidance, economy, and efficiency measures. GAO is also examining DOD's system for identifying candidates for multi-year procurements and the validity of reports being submitted in response to Public Law 97-86 section 917, referred to as the Nunn amendment.

Supplementary discussion of individual programs in the strategic and general purposes forces is presented in the following section.

GAO Supplemental Discussions

STRATEGIC FORCES (Pages 183 and 184)

Proposed Change

- Deployment of a new bomber (the B-1B) and development of an advanced technology (Stealth) bomber for the 1990's.
- Development and deployment of a new submarine-launched ballistic missile (which will provide better accuracy and more payload) as well as early deployment of cruise missiles on attack submarines.
- Deployment of new larger and more accurate MX missiles. These missiles will be deployed in existing fixed silos until a more survivable long-term basing system is selected and deployed.

GAO Views - Nuclear Materials and Facilities

In reviewing initiatives to develop and deploy new strategic systems, consideration must also be given to the Department of Energy's nuclear defense program and budget. The Department of Energy is responsible for developing and producing the nuclear bombs, warheads, and munitions to arm these many new Defense programs, and, in this regard impact on deployment schedules as well as their military capability. On September 25, 1981, GAO issued a report on the Department of Energy's nuclear weapons complex capability to respond to the surge in Defense requirements to meet its needs through the 1980's. Reflecting the requirements surge, GAO reported that DOE's nuclear defense budget could go from \$3 billion in fiscal year 1980 to \$6 billion in fiscal year 1984. With this renewed commitment, problems beset the program:

- Nuclear materials required to build new weapons are greater than DOE's current production capacity.
- The nuclear weapons production complex may be currently physically and technologically inadequate to meet the projected workload.

DOE has responded with initiatives to increase the nuclear material supply and to restore the weapons complex. These will require time and are optimistic.

GAO found that DOE needed to strengthen its long-range planning process, in conjunction with Defense, to help ensure the timely implementation of material production initiatives and weapons complex restoration.

(C-MASAD-81-21, September 25, 1981 - Unclassified Digest)

Contact: Bernard D. Easton - 275-4532

## GAO Views - Air Launched Cruise Missile

We believe it is questionable whether the Air Launched Cruise Missile (ALCM) can fully meet its initial operational capability in December 1982 and it appears the risk is increasing that initial operational capability may not be met with a fully operational missile. The initial operational capability milestone seems to have been the driving force in the premature completion of other milestones and has raised concern. We believe that unless this matter is resolved, ALCM could be deployed in significant numbers with operational limitations which may require costly modifications.

We have recommended that the Congress should consider funding only limited quantities of ALCMs unless the problems have been resolved, or at least minimized to the point where there is little risk that missiles with limited capabilities will be deployed in significant numbers.

Relevant GAO Report: C-MASAD-82-13, February 26, 1982

Contact: Louis J. Leporatti

## GAO Views - Sea Launched Cruise Missiles

Because of two test flight failures, the Tomahawk conventional land attack cruise missile's full-scale production decision has been delayed to May 1982 and initial deployment to June 1982. If deployed as scheduled, the types and geographical locations of targets it will be able to effectively attack will be limited. These limited attack capabilities could become critical if certain improvements are not made before the missiles are deployed in significant numbers. However, if deployed in significant numbers with its current limitations, the result could be the proliferation of missiles which cannot be fully used against a wide spectrum of high value targets.

We have recommended that Defense limit fiscal year 1983 and later year production rates of the Tomahawk conventional land attack missile to those which can be effectively used against a wide spectrum of high value targets.

Because of problems and delays in operational testing, the Tomahawk antiship missile's full-scale production decision has also been delayed to May 1982. Nevertheless, the Navy still expects to meet its scheduled initial deployment date of June 1982. Unless improvements are made, the missile's effectiveness will be limited when it is initially deployed. These limitations, in addition to the possibility of expanding the missile's target base, raise questions about the number of missiles required and the eventual cost of the program. The eventual cost of the program cannot be determined until an inventory objective is established which takes into consideration the missiles' limitations and potential additions to its target base. Accordingly, we have recommended that Defense establish a total inventory objective for the missile which is based upon its limitations and potential additions to its target base.

Since it began its development in March 1980, the Navy has repeatedly attempted to avoid funding its portion of the medium range air-to-surface program costs. This raises possible questions about the Navy's need as well as their commitment to

procure the missile. Currently, the Navy's funding is inadequate to meet the missile's initial deployment schedule. We believe that the Navy's funding pattern could delay the missile's planned deployment beyond June 1985.

We have recommended that Defense reevaluate the Navy's need for the medium range air-to-surface missile. If the need for the missile is reaffirmed, the Secretary should ensure that adequate funding is provided by the Navy to meet the missile's projected deployment date or revise the scheduled deployment date as appropriate.

Relevant GAO Report: C-MASAD-82-15; February 26, 1982

Contact: Louis J. Leporatti

GAO Views - MX Missile

There are some matters, which if not resolved in a timely manner, could adversely affect the MX program cost and schedule milestones for the first test missile flight in January 1983 and its initial deployment in late 1986.

First, there have been delays in the development and demonstration of the liquid propellant tank for stage IV of the MX missile's propulsion system. Delays have also occurred in the construction of the integrated test facility at Vandenberg Air Force Base and in the delivery of software for the test program's instrumentation and the flight safety system. Although Air Force officials have been concerned that these delays have increased the risk of not meeting future milestones, they believe the scheduled milestones will be achieved as planned.

Second, there appears to be a limited production capacity for certain critical materials needed for constructing the MX missile. These materials include ammonium perchlorate, beryllium, carbon/carbon, and nuclear materials for the warhead. One or two manufacturers exist for each of these materials and there is some uncertainty about the availability of these materials for several reasons such as other priorities, health hazards, and funding lead times.

Third, Air Force and contractor officials at Vandenberg Air Force Base have said that there is a concern over the shortage of affordable housing near the base. This could preclude contractors from being able to hire sufficient numbers of technicians to support currently scheduled MX missile and Space Transportation System launches. This concern is not unfounded, as current Space Transportation System delays have been directly attributed to the housing situation by Air Force and contractor officials.

Relevant GAO Report: MASAD-82-17, February 10, 1982

Contact: Louis J. Leporatti

President's  
Proposal - Improvements to Warning and Communications Systems

GAO Supplemental Discussions

GAO VIEWS

Warning and communications are essential parts of the command, control, communications and intelligence (C3I) systems of our strategic (and general purpose) forces. There are mission command facilities associated with surveillance, warning, information processing, communications, and intelligence systems involved in this area of C3I. They provide the connectivity between our national authorities and the nuclear commanders-in-chief.

Yet, our Nation's C3 capabilities and systems have been called by many senior defense officials the weakest link in our military posture. Without them the Nations strategic TRIAD--land-based intercontinental ballistic missiles (ICBMs), submarine-launched ballistic missiles (SLBMs), and bombers-- and tactical forces cannot be used effectively. However, the Under Secretary of Defense for Research and Engineering has stated that a strengthened, sustainable C3 capability has the "highest priority", higher than MX or the B1 bomber, among strategic modernization programs. Further, a recent National Security Directive indicated that the whole C3I area is to enjoy a resource-allocation priority at least equal to that of the "high visibility" weapon systems. Now, Strategic C3 is listed as Defense's number one priority in new and upgraded systems acquisition, with \$18 billion (in Fiscal Year 1982 dollars) to be spent over the next six years in that area alone.

The intelligence systems associated with C3I provide timely and vital information to decisionmakers. As such, they are involved in global coverage through ground, air and space sensors, and collection devices. Specific intelligence systems and their funding levels are classified; however, the funding is quite large.

Our main concerns in the strategic C3I system area are whether Defense resource allocations and expenditures for these systems: (1) are the most cost-effective, survivable, endurable and credible in terms of providing high assurance that a crisis can be deterred and/or strategic forces can be effectively used, and (2) are they providing vital information to decisionmakers and protecting U.S. communications from foreign or hostile exploitation. These concerns are based on (1) Defense's plans to spend \$18 billion over the next six years on strategic C3 and (2) the following examples of problems discovered during our work involving Defense's planning, development, and/or acquisition of strategic C3I systems:



- Program delays caused by inadequate management and the attempt to adapt inadequate computers have resulted in a warning system falling short of meeting the requirements of the growing missile warning mission. False messages have already been generated within the existing system, causing the Nation's nuclear retaliatory forces to be alerted.
- Substantial changes are needed in the program management structure before a worldwide system can be fully and effectively modified to overcome continuing problems associated with providing automated support for command and control functions. DOD anticipated 10 more years will be needed to modernize the system, as of late 1981.
- Evaluation of Defense planning to determine if their proposed funding increases are being used to improve a warning and assessment system by resolving first priority deficiencies in a timely and cost-justified manner. The recently fielded system architecture will also be evaluated to determine its consistency with national strategic policy.
- There are reservations about Defense plans for full-scale construction of a joint military satellite/space shuttle operations control facility because the operational requirements and associated costs were not sufficiently defined. Defense already estimated the cost to be approximately \$1.4 billion when the center is fully operational in 1990.
- Evaluation for the adequacy of Defense planning for a global positioning and navigation system regarding its performance, survivability, vulnerability, affordability and development, procurement, and fielding strategies.
- Defense has spent billions for its own long-haul communications system in Europe, rather than spending less money to upgrade the host country's existing postal, telephone, and telegraph system to serve Defense needs. Defense is now reconsidering this option.

Relevant GAO Reports

MASAD 81-30, May 15, 1981; MASAD-82-2, October 19, 1981;  
C-LCD-80-3, March 14, 1980; and MASAD-82-14, January 29,  
1982

Expected GAO Report

Global Positioning/Navigation, early 1983;  
Tactical Warning and Attack Assessment, early 1983.

Contact:

Clarence O. Smith, 275-1811  
Homer A. Thomson, 275-4571

## GAO Supplemental Discussions

### GENERAL PURPOSE FORCES (Page 185)

#### Proposed Change

- Production rates will be increased to provide for more rapid acquisition of a variety of new systems such as the M-1-Abrams tank, the AH-64 attack helicopter, the LAMPS MK III anti-submarine warfare helicopter, the F/A-18 Navy tactical aircraft, the F-15 Air Force fighter aircraft, and improved precision guided missiles. These new systems will provide significant increases in combat capability relative to current systems - in terms of range, survivability, and firepower.
- Selective use of multi-year contracting will allow for more efficient production rates to modernize the forces at reduced total cost. Examples include procurement of 120 F-16's annually and the multi-year procurement of the Navy C-2 carrier-on-board delivery aircraft.
- New weapons development to counter increasingly capable Soviet systems will be emphasized. An example is the Advanced Medium Range Air-to-Air Missile (AMRAAM) for use by both the Navy and Air Force.

#### GAO Views - Increased production rates of the M1 Abrams tank

DOD's proposal to increase the production of the M1 Abrams tank is based on the rationale that our forces need to be provided with sufficient numbers of modern conventional equipment in order to enhance combat capability and deter and counter Soviet aggression.

GAO has issued several reports on the M1 tank. In a recent report, we noted that the M1 has an excellent combat capability and should perform well in battle. However, the M1 tank's power train has not met the Army's durability requirement. This raises concerns about the tank's ability to sustain an action for as long as the mission may require. We concluded that until the durability requirement is met, it appears unwise to produce large numbers of these tanks. To do so before an improvement in durability is effected could create a large inventory of tanks hampered by engines that require frequent replacing and are expensive to maintain.

In GAO's view, the Congress should consider conditioning future appropriations for large production of the M1 on the power train meeting the Army's durability requirement.

Relevant GAO Reports: MASAD-82-7, PSAD-80-20; December 15, 1981 and January 29, 1980 respectively

Contact: Hyman Baras - 275-4577

#### GAO Views - Accelerating the AH-64 production rate

While the AH-64 does offer greater capability than the AH-1 Cobra, the program still faces considerable risks in production cost, technical, and logistic support

areas. The revised fiscal year 1982 budget restored the production rates reduced by the previous administration for the AH-64. Accelerating the production schedule beyond the restored level to minimize production costs may not be prudent at this time because it could aggravate the program's risks.

The AH-64 seems to be following a similar pattern that other Army systems have, namely, considerable cost growth upon entering production, stemming mainly from poor production risk assessments or unrealistic projections of the manufacturing processes. In November 1981, AH-64 procurement costs increased substantially, which caused an affordability problem. The Army, in attempting to hold costs down, reduced aircraft quantities from 536 to 446, and accelerated the production schedule. After these changes, procurement unit costs were still over 40 percent greater than reported in the September 1981 Selected Acquisition Report. As the AH-64 makes the transition into production, problems could arise resulting in higher production costs. The Army has identified several risks associated with contractor production readiness. Perhaps the major concern is the prime contractor's decision to move the AH-64's final assembly plant to Mesa, Arizona. This decision poses risks regarding constructing the facilities on time, and attracting the work force with the skills necessary for the final assembly plant.

The target acquisition sight (TADS), which gives the AH-64 the capability to engage targets at night and in limited adverse weather, still has technical problems to overcome. It has not demonstrated good reliability, averaging only 20 hours between failures during recent operational testing compared to a requirement of 100 hours between failures. TADS' development schedule has experienced several delays, and the sight is undergoing substantial changes in electric components and the laser range finder/designator. Flight testing of the TADS with the new components will not be completed until March 1983. The improved performance anticipated from the AH-64 in night and adverse weather conditions is still to be proven.

How well the AH-64's automatic test equipment will be able to support the aircraft is still in doubt. Little testing has been conducted on the onboard fault detection and location system, which triggers unscheduled maintenance actions. The automatic test station, which diagnoses aircraft components at division and corps levels, uses a computer system that has proven to be unreliable and not maintainable in a field environment. Development and testing of the station is not planned to be completed until 1984. The successful operation of both the onboard detection system and the automatic test station is critical to the AH-64's maintainability in the field.

Relevant GAO Reports: MASAD-82-8, MASAD-82-5, C-MASAD-81-1; December 1, 1981, October 20, 1981 and February 12, 1981 respectively

Contact: Hyman Baras - 275-4577  
Paul Francis - 275-4672

GAO Views - New weapons development to counter increasing capable Soviet systems will be emphasized. An example is the Advanced Medium Range Air-to-Air Missile.

There is a need for improved friend or foe identification systems if AMRAAM's beyond visual range capability is to be used effectively. In addition, high speed, high altitude targets should be developed to fully assess the missile's performance.

Stability of funding by Air Force, and Navy, is critical to success of this development program.

Relevant Reports: C-MASAD-81-6, C-MASAD-81-17; February 23, 1981 and August 4, 1981 respectively

Contact: James H. Forsberg - 275-4686

GAO Views - New weapons development to counter increasingly capable Soviet systems will be emphasized.

The Division Air Defense (DIVAD) gun is being developed to counter the armed helicopter and fixed-wing air threat to Army divisions. A production decision is currently scheduled for the Spring of 1982 although some important tests and evaluations of system durability and logistics supportability will not be conducted until after the production decision.

The Army's acquisition strategy for DIVAD is unique in its low level of monitoring of the contractors' activity. Contractor prototypes tested in mid-1980 proved to be unexpectedly immature in their technical development. The benefits of this acquisition strategy are still unclear.

We believe DIVAD's production should be delayed to permit completion of durability and mobility testing, and to provide evaluators more information and time to assess DIVAD.

Relevant Reports: C-PSAD-80-9, C-MASAD-82-7; January 31, 1980 and February 26, 1982 respectively

Contact: Hyman Baras - 275-4577

GAO Views - F/A-18 Navy Tactical Aircraft

The Navy is considering several F/A-18 program cost reduction initiatives which they believe could result in a net estimated cost savings of \$1.2 billion to \$4.6 billion. The possible cost reduction initiatives include breakout of contractor furnished equipment, second sourcing, multi-year procurement, economic initiatives, and production or technology modernization. Economic initiatives include maximum progress payments, spares-acquisition-integrated-with-production, and economic production rates. As of November 1981, most of these initiatives were still being discussed, and little, if any, savings had been accomplished.

In a February 1981 F/A-18 report, GAO recommended that during fiscal year 1982 budget hearings, the Secretary of Defense should identify the production cost estimates associated with higher and lower production quantities then requested for fiscal year 1982, including the most efficient and economical production rate. The yearly F/A-18 production rate significantly affects F/A-18 program and unit costs. Economies of scale is an important factor.

According to the Navy, the increase in procurement quantity from 48 to 60 F/A-18s for fiscal year 1981 resulted in a 5 percent reduction in F/A-18 unit flyaway cost. However, the number of F/A-18s which will be procured in each production year remains uncertain. The F/A-18 program continues to have various procurement alternatives for the initial production years which extend through 1986.

This uncertainty in actual procurement quantities does not allow contractors time to adequately plan for the long term procurement of raw materials and components necessary for future production. Long term procurement helps contractors avoid long production leadtimes which result in schedule delays and additional program costs.

Relevant Reports: MASAD-82-20, MASAD-81-3; February 26, 1982 and February 18, 1981 respectively

Contact: John D'Esopo - 275-4587

GAO Views - Increased acquisition of the AV-8B

Currently, the approved AV-8B program plan projects an average monthly production rate of 4.5 aircraft, or 54 aircraft per year, beginning in fiscal year 1984. However, because of budget constraints this plan is likely to be revised to procure 12, 18, and 30 aircraft in fiscal years 1982, 1983 and 1984. In the February 1982 AV-8B report, GAO recommended that the Secretary of Defense direct the Navy to reevaluate the current AV-8B program to determine whether reduced annual procurement rates are in the Navy's best financial interest, and further that the Secretary should make the same determination, for the AV-8B, with regard to the defense budget.

Relevant Report: MASAD-82-19, February 26, 1982

Contact: John D'Esopo - 275-4587

GAO Views - More maintainable and reliable weapons such as the AV-8B and F/A-18 will be procured to achieve greater combat efficiency

#### AV-8B

Although design improvements and other new technological features enhance the performance of the AV-8B aircraft over the AV-8A, its mission capability may be diminished due to foreseeable problems facing the Navy's ability to adequately maintain the aircraft. Unless steps are taken to overcome known problems, the Navy will experience difficulty in adequately maintaining the AV-8B aircraft upon its delivery to the fleet. Navy officials acknowledged that limited maintenance personnel, shipboard space constraints, and inadequate logistics support may hamper the aircraft's ability to effectively perform its mission.

#### F/A-18

In February 1982, GAO reported that there is a potential shortage of F/A-18 spare parts. Navy funding for spares appears to be considerably below their needs. We found that no funds for fiscal year 1981 long-lead spares had been budgeted except \$11 million for attack peculiar spares. Further, the Navy funded fiscal year 1981 spares at less than contractor recommended levels. Additional spares will be needed due to delays in automatic test equipment.

Relevant Reports: MASAD-82-20 and MASAD-82-19, both dated February 26, 1982

Contact: John D'Esopo - 275-4587

President's Proposal - Improved Command, Control, and Communications  
Capabilities for General Purpose (Tactical) Forces

GAO Supplemental Discussion

GAO VIEW

Command and control for general purpose (tactical) forces is an essential element of today's national strategy involving conflicts with virtually infinite scenarios/threats, ranging from limited conventional conflicts to full-scale engagements and limited nuclear war. Effective command and control requires reliable and sufficient communications and intelligence, including surveillance, reconnaissance, warning, and information processing. Assets needed to successfully achieve these functions include: people, computers, sensors, radars, satellites, transmitters/receivers, and ground and airborne command posts facilities. The resulting command, control, communications and intelligence (C3I) systems are now considered to be an integral part of our theatre/tactical military posture, rather than an adjunct. The areas for this C3I include the Atlantic, Pacific, European, Southern and the Rapid Deployment Force (which include Middle East countries).

Our work in the theatre/tactical C3I area indicated that supersonic aircraft, missiles, satellites, improved radars, high-speed communications, large and small computers, and other advanced technologies have compressed the time dimension on the battlefield. Enemy and friendly forces can now bring vast amounts of firepower on various sectors of the battlefield with a speed that would have been impossible a decade ago. Therefore, in order for theatre/tactical commanders to be effective against the enemy, the related C3I systems must be totally responsive to the needs of those commanders.

We have two major concerns about Defense's capabilities to fully satisfy the needs of these theatre/tactical commanders, namely: (1) are Defense resource allocations and expenditures for the related C3I systems the most cost-effective and credible in terms of supporting the theatre/tactical forces; and (2) are the C3I systems providing the vital intelligence information to the decision-makers, in a timely fashion. These concerns, highlighted by the following example problems, evolved from our work involving theatre/tactical C3I systems and programs:

- Considerable difficulty experienced by Defense after 4 years and still \$29.4 million away from establishing a test bed to demonstrate the feasibility and combat utility of prompt coupling of data from target acquisition sensors into tactical combat situation displays and firepower systems.

- Inadequate planning and analysis of Defense officials may have resulted in selection of a new tactical radio, costing over \$1 billion, that is not cost and operationally effective and does not address the future threat (although Congress has for two years reduced program funding and requested that the radio address the future threat).
- Defense has not accepted a more cost-effective alternative system for providing anti-jam radios for tactical aircraft, although it would be technologically less complex and potentially cost as much as \$1.68 billion less than the original selection.
- Inadequate Defense planning to develop new Navy automated tactical information management systems. The total estimated acquisition cost is \$1.6 billion for just 7 of these systems, but they are not expected to achieve the operational goals well into the 1990s.
- New and stronger Defense management initiatives are needed to protect tactical communications against electronic warfare and to achieve interoperability among U.S. forces and allies in the protection mode.
- Defense has directed the military services to reduce the cost, improve performance against the enemy threat, and resolve disparate development of a joint tactical data distribution system. Our future work in this area will be dependent upon the results of Defense's new direction.

Relevant GAO Reports

LCD-80-38, C-LCD-80-11, C-MASAD-82-1; March 3, 1980, August 15, 1980 and October 29, 1981 respectively

Expected GAO Reports

Navy Plan for Development of Automated Tactical Information Management System Will Not Achieve Operational Goal (DRAFT). Report is planned for issue in April 1982.

New Management Initiatives are Needed For DOD's Efforts to Protect Tactical Communications Against Electronic Warfare (DRAFT). Report is planned for issue in April 1982.

Defense's Joint Tactical Information Distribution System (DRAFT). Report is planned to be issued in March 1982.

Contact

Howard Manning, 275-4571



Consider Life Cycle Logistics  
Early in the Weapon System  
Planning Cycle and Use Cost  
Effective Techniques to Procure  
Logistic Support

GAO Views. As part of DOD's recent initiatives to improve the weapon system acquisition process a number of actions are being implemented which should improve "integrated logistics support planning." However, we continue to find the concept is not being effectively used on all systems. Specific examples of where the economy and efficiency of logistic support could be improved are:

- Billions of dollars are spent annually for weapon systems investment spares. There is significant potential for reducing the cost of procuring these spares and improving the support of systems by using alternate procedures during the provisioning process. For example, by combining purchases of spare parts with production components for the A-10 aircraft the Air Force saved an estimated \$64 million and the Navy estimates it will save in excess of \$250 million by applying this procedure to the F/A-18 program. However, this procedure is not being widely used and the services need to evaluate its applicability to other systems.
- A number of opportunities exist to consider more economical support concepts for the M1 tank. These include adopting the convoluted cable wiring harness and using standard stocked parts whenever possible. In addition, procurement costs for the M1 tank could be decreased by using alternate procurement strategies such as phase provisioning or negotiating directly with major subcontractors for spares. Increased use of training devices instead of tanks for M1 training could reduce the number of tanks needed.
- The Navy is implementing a number of new logistics strategies to support its new class of FFG-7 guided missile frigates. There are several areas where economies can be realized. For example problems have been identified in the accurate determination of material requirements for intermediate maintenance actions, greater use of "reliability centered maintenance" may result in reduced maintenance and material requirements and crew requirements may be reduced once maintenance strategies for the class have been fully implemented.

The Secretary of Defense must aggressively follow-up on the initiatives which are being implemented to improve integrated logistic support planning during the acquisition process. Traditionally management priorities have placed greater emphasis on

cost, schedule and performance objectives. To assure that logistics planning receives equal emphasis, as called for in the Secretary's new initiatives, close review of logistics planning on a system by system basis will be required.

Relevant GAO Reports:

- 1) Less Costly Ways To Budget And Provision Spares For New Weapon Systems Should Be Used, September 9, 1981, PLRD-81-60.
- 2) Logistics Planning For The M1 Tank: Implications For Reduced Readiness And Increased Support Costs, July 1, 1981, PLRD-81-33.
- 3) Logistics Concerns Over Navy's Guided Missile Frigate FFG-7, July 7, 1981, PLRD-81-34.
- 4) F-16 Integrated Logistics Support: Still Time To Consider Economical Alternatives, August 20, 1980, LCD-80-89.
- 5) The Congress Should Require Better Justification of Aircraft For Noncombat Missions, July 22, 1980, LCD-80-83.
- 6) Operational And Support Costs Of The Navy's F/A-18 Can Be Substantially Reduced, June 6, 1980, LCD-80-65.

GAO Contact: David R. Warren - 275-3697

Industrial Base

GAO Views: It is essential to U.S. security and defensive posture that industry remain capable of quickly producing the volume of war materiel that may be needed to support national defense objectives. Department of Defense (DOD) plans for fiscal year 1983 include substantial funding increases for industrial preparedness operations.

DOD has detailed a number of actions designed to generally rejuvenate industry's capability to produce defense materiel in a variety of possible situations. These initiatives include multi-year contracting and other actions designed to improve industry's ability to compress and accelerate ongoing peacetime production.

Although GAO believes these actions are generally a step in the right direction, additional opportunities exist to improve cost effectiveness and efficiencies in this area.

What is expected of the industrial base?

A major factor in the past ineffectiveness in planning with the industrial base can be attributed to the lack of a defined role that the industrial base is to play in a future conflict. Controversy regarding the warning time, length, duration and intensity of a potential war, and associated materiel needs, has added considerably to industry's uncertainty and lack of commitment for the planning program.

In this regard, a national policy regarding expectations of the industrial base is needed. This policy would assist both DOD and industry in restructuring and focusing industrial planning efforts in light of the perceived role and resources available to achieve it.

Fluctuating requirements

In order to effectively plan, industry must know with some degree of certainty the specific types and numbers of items they will be called on to produce in wartime or emergency situations. However, widely fluctuating materiel requirements remain a major problem for the services and industrial planners alike.

The stabilization of materiel requirements for industrial preparedness planning would do much to improve the program's credibility with industry and the commitment to it.

### "D to P" planning

Prior to July 1976, the services planned their wartime materiel stockage requirements using the "D to P" concept. Under this concept, the services were to stock enough items to support combat consumption from the day on which military operations began (D-day), to the point at which industry would be able to take over and supply from production all additional combat materiel needs (P-day).

Because the services stopped using this concept when "D + 6" mobilization guidance was introduced in July 1976, the link between on-hand stocks and production response is missing. This is one of the major inadequacies of industrial readiness planning as it exists today.

In GAO's opinion the "D to P" approach, applied on a system-by-system basis, is essential to provide a balanced approach to planning, and initiatives to revitalize the planning program should address this important aspect in order to be effective.

### Relevant GAO reports

"Followup On Use Of Numerically Controlled Equipment To Improve Defense Plant Productivity" (LCD-78-427, January 17, 1979)

"If Army Helicopter Maintenance Is To Be Ready For Wartime, It Must Be Made Efficient And Effective In Peacetime" (LCD-79-407, May 10, 1979)

"Adjustments Recommended In Army's Ammunition Procurement And Modernization Programs" (LCD-80-62, June 12, 1980)

"Army Plans To Modernize The Rock Island Arsenal May Be Inappropriate" (LCD-79-418, June 6, 1979)

"Followup On The Navy's Efforts To Improve Productivity At Navy Aircraft Overhaul Depots" (LCD-80-23, December 5, 1979)

"Restructuring Needed Of Department Of Defense Program For Planning With Private Industry For Mobilization Production Requirements" (PSAD-77-108, May 13, 1977)

"New Strategy Required For Aiding Distressed Steel Industry" (EMD-81-29, January 8, 1981)

"DOD's Industrial Preparedness Program Needs National Policy To Effectively Meet Emergency Needs" (PLRD-81-22, May 27, 1981)

"Adjustments Recommended In Fiscal Year 1982 Ammunition Procurement And Modernization Programs" (PLRD-81-35, June 30, 1981)

"Potential Impediment Of Foundry Capacity Relative To National Defense Needs" (EMD-81-134, September 15, 1981)

"Need for Better Monitoring and Analysis of Foundry Data by the Department of Commerce" (EMD-82-15, November 10, 1981)

GAO contact

Mr. Michael Rahl, 275-3698

PRESIDENT'S PROPOSAL - ASSURING U.S. FORCE COMBAT READINESS

Military Exercises

GAO Views. The military services expend millions of dollars annually on Joint Chiefs of Staff (JCS) directed joint exercises. The JCS are responsible for the overall coordination of the joint exercise program. A total of \$112 million was reduced from FY82 budgeted joint exercise funds because the funds could not be expended efficiently. Increased management of the joint exercise program by JCS would improve controls over joint exercise funds and could possibly save money.

GAO issued a report on the management and execution of major joint military exercises in December, 1979. The report concluded that exercise program development procedures did not assure the program was achieving its full potential or that the exercises were being conducted in the most cost-effective manner possible, that the services' budget submissions for joint exercises were not adequately justified, and that the JCS were not fully coordinating development of the joint exercise program. One of GAO's recommendations was that the Secretary of Defense direct the JCS to assume a stronger role in developing and managing the joint exercise program, including greater coordination with the services in budgeting for the exercises.

Problems discussed in the 1979 report continued after the report's issuance, and the House Appropriations Committee reduced the services' FY82 requests for joint exercise funds. The Committee report (No. 97-333, dated November 16, 1981) cited the Administration's recommended \$79.4 million reduction in joint exercise funding and increased the reduction by an additional \$33 million. In addition, the bill as reported by the Committee transferred the transportation related funds for the individual military service appropriations to the JCS (Defense Agency) appropriation where they can be "managed, supported, and defended by the Joint Chiefs of Staff."

GAO believes greater JCS involvement in the joint exercise program's development and management, if fully implemented, will result in more beneficial exercises and a more cost-effective joint exercise program, and may result in a less costly exercise program overall.

Relevant GAO Reports

"Improving The Effectiveness of Joint Military Exercises--  
An Important Tool For Military Readiness." (LCD-80-2, dated  
December 11, 1979)

Point of Contact

David R. Martin, 275-3663

PRESIDENT'S PROPOSAL - MOBILITY AND CAPABILITY IN REMOTE AREAS

Rapid Deployment Force

GAO views. The Department of Defense (DOD) has placed increased emphasis on deploying and supporting military forces to distant areas--particularly the Persian Gulf region--to protect U.S. and allied interests and sources of oil. To improve U.S. capabilities to project military forces to such remote areas, DOD has focused priority attention on developing the Rapid Deployment Force (RDF), improving U.S. mobility capabilities (airlift, sealift, and pre-positioning), gaining access to regional facilities, and maintaining a permanent peacetime military presence in potential trouble spots.

GAO has issued a number of reports over the last several years on DOD's efforts to improve U.S. power projection capabilities. Some recent GAO reports, for example, have highlighted concerns and questions about the newly created Rapid Deployment Force. Other GAO reports have discussed various aspects of DOD's plans to improve airlift and sealift capabilities. In September 1980 GAO reported to the Secretary of Defense that major issues needed to be resolved before the reengining of the KC-135 aircraft continued. GAO has also reported on DOD's progress in developing the capability to supply troops adequately if ports are not available for modern transport ships and tankers. And, GAO has identified opportunities where DOD could improve U.S. sealift capabilities quicker and at substantially lower costs.

DOD faces a formidable challenge in developing capabilities to send U.S. forces to distant trouble spots especially in those areas where the adversary has a geographical advantage. Some of the key issues that need to be examined are:

- How much will it cost to develop U.S. capabilities to respond effectively to potential crisis in remote areas?
- How can the United States and its allies share the increased defense burden associated with projecting U.S. forces to remote areas?
- Is the current U.S. military force structure adequate to take on added commitments and continue to meet traditional commitments in other parts of the world?



- Can U.S. military forces be effectively supported once deployed to remote locations?
- Will U.S. forces be granted access to regional countries' facilities in the event of emergencies?
- What is the most effective and efficient means of improving U.S. airlift and sealift assets?
- Will DOD's proposed improvements provide the capabilities necessary to counter the most demanding threats to vital U.S. and allied interests?

Relevant GAO Reports

- "Concerns and Questions About the Rapid Deployment Force" (C-PLRD-81-2, June 5, 1981)
- "Impacts of Indian Ocean Deployments" (C-PLRD-81-1, June 5, 1981)
- "Defense Can Save Time and Money By Exploring Alternatives to Construction of New Cargo Ships for the Rapid Deployment Force" (PLRD-81-55, July 27, 1981)
- "U.S. Facility Access Initiatives In Support of Southwest Asia Contingencies: Achievements and Future Challenges" (C-ID-81-8, September 15, 1981)
- "Slow Progress in Developing the Capability To Supply Troops Adequately If Fixed Ports Are Not Available For Modern Transport Ships and Tankers" (LCD-81-15, December 1, 1980)
- "The Department of Defense Should Resolve Major Issues Regarding Reengining the KC-135 Aircraft Before Continuing the Program" (PSAD-80-80, September 23, 1980)

Point of Contact

David E. Cooper, 275-3663

PRESIDENT'S PROPOSAL: EFFICIENCY AND ECONOMY IN SPENDING

Consolidation of DOD Aeronautical  
Depot Maintenance Management

GAO Views. The scope and costs of Government logistics programs have stimulated much interest on the part of the Congress and officials directing logistical systems and caused them to seek new concepts and organizational restructuring. GAO has responded to this concern and has issued reports which have focused on innovative maintenance policies and practices which we believe can be used within the Department of Defense. One of the concepts that we have addressed is the consolidation of aeronautical depot maintenance under a single manager.

The objective for assigning a single manager for aeronautical depot maintenance would be to increase efficiency and effectiveness by grouping maintenance responsibilities under a lead or integrated manager who has visibility and control over all maintenance actions. Our latest report which focused on this issue was "Aircraft Depot Maintenance: A Single Manager Is Needed To Stop Waste," LCD-78-406 dated July 12, 1978. We reported that the services based on their desire to be self sufficient have created, with their own assets, independent industrial complexes capable of performing virtually any kind of depot maintenance within each service. Actions designed to correct this unnecessary duplication have not created the necessary improvements. Therefore, we recommended that the Secretary of Defense should either designate or establish a single manager over aircraft depot maintenance. The Deputy Assistant Secretary of Defense took issue with our recommendation and continued to support the Joint Logistics Commanders (JLCs) in their efforts to reduce depot maintenance duplication.

In March 1980, the JLCs created the Joint Aeronautical Depot Maintenance Action Group (JADMAG) to develop and recommend actions to the services that would improve integration, coordination, and efficiency in aeronautical depot maintenance systems. The JLC also added resources and authority to their Maintenance Inteservice Support Office (MISMO).

However, in March 1981, concerns about the current DOD aeronautical depot maintenance systems resurfaced. It was then that the Deputy Secretary of Defense directed preparation of an option paper addressing the establishment of a single manager for DOD aeronautical depot maintenance. A work group made up of contractor, OSD, service, joint service staff, and OMB personnel was established to do the study.

The results of the study reported in June 1981 concluded that the quantitative information available for analysis was inadequate to support recommendations one way or the other on major changes to the structure of aeronautical depot maintenance (ADM). The report went on to state that DOD has achieved reductions in the

costs of ADM. One of the examples given was that aeronautical elements of the JLC MISMO operation are now producing documented cost avoidance by negotiating interservice depot maintenance agreements for new aeronautical hardware systems. It was the study group recommendation to have depot operations by the services with master planning by JADMAG and more interservice coordination through "beefed-up" MISMO's.

OSD did not totally agree with the study panel. While they agreed to keep the current organizational structure for ADM, it was decided that oversight should be put in a new task force chaired by the Deputy Assistant Secretary of Defense (MRA & L) and not in JLC groups. According to OSD, an important function of this Management Task Force will be to review and approve both individual and joint service plans and to take the necessary follow-up actions to achieve their goals in this important area. These goals, however, have not been spelled out nor have milestones been established for the completion of specific objectives.

We strongly believe that the success of the Task Force is tied to the immediate establishment of program goals and milestones for achieving these goals, and OSD commitment for seeing that actions are taken. If the Task Force is unable to effect the needed changes within a reasonable time, we believe that more drastic action would be warranted. In such a case DOD should implement the single manager concept without further delay.

Relevant GAO Reports:

- 1) Aircraft Depot Maintenance: A Single Manager Is Needed To Stop Waste, July 12, 1978, LCD-78-406.
- 2) A Central Manager Is Needed To Coordinate The Military Diagnostic and Calibration Program, May 31, 1977, LCD-77-427.
- 3) Management Of Department Of Defense Industrial Plant Equipment, October 5, 1976, LCD-76-407.
- 4) Use Of Numerically Controlled Equipment Can Increase Productivity In Defense Plants, July 26, 1975, LCD-75-415.

GAO Contact: Ken Hoeth, 275-4133

PRESIDENT'S PROPOSAL: EFFICIENCY AND ECONOMY IN SPENDING

Application Of The Single Manager  
Concept To Transportation

GAO Views. A unified transportation command should be established instead of allowing the three services to manage transportation separately. Studies have identified potential savings of over \$58 million annually in reduced personnel and facilities costs by consolidating two of the three services single managers. Additional one-time savings in inventory costs from increased efficiency have also been projected.

DOD has designated the Navy to be the single manager for ocean transportation (1949), the Air Force to handle airlift service (1956), and the Army to be the single manager for land transportation and common user terminals (1956). In 1970 a Blue Ribbon Defense Panel, established by the then Secretary of Defense, examined this multiservice approach to transportation. It recommended that transportation be further consolidated under a "Unified Logistics Command." Today, however, the three managers operate basically as originally established.

The House and Senate reports on the fiscal year 1980 Defense Appropriation Bill directed DOD to develop an implementation plan for consolidating the Military Sealift Command and the Military Traffic Management Command to create a Unified Military Traffic Management Agency or Command. A recently completed Harbridge House, Inc., study, which DOD contracted for in response to this congressional directive, recommended the establishment of a Unified Traffic Management Command under the Joint Chiefs of Staff.

On September 16, 1981, the Deputy Secretary of Defense approved a plan by the Joint Chiefs of Staff to consolidate the Military Traffic Management Command and the Military Sealift Command. The target for this consolidation is October 1, 1982. Recent developments, however, indicate some footdragging on the issue by the Army and Navy. Neither seems ready to relinquish its prior responsibilities. Accordingly, the House Armed Services Committee has scheduled hearings on the proposed consolidation on March 18, 1982.

DOD is clearly working on the problem. The proposed consolidation is certainly a positive step toward centralized traffic management and GAO intends to monitor the progress being made in this area.

Relevant GAO Reports:

- 1) Centralized Department of Defense Management of Cargo Shipyard in Containers Would Save Millions and Improve Service, November 8, 1977, LCD-77-227.

GAO Contact: Henry Connor, 275-4141

Consolidated Use Of Wholesale  
And Retail Inventories

GAO Views. Since 1974 we have been emphasizing the need to maintain visibility and interchangeability of stocks held both at major depots (wholesale levels) and at using installations (retail levels), such as shipyards, bases, and operating activities. This concept--vertical management--has the advantage of reducing total inventory investment and obtaining better use of assets.

Vertical management requires that a single inventory manager (located at the inventory control point) maintain ownership and asset visibility of inventory at both the wholesale and retail levels. This contrasts to horizontal or multiple management which provides that inventory at the wholesale level is owned and controlled by wholesale managers while the same type inventory located at the retail level is owned and controlled by the retail manager--in essence there are two managers.

Without vertical management the wholesale managers lose visibility over assets and as a result stocks may be requisitioned unnecessarily, repaired when not needed, or repositioned incorrectly. For example, in past studies GAO has reported that:

- the Air Force was spending unnecessary millions of dollars to repair parts when more than sufficient quantities were already available. We first reported this finding in 1964 and the Air Force Audit Agency has repeatedly confirmed that millions of dollars can be saved if appropriate inventory management is applied.
- the Army could save some \$18 million by using serviceable parts which were then in overstock, instead of repairing them, based on tests conducted at just two Army depots.
- the Navy had purchased parts valued at \$5.3 million, while the Philadelphia Naval Shipyard had \$11 million of identical items on stock excess to its needs.

Savings and other benefits realizable from vertical management are in the areas of higher material readiness, reduced investment in safety levels, and avoiding unnecessary billing and invoicing between wholesaler and retailer.

In January 1981, we reported that the Navy could reduce supply support for combat ships, and also enhance readiness, by improved policies and practices for establishing and maintaining stock levels. Savings--\$137 million. Also, in January 1981, we reported that the Army, through improved retail inventory management, could save \$126 million. In August 1981 we reported that the services could reduce their dependency on safety level stocks by, among other things, using more intensive management techniques.

Relevant GAO Reports:

- 1) Logistics Managers Need To Consider Operational Readiness In Setting Safety Level Stocks, August 10, 1981, PLRD-81-52.
- 2) Opportunities Still Exist For The Army To Save Millions Annually Through Improved Retail Inventory Management, January 19, 1981, LCD-81-16.
- 3) Supply Support Costs Of Combat Ships Can Be Reduced By Millions And Readiness Enhanced, January 15, 1981, LCD-81-9.
- 4) Navy Has Opportunities To Reduce Ship Overhaul Costs, June 17, 1980, LCD-80-70.
- 5) The Army Should Use Available Serviceable Parts To Avoid Repairs, January 31, 1979, LCD-79-205.
- 6) Air Force Continues To Repair Parts When Serviceable Parts Are Available, June 7, 1977, LCD-77-202.

GAO Contact: Henry Connor, 275-4141

Multiyear Contracting

GAO Views

A multiyear contract is a commitment by the Government to purchase services or supplies from a contractor for a period extending beyond the fiscal year in which the contract is made. It is a long-term arrangement where the parties are released from their mutual obligations only upon termination of the contract.

The GAO maintains that multiyear contracting is a viable acquisition method which could reduce procurement costs and should be used therefore where feasible and applicable.

One of the greatest advantages in using multiyear contracting is the potential for savings in contract prices and administrative costs. With regard to contract prices, the contractor who holds a multiyear contract is able to spread his planning, startup, and other preproduction costs over a longer period of time, and more opportunity for increased efficiency and productivity should exist over this extended period. GAO conducted a study in 1977 which included an evaluation of instances where multiyear contracting was introduced into certain Defense Logistics Agency and Air Force procurements. The resulting report (PSAD-78-54; January 10, 1978) identified annual savings of \$3 million, or about 20 percent of 26 multiyear contracts valued at \$14 million, exclusive of any administrative cost savings. Although not identified in this analysis, administrative costs would also be saved by eliminating costs attributable to repetitive soliciting and evaluating bids and awarding the contract.

Another advantage often cited by Federal agency and contractor personnel is that multiyear contracting could lead to increased competition for Government contracts. Many officials feel that with a longer time period for investment amortization allowed by the multiyear contract, a larger number of contractors, including small and minority-owned businesses, would be encouraged to compete for Government contracts. Today, the uncertainties of future business inherent in the annual procurement process discourage such businesses from competing for Government contracts because they are reluctant or unable to make capital investments they have no assurance of recovering. Multiyear contracting could remove much of this uncertainty.

Still another advantage which has been repeatedly cited is that the quality of contractor performance and service should improve. Contractor performance may be improved by reducing the uncertainty of continued Government business; providing continuity in the delivery of recurring service and supply needs; and enabling the contractor to maintain a stable, well trained work force.

Multiyear contracting should not be used for every procurement. We believe that the following three criteria should exist in any multiyear contract situation:

- there will be a continuing requirement for the supplies or service consistent with current plans for the proposed contract period;
- the furnishing of such supplies or services will require substantial initial investment in plant or equipment, or the incurrence of substantial contingent liabilities for the assembly, training or transporting of a specialized work force; and
- the use of such a contract will promote the best interests of the United States by encouraging effective competition and promoting economies in operation.

DOD has identified several potential candidates for multiyear contracting and provided Congress with justification material for 4 multiyear procurements planned for fiscal year 1982. GAO is currently reviewing DOD's implementation of its enhanced multiyear contracting authority and analyzing the suitability of DOD proposed candidates for multiyear contracting.

Work to date suggests that DOD's data base of fiscal year 1980 multiyear contracts is significantly overstated due to coding errors. This suggests that there has been much less experience with multiyear contracting at the operational level than previously believed.

We agree that it will take some time to fully implement multiyear contracting. We have some reservations as to whether DOD will achieve its savings goal forecast for this approach in those instances where competition is not expanded. We believe it will be 3 to 4 years before we have a meaningful assessment of the approach.

Relevant GAO report: "Federal Agencies Should Be Given General Multiyear Contracting Authority for Supplies and Services." (PSAD-80-54 January 10, 1978)

Contact: Robert T. Bontempo, 275-3794.



PRESIDENT'S PROPOSAL - EFFICIENCY AND ECONOMY IN SPENDING

Single Manager for Conventional Ammunition

GAO Views. The Department of the Army has reported cost savings and avoidances of about \$400 million since 1977 through partial implementation of the single manager concept for conventional ammunition management. These benefits were achieved in the absence of complete ownership and control over wholesale inventories, and no control and minimal visibility over retail inventories. They involved reallocating excess ammunition among the services, production consolidations and less expensive transportation than requested by the services.

GAO believes the single manager concept for ammunition is sound and if fully implemented as originally envisioned by GAO and DOD, peacetime ammunition management will be more efficient and economical, but more importantly, greater central control over inventory management should enhance military readiness by improving Defense-wide logistics support in the event of war. The current system falls far short of what is needed. There is a need to expand the single manager's authority and responsibility in ammunition management and to strengthen the single manager's position in the Department of Defense Structure.

In 1979 GAO reported that much progress has been made since the Secretary of the Army was designated single manager for conventional ammunition in the Department of Defense. The report discusses deficiencies in the current system, identifies managerial and organizational changes needed to fully implement GAO's 1973 recommendations, and made some additional recommendations to strengthen the single manager organization.

In November 1981, the Department of Defense issued a new directive intended to improve the single manager's role. Although this directive made some changes, it failed to assign the single manager the responsibility and authority needed to effectively manage this area.

Relevant GAO Reports

"Effective Central Control Could Improve DOD's Ammunition Logistics" (B-176139, December 6, 1973)

"Centralized Ammunition Management--A Goal Not Yet Achieved" (LCD-80-1, November 26, 1979)

"Adjustments Recommended In Fiscal Year 1982 Ammunition Procurement and Modernization Programs" (PLRD-81-35, June 30, 1981)

GAO Contact. Raymond Dunham, 275-3663

## PRESIDENT'S PROPOSAL - EFFICIENCY AND ECONOMY IN SPENDING

### Contracting Out -- OMB Circular A-76

GAO Views. In 1955 the then Bureau of the Budget established a national policy of "contracting out" to the private sector for commercially available goods and services used by the Federal Government, including the Department of Defense (DOD), as opposed to providing them "in-house" using Government personnel and facilities. Since then, the policy has been a subject of controversy involving the Congress, departments and agencies, industry, and Federal labor unions. Private sector firms, for example, view in-house performance as multibillion dollar Government competition with private enterprise, and Federal unions view contracting out as uneconomical and a threat to the jobs and financial security of affected civil servants.

The policy is currently stated in Office of Management and Budget (OMB) Circular A-76, revised March 29, 1979. It provides, when private performance is feasible and no overriding factors such as military necessity require in-house performance, that a rigorous comparison of contract versus in-house costs be used to determine the most economical source of performance--contract or in-house.

Circular A-76 requires agencies to inventory their commercial and industrial activities and establish schedules for their periodic review. When appropriate, cost comparisons must be conducted to determine the most economical source of performance--contract or in-house.

#### The DOD Commercial and Industrial-type Activities (CITA) Program

The DOD has established a CITA program to implement Circular A-76. It currently operates over 15,000 commercial and industrial-type activities at an estimated annual operating cost of about \$17 billion.

To date, DOD has conducted more A-76 cost comparisons than any other Federal agency. About 60 percent of the comparisons show that it is more economical to convert in-house activities to contract arrangements.

Between April 1978 and October 1980, DOD converted over 200 activities of a commercial or industrial nature from performance by DOD personnel to performance by private contractors. The conversions involved a wide assortment of functions, ranging from individual types of services (laundry and drycleaning; keypunch; custodial; food; guard; maintenance of facilities, motor vehicles or aircraft; aircraft fueling; etc.), to total installation support for a number of services, to the operation and maintenance of whole installations, such as radio transmitting sites. The conversions eliminated about 7,800 employee positions in the 200 activities and are expected by DOD to result in an estimated cost advantage to the Government of about \$130 million over a 3-year period. Many other studies resulted in the activities remaining in-house, but with fewer personnel spaces resulting from the use of more efficient and cost effective organizations.

### Congressional policy and recurring restrictions

The Congress has expressed concern about implementation of the contracting-out policy in DOD. For example, in fiscal year 1978, the Congress placed a moratorium on the contract conversions of many base operating support services. In fiscal year 1981, it authorized conversions subject to certain specified restrictions. In part, these restrictions precluded conversions (1) to circumvent any civilian personnel ceiling, or (2) unless the Secretary of Defense certified to the Congress that the Government's costs were based on the most efficient and cost effective organization for in-house performance. DOD considers these provisions permanent law.

The overall management of DOD's personnel resources is governed by a congressional policy that DOD convert higher cost forms of manpower (military, civilian, or contract) to lower cost forms of manpower, when consistent with military requirements. The policy is stated in Section 502 of DOD's Appropriation Authorization Act, 1975. Although expressed in 1975, it continues to mandate consideration by the Secretary of Defense. The legislative history of the act provides some evidence that, in determining relative costs, DOD will follow the cost comparison guidelines of Circular A-76 to achieve the desired objective.

### The GAO position

Current DOD activities under Circular A-76 provide an opportunity to reduce overhead and personnel costs. All DOD in-house activities are scheduled for review by September 1985.

Although Circular A-76 is controversial, and the procedures established to implement it have not been totally accepted by many interested parties including GAO, this office does support the general policy precepts it sets forth.

Relevant GAO Reports. PLRD-81-58, PLRD-81-19, PLRD-9, PSAD-81-4, PSAD-80-79, PSAD-78-118

Contact: Warren Nagel, 275-4293

Consolidate Common Base Support Functions

GAO Views. DOD spends about \$12 billion per year on base operating support functions such as trash collection, civilian personnel administration, and real property maintenance. This cost can and should be reduced.

Three methods of accomplishing this are available. These are the Defense Retail Interservice Support (DRIS) program, which seeks to consolidate support functions among closely located military bases; the Commercial Industrial-Type Activities program, which seeks to contract for support services from commercial enterprises; and, the individual services intraservice support programs which seek to consolidate support functions between bases or facilities of the same service.

The DOD has taken several actions to realize the significant cost savings which are available through consolidation of base support functions. For example, DOD has set a base support consolidation savings goal of \$30 million per year for fiscal years 1983-1987 and is developing a program to create incentives for local commanders to aggressively search out opportunities to reduce base support costs. Some of the incentives being considered include developing a simple rent system similar to Defense industrial funds which would reveal to the commander the true cost of base support and allowing commanders to realize a small profit from savings through consolidation. In addition to these efforts DOD recently claimed projected cost savings of \$200 million through other consolidation actions.

We believe the management initiatives being undertaken by DOD in this area represents important progress in assuring efficient and economical base support operations and we will closely monitor these initiatives as implementation plans are developed. However, it should be recognized that the annual saving goal of \$30 million represents less than one percent of DODs annual base support costs. Consequently, we believe opportunity exists for even larger savings goals. Continued aggressive management actions and high level attention is necessary in order to achieve the major savings which are available.

Relevant GAO reports:

- 1) Consolidating Military Base Support Services Could Save Billions, September 5, 1980, LCD-80-92.
- 2) Factors Influencing DOD Decisions To Convert Activities From In-House To Contractor Performance, April 22, 1981, PLRD-81-19.

GAO Contact: David R. Warren - 275-3697

INCREASE IN SECURITY ASSISTANCE FUNDING  
FOR BASE RIGHTS AND FACILITIES ACCESS AGREEMENTS

GAO Views

The administration proposes that funding increases will be required in security assistance programs partly because of the need to increase compensation to friendly countries that provide bases or facilities access for U.S. military forces. A number of agreements will be renegotiated during 1983.

GAO has recently issued two reports that pertain to base rights agreements with other nations. Both reports point out the limits of U.S. forces' contingency access to host nation facilities--even with firm agreement, U.S. use is subject to the consent of the host nation for the timing and purpose of that use. Although it may be unrealistic to expect guaranteed access in all cases, the U.S. should have adequate assurances that justify the significant compensation the U.S. pays for the facilities as a normal part of these agreements. The State Department and DOD should be able to provide these assurances--or specify the limitations--based on assessments made during agreement negotiations.

We are planning work during the next year to look at this and other aspects of U.S. base rights activities. Agreements with Spain, Greece, and Portugal must to renegotiated in the coming year and a number of important and interesting issues must be resolved in those negotiations.

Relevant GAO Reports

The Defense and Economic Cooperation Agreement--U.S. Interests and Turkish Needs (C-ID-82-2, Jan. 6, 1982)

U.S. Facility Access Initiatives In Support of Southwest Asia Contingencies: Achievements and Future Challenges (C-ID-81-8, Sept. 15, 1981)

GAO Contact

Neal P. Curtin, 695-1713

SECURITY ASSISTANCE PROGRAM--INCREASE  
IN THE ECONOMIC SUPPORT FUND

GAO Views

The administration proposes increases in the Economic Support Fund (ESF) to provide assistance to countries with unstable economies threatened by outside intervention.

GAO has issued several reports concerning the ability of AID and recipient developing countries' capabilities to efficiently and effectively absorb the amount of U.S. financial economic aid. We have noted limited planning and program monitoring by AID, and the often limited capabilities of the host government to absorb the increased finances and technology. We have expressed concern on whether the mechanisms for administering development assistance programs provide for adequate congressional oversight and we believe that this concern also applies to ESF projects.

Relevant GAO Reports

Meeting U.S. Political Objectives Through Economic AID In The Middle East and Southern Africa (ID-79-23, May 3, 1979)

U.S. Efforts To Educate And Train The Poor In Developing Countries (ID-80-18, May 5, 1980)

U.S. Assistance To Egyptian Agriculture Slow Progress After Five Years (ID-81-19, March 16, 1981)

Management Problems With AID's Health Care Projects Impede Success (ID-81-24, April 26, 1981)

GAO Contact

Thomas Schultz, 275-5790

INCREASES IN DIRECT CREDIT LOANS FOR  
FOREIGN MILITARY SALES

GAO Views

The administration's fiscal year 1983 proposal to increase the use of direct credits follows the same proposal made in fiscal year 1982. The rationale behind the program remains unchanged:

- to provide military equipment through loans at variable interest rates geared to a recipient's ability to absorb the debt and repay the U.S., and
- to provide military assistance in exchange for access to bases and facilities.

The administration is proposing \$2.8 billion in fiscal year 1983 for direct credit loans for Foreign Military Sales (FMS). In fiscal year 1982, the Congress rejected the administration's request for \$938 million in direct credits for nineteen countries because of the impact direct credits have on the budget (i.e., to increase it). Although it approved a separate \$500 million of forgiven credits for Israel, Congress followed its traditional preference of using off-budget guarantees rather than on-budget credits. It disapproved direct credits for all countries other than Israel and Egypt which received an additional \$250 million of forgiven credits; reduced the total FMS package for the nineteen countries by \$44 million; provided \$138 million as grant; and increased guaranteed loans for these countries by \$549.6 million.

What is the impact of the congressional alternative?

Our analysis of the ability of countries to repay guaranteed loans at market rates given their present and projected debt servicing capabilities disclosed that the congressional alternative is less responsive to the economic plight of the poorest recipients than the Administration's proposal. For example, for fiscal year 1982, Turkey will now receive \$343 million in guaranteed credits and \$57 million in grants and Sudan will receive \$75 million in guarantees and \$25 million in grants. If the Administration's proposal had been approved, Turkey and Sudan would have received assistance packages having a grant element of \$187 million and \$75 million respectively. The increased levels of guaranteed credits at market rates will cause these two countries to have extreme problems making payments on these loans.

Turkey is and will be struggling to escape a debt service burden that already has resulted in four debt reschedulings with the United States and European creditors. These reschedulings allowed Turkey to postpone interest payments on debt owed to the United States between July 1, 1978, and June 30, 1983. After 1985, principal and interest payments will cluster as both rescheduled and long term debt payments fall due. The interest charges

on this military debt will only exacerbate Turkey's debt servicing problems.

Sudan, like Turkey, simply does not appear able to make payments on present debt obligations and, therefore, severe problems will arise when Sudan assumes additional debt on any terms, especially a military debt having no economic payback. In 1981, Sudan could not make scheduled payments of \$365 million because exports earning were only \$575 million. The U.S. offering of \$75 million in new credits at high interest rates to a country as bankrupt as Sudan is unrealistic.

If Congress changes the administration's financing proposals for the fiscal year 1983 foreign military sales program as it did for fiscal year 1982, guaranteed loans to many foreign governments for military procurement at market rates will adversely impact on the country's ability to absorb the debt and repay the United States. Also, for the above reasons, sufficient funds at variable interest rates will not be available to allow successful renegotiation of base rights and facilities access agreements.

What are the budget implications  
of using more guaranteed credits  
rather than direct loans?

GAO has consistently opposed the off-budget approach involving guaranty programs. These programs often fall short of their objectives because the high interest charges only increase the financial burdens of the users. The Turkish and Sudanese examples are evidence that these problems exist in the FMS program. Moreover, medium and long term implications of the off-budget approach needs to be considered by the Congress. Guaranteed credits are backed by the full faith and credit of the United States and the funds appropriated to the Guaranty Reserve Fund. Since 1975 guaranteed FMS loans covered by the fund have grown from a negligible sum to over \$16 billion.

The Congress appropriated 25 percent of the annual FMS guaranty program to capitalize the Fund until fiscal year 1975 when it reduced the required appropriations to 10 percent. In December 1980, Congress eliminated the appropriations requirement completely.

With the cash balance of the Guaranty Reserve Fund falling from a 1980 high of \$1,170 million to a projected \$860 million by the end of fiscal year 1983 and with additional defaults likely, the Fund is probably already over extended. Although the Fund's cash balance is decreasing, the amount of guaranteed loans which the Fund is expected to cover is increasing to the point where the Fund balance is equal to only 6 percent of the loans guaranteed.

If Congress alters the administration's proposal through fiscal year 1987 along the lines of the fiscal year 1982 program, it will approve \$10 billion in new guaranteed loans to countries the Administration believes cannot repay these loans at Federal Financing Bank interest rates (i.e., market rates). Adding the \$3 to \$4 billion of



annual guaranteed loans to low and medium income countries which is also being proposed by the administration, the inescapable conclusion is that something drastic must be done if the Guaranty Reserve Fund is to avoid bankruptcy. Replenishment appropriations and other adjustments will be required.

Relevant GAO Reports

Review in progress, report expected to be issued in August 1982.

GAO Contact

Louis Zanardi, 695-1713.

**CONTROLLING FEDERAL CREDIT**

**President's Proposals Addressed:**

Rural Electrification and Telephone  
Revolving Fund Loan Authorization  
Rural Housing Loan Program  
Federal Housing Administration Credit Limits  
GNMA Mortgage-Backed Securities Credit Limits  
SBA Direct Business Loans

President's  
Proposal - REDUCTION IN RURAL ELECTRIFICATION

ADMINISTRATION (REA) DIRECT AND GUARANTEED LOANS

GAO Supplementary Discussion

GAO Views: GAO has issued two reports on REA in 1980. The latest report issued on November 28, 1980, stated that electric generation and transmission cooperatives could need from \$12-16 billion in capital financing by fiscal year 1990 and that without a change in present policies, nearly all of this financing could come from the Federal Government. This is because the Federal Financing Bank, which is a wholly owned Government corporation that receives its funds from the U.S. Treasury, is being used to fund almost all the loans REA guarantees for electric generation and transmission cooperatives.

GAO recommended that REA require borrowers to rely more on the private sector for their financial resources. GAO pointed out that alternative credit sources were available and recognized that such financing could involve somewhat higher interest rates. However, GAO expressed the belief that greater reliance on private credit is needed to (1) avoid placing a major burden upon the U.S. Treasury, and (2) help ensure that power supply systems have an alternative source of credit in the event the Government is unable or unwilling to fund the cooperatives' increasing capital requirements.

GAO also stated that if the private credit sector became more involved in REA's guarantee program, then the law should be changed to (1) reduce the percentage of REA's loan guarantee to something less than 100 percent and (2) permit REA to charge a loan guarantee fee. With the 100 percent loan guarantees now authorized by law, private lenders would not be exposed to risk and thus the normal incentives for them to carefully evaluate the applicant's prospects and provide adequate loan servicing would be absent. GAO believes the guarantee fee is needed to fund a reserve for losses.

In its May 30, 1980, report, GAO stated that many rural electric distribution systems continue to need REA subsidized loans and that some may need even more assistance to help them charge electric rates comparable to those of their urban counterparts. But GAO stated that other electric distribution systems now assisted by REA subsidies could qualify for and obtain long-term credit at reasonable rates and terms from other sources and still charge comparable electric rates. The problem is that REA needs criteria to (1) identify financially sound electric distribution systems able to qualify for non-REA credit and (2) determine whether such distribution systems need subsidized loans to charge reasonable electric rates. In addition, GAO found

that REA's loan-making criteria do not adequately correlate the type and/or amount of subsidized loans REA will provide with the borrower's needs. As a result, borrowers that have high costs, which generally lead to higher electric rates, can receive the same subsidy or even less than borrowers with low costs and rates. GAO recommended that REA develop criteria to address these problems.

GAO also reported that many REA distribution borrowers had low equity levels which hinders their ability to obtain private credit. GAO said that REA could do more to encourage borrowers to achieve the minimum equity levels necessary to qualify for private credit and recommended that REA (1) establish minimum equity goals for borrowers, (2) require borrowers to develop plans to achieve established equity goals, and (3) ensure that borrowers' electric rates are, where practical, sufficient to generate the income needed to meet the equity level objectives in the plans.

Relevant GAO reports: CED-81-14, CED-80-52.

Contact: Thomas J. Storm (447-6947)

President's  
Proposal - RURAL HOUSING

GAO Supplementary Discussion

GAO Views: The administration proposes to reduce the Farmer's Home Administration's (FmHA) housing programs by \$2.6 billion in 1983, a 70 percent reduction compared to 1982. Part of the administration's rationale for this reduction is that it will improve FHA's loan origination and servicing responsibilities to low- and moderate-income borrowers thus reducing the high delinquency rate.

Reducing program activity can permit more effort to be spent on loan placement and servicing responsibilities, provided corresponding reductions are not being made in FmHA county and district office staff who carry out these responsibilities. USDA's Office of Inspector General found that FmHA programs (including housing) had the same general problems--inadequate review of loan applications and inadequate review of borrowers to determine if they should be graduated to commercial credit sources. The Inspector General attributed many of these continuing problems to the imbalance between the size and complexity of FmHA programs and the size and skills of its staff. GAO concluded in a January 30, 1981 report that even if FmHA corrected program deficiencies, it would need a better balance between its staffing and program activities. This could be accomplished either by increasing FmHA staffing or reducing its lending activities.

In moving toward the administration's proposal, however, there are issues that should be more fully addressed.

First, are equitable cuts being made in both the rural (FmHA) and urban (HUD) housing programs? In the past, rural families may not have benefitted from Federal housing programs to the same extent as urban families. In March 1980 GAO reported that although rural areas contain one-third of the Nation's population and one-half of the substandard housing, they have received only about one-fifth of Federal housing support.

Another issue to address more fully is the administration's contention that these reductions are consistent with trends in mortgage markets which suggest that rural areas are adequately served by credit markets. It is not clear whether this contention is based on a thorough analysis of the private credit markets or merely on optimistic assumptions. The March 1980 GAO report noted that meeting rural housing demand beyond 1980 would be difficult because of shortages in rural mortgage credit, inadequate funds for housing assistance for low- and moderate-income families, and unavailability of affordable building sites. We are not aware of any major shifts concerning the availability of mortgage credit in rural areas since that report. In addition, even if the private credit markets are increasing service in rural areas, it is questionable that these markets would be affordable to a large portion of borrowers now being served by FmHA. FmHA statistics show that

40 percent of its borrowers for single-family housing during fiscal year 1980 had an average income under \$10,000. It is unlikely that this low-income group can attract private mortgage capital; therefore, FmHA will need to target funds more precisely than in the past.

Relevant GAO Reports: CED-81-56 and CED-80-1.

Contact: Larry A. Goldsmith, (426-1645).

President's  
Proposal - TARGETING OF FHA MORTGAGE INSURANCE

AND REDUCTION IN COMMITMENT CEILING

GAO Supplementary Discussion

GAO Views: The administration proposes to redirect FHA home mortgage insurance to serve only those segments of the housing market--such as first-time and inner-city homebuyers--who are not adequately served by private mortgage insurers. Also, as a result of targeting FHA insurance to only these groups, the administration proposes to reduce the limitation on new insurance commitments to \$35 billion for fiscal year 1983 and each year thereafter, a reduction of \$5 billion per year from the \$40 billion approved for fiscal year 1982.

Our ongoing work in this area indicates that the targeting of FHA insurance to groups such as first-time and inner-city homebuyers would probably not have a significant impact on FHA's operations in that it is generally these groups that FHA has been serving to a very large degree in recent years. Further, the \$35 billion FHA commitment ceiling proposed for fiscal year 1983 should, under existing conditions, be sufficient to accommodate expected demand. We believe, however, that the administration's arguments for these proposals raise certain fundamental issues, particularly for the future, that the Congress may want to address:

- While the \$35 billion commitment ceiling is expected to be sufficient for fiscal year 1983 under existing conditions, should interest rates drop and proposals to create several alternative financing mechanisms succeed, this ceiling may prove to be inadequate to meet the increased demand. Further, retention of the commitment ceiling at \$35 billion for future fiscal years would appear to be inadequate given a release of pent-up demand for housing, particularly among first-time home buyers, and increased home prices. If these limits are established below effective demand, how will available commitment authority be equitably allocated among lenders, builders and borrowers?
- The non-subsidized FHA mortgage insurance programs operate at no cost to the Federal Government. They are actuarially sound, user-fee supported programs. These fees not only cover losses but also pay all expenses of administering the programs. The net income is used to build up reserves and, in the case of the Mutual Mortgage Insurance Fund (MMIF), to pay dividends to homeowners upon termination of their mortgages. As of September 30, 1981, the MMIF had reserves totalling over \$2.8 billion. These funds are invested in U.S. Government securities, thus reducing the cost of borrowing to the Treasury. According to estimates projected in the FY 1982 Revised Budget, if FHA was

subjected to a constant \$35 billion commitment ceiling, the Treasury would forego savings from these investments totalling \$348 million for the fiscal years 1983 through 1986. Considering the economics of the FHA mortgage insurance programs, is it reasonable to restrict these programs at this time?

--The administration claims the commitment limit is an integral component of the President's plan to control the growth of Federal credit. The FHA mortgage insurance programs in question rely solely on private investment funds and involve no Federal dollars. In fact, investment of reserves in U.S. Government securities, as previously noted, actually reduces the Federal credit demand on the private markets. How, therefore, will a reduced commitment ceiling serve to control the growth of Federal credit?

--The argument that the private mortgage insurers have the capacity to increase their share of the market is valid. However, they are insurers, not lenders and are dependent upon the lenders for providing the mortgage funds. Conventional lenders are currently encountering difficulties in providing an affordable, steady stream of mortgage funds. During periods of mortgage credit scarcity, FHA, with the readily available secondary backing of the GNMA Mortgage-Backed Securities program, is a steady source of low-downpayment, fixed-rate loans. Considering the distress of the housing market, is there adequate justification at this time for restricting FHA's home mortgage insurance programs which serve to facilitate home sales and homeownership?

Relevant GAO Reports: GAO is currently conducting a review of the markets served by FHA and private mortgage insurers and staff is available to brief interested Congressional committees.

Contact: Steven J. Wozny, (426-1780).



President's  
Proposal - REDUCTION IN COMMITMENT AUTHORITY

FOR GNMA MORTGAGE-BACKED SECURITIES

GAO Supplementary Discussion

GAO Views: In its fiscal year 1983 budget, the administration notes its intention to reduce the fiscal year 1982 commitment ceiling for GNMA Mortgage-Backed Securities (MBS) from the \$68.25 billion already approved in the 1982 Appropriation Act to \$48 billion. For fiscal year 1983, the administration proposes to further restrict commitments under this program to a level of \$38.4 billion.

The justification for the reductions in the MBS commitment ceilings state that they are not expected to adversely affect the levels of guarantees expected to be issued in either fiscal year 1982 or 1983. The size of these reductions, however, raises some basic questions that the Congress may want to address:

- Given the large reductions in commitment authority for fiscal years 1982 and 1983 and the importance of the GNMA MBS program to the FHA and VA mortgage insurance and guarantee programs, will loan originations in these programs, even under existing economic conditions, be restricted by the proposed ceilings? Should an upturn in the housing market occur in these years, and home prices continue to increase, what effect will these reduced ceilings have on the FHA and VA programs?
- The level of commitments issued has always been greatly in excess of the level of securities actually issued. For example, in fiscal year 1980, \$63.2 billion in commitments were issued while only \$23.0 billion in securities were issued; in fiscal year 1981, the respective figures were \$42.2 billion and \$16.9 billion. These wide disparities exist since the program is designed to operate as a "market hedge" for builders and lenders, assuring them a source of financing if later needed. Reducing this "fallout" by establishing commitment ceilings nearer the levels of securities actually issued--as is proposed for fiscal years 1982 and 1983 where commitment ceilings would be established at \$48.0 billion and \$38.4 billion, respectively, with issuances expected of \$28.5 billion and \$32.0 billion, respectively--would result in no savings to the Government but would require a much more complicated allocation system to assure that commitment authority is available where it is most needed. Is such a system, with possible requirements for additional staff and regulations, anticipated?
- The GNMA MBS program operates at no cost to the Federal Government. Fees charged securities issuers cover all

expenses of administering the program and any claims. Net income is put into a reserve fund to cover possible future losses. This reserve fund--totalling approximately \$322 million--is invested in U.S. Government securities. To the extent these reserves are so invested, the U.S. Treasury reduces its credit demand on the private capital markets and borrows at a lower rate. If the commitment ceilings restrict the GNMA MBS program, won't the Treasury forego the savings from these investments?

--The administration claims that these reductions are an effort to reduce overall Federal borrowing requirements and points to the \$105 billion in outstanding GNMA securities as representing the equivalent of U.S. Treasury debt. The GNMA MBS program relies solely on private investment funds. There are no Federal dollars expended--either in the underlying FHA/VA mortgages or in the GNMA MBS--nor are there any ties to the Federal Financing Bank. In fact, as previously noted, this program actually reduces the Treasury's credit demand on the private markets. The Federal Government simply offers its full faith and credit backing, which attracts private investment capital. How, therefore, will reductions in the MBS commitment ceilings reduce Federal borrowing?

--A reduction in GNMA MBS program commitment authority probably will not decrease the overall supply of credit--and thus exert downward pressure on interest rates--unless the ceilings restrict activity in the underlying primary programs--the FHA and VA mortgage insurance and guarantee programs--and those rationed out of these markets are unable to obtain mortgage financing at all. Will the effect, therefore, be to reduce the share of credit utilized in mortgage finance?

--The administration believes that reduced commitment ceilings for the GNMA MBS program will encourage and accelerate development of conventional mortgage-backed securities programs. It would appear that the development of the conventional mortgage-backed securities market is being impeded not by the success of the GNMA MBS program but rather by the lack of uniformity in the underlying conventional loan market itself. The market is undergoing radical changes at this time, including the development of a vast array of new mortgage instruments. Until the problems are resolved and a working conventional program is developed, and particularly now considering the distress of the housing market, shouldn't there be serious concerns over restricting the one market that does offer stability and performs a countercyclical role during economic downturns?

Relevant GAO Reports: GAO is currently conducting a review of the markets served by FHA and private mortgage insurers and staff are available to brief interested Congressional committees.

Contact: Steven J. Wozny, (426-1780).

President's Proposal - TO ELIMINATESBA DIRECT BUSINESS LOANS

GAO Views: The Administration proposes to eliminate SBA direct loans beginning in FY 1983. The following table, which is based on fiscal year 1981 SBA data, illustrates the impact of this proposal on various SBA loan programs.

<u>Loan program</u>	<u>Loans made during 1981</u>		<u>Percent direct</u>
	<u>Total loans</u>	<u>Direct</u>	
General Business (7a)	26,045	3,666	14
Economic Opportunity	1,879	1,343	72
Displaced Business	88	74	84
Development Company	365	29	8
Handicapped Assistance	275	247	90
Energy	88	43	49

It is apparent that the programs most severely impacted by the budget proposal would be those which serve businesses that employ or are owned by handicapped individuals, that are owned by socially and economically disadvantaged persons (Economic Opportunity Loan Program), and that have been displaced because of a Government action.

In order for a business to obtain a direct loan, it must first be denied an SBA loan guarantee. Therefore, presumably it will be very difficult or impossible for potential direct loan recipients to obtain private sector financing.

Part of the Administration's justification for eliminating the direct loan program is that it will "reduce the number of failures of marginal small businesses that are unable to compete in the marketplace without Federal subsidies." Although GAO has never specifically addressed this point, our office did issue a report on December 8, 1980, which identified significant problems with the Economic Opportunity Loan Program.

Our report stated that Economic Opportunity Loans had not been an effective means of helping disadvantaged people start or improve their own businesses. We reported that more borrowers had defaulted on the loans than had repaid them. Also, many who paid off their loans had not remained in business. Furthermore, we found the outlook for borrowers with active loans was not good since many were in financial difficulty. We stated that if program results did not improve, congressional oversight committees should determine whether the program's objectives could be better achieved by transferring its funds to other Federal programs for disadvantaged businesses. We have not made comparable evaluations of the Handicapped Assistance and Displaced Business Loan Programs.

In addition to the above justification, the Administration has also given other reasons for eliminating direct loans including

- (1) direct loans create a competitive advantage for some small firms over others that are equally deserving, and
- (2) direct loans have a negligible effect on small businesses since less than .3 percent of small businesses had outstanding direct SBA loans at the end of fiscal year 1981.

We believe that these two justifications require some clarification. The programs most severely impacted by the budget proposal serve groups of business owners who the Congress has designated as disadvantaged relative to the general business population. Consequently, these loans are not intended to create an advantage for some firms over equally deserving firms. Therefore, the Administration should not consider the negligible effect its proposal will have on all small businesses. Rather, it should assess its impact on those disadvantaged business groups which the direct loan programs are intended to assist.

Another rationale given by the Administration for eliminating direct loans is that SBA will continue to assist

"new and/or expanding minority businesses by purchasing non-voting preferred stock and debentures of Minority Enterprise Small Business Investment Companies (MESBICs); and

new and/or expanding non-minority small businesses through guarantees of Small Business Investment Company (SBIC) debentures."

It should be noted that the Administration's budget proposes a sustained level of funding for MESBICs--\$41 million in both fiscal years 1982 and 1983 for direct purchases of debentures and preferred securities--while reducing guarantees of SBIC debentures from \$160 million in fiscal year 1982 to \$125 million in fiscal year 1983.

Relevant GAO reports: GGD-76-24 and CED-81-3

Contact: Dennis W. Fricke (632-7762)

USER FEES

President's Proposals Addressed:

Patent and Trademark Fees  
GNMA Mortgage-Backed Securities - Fees  
Recreation User Fees  
Coast Guard User Fees  
Commodity Futures Trading Commission User Fees  
Corps of Engineers Navigation User Fees

INCREASE PATENT AND TRADEMARK FEES

GAO Views - In an November 1978 report, GAO expressed concern over the declining recovery of Patent and Trademark Office cost from fixed fees established in 1965. GAO pointed out that fees had been fixed in 1965 on the basis of recovering about 74 percent of total office cost, but that by 1977 only 32 percent of total office cost were being recovered. Subsequently, Congress enacted P.L. 96-517 and authorized 50 percent recovery of application processing costs beginning in fiscal year 1983--25 percent being recovered prior to issuance of the patent and 25 percent through maintenance payments over the 17-year life of the patent. Full 50 percent recovery of application processing costs would be achieved about 15 years after the fees were instituted.

GAO agrees that it is appropriate and equitable that those who receive special benefits from Government-provided services should bear the associated costs. Increased fees will help to maintain and improve the services provided by the Patent and Trademark Office.

GAO's report did, however, recognize that increased fees may deter the obtaining of patents by independent inventors and small business concerns with limited resources. GAO believes that lower initial filing fees should be considered for these groups.

Relevant GAO Report: CED-78-163, 11-14-78

GAO Contact: John Pennington, 287-0524

President's  
Proposal - NEW AND INCREASED FEES IN THE GNMA

MORTGAGE-BACKED SECURITIES PROGRAM

GAO Supplementary Discussion

GAO Views: The administration proposes to increase the commitment authority application fee from the current \$500 per pool package of commitments to \$1,000 and to charge a fee of \$250 to new issuers of GNMA securities. The stated purpose of these fees is to generate additional revenues and to reduce GNMA's competitive advantage over private sector mortgage-backed securities programs.

GAO has several comments on the proposal. First, the GNMA Mortgage-Backed Securities (MBS) program operates at no cost to the Federal Government and with no subsidy to MBS issuers. Fees currently charged securities issuers cover all expenses of administering the program and any claims thus far. Net income (in fiscal year 1981, \$87 million) is put into a reserve fund (currently totalling about \$322 million) to cover possible future losses. The need, therefore, for increased fees is not clear.

Second, the administration is attempting to encourage the development of the private sector mortgage-backed securities program by overpricing GNMA MBS fees and thus make the GNMA program less competitive. In effect, the administration proposes to penalize GNMA for its market efficiencies, thus subsidizing the operation of the private sector programs until they can become competitive. This could also be considered an intrusion into the market system.

Most importantly, the increased fees proposed will be passed along, in the form of higher interest rates, to the FHA/VA borrowers whose mortgages make up the GNMA MBS pools. This will add another expense for these homebuyers which combined with other changes, such as the up front collection of premiums on FHA loans, may disqualify many moderate-income buyers.

Relevant GAO Reports: GAO is currently conducting a review of the markets served by FHA and private mortgage insurers and staff members are available to brief interested congressional committees.

Contact: Steven J. Wozny, (426-1780).



President's Proposal - Recreation User Fees

GAO Supplementary Discussion

GAO Views The President's has proposed increasing entrance fees at Federal recreation areas and expand the number of areas where fees are charged. The increased receipts, projected to more than double the 1982 figure, are to be used by each agency to finance recreation projects of that agency.

GAO estimated, in a report issued on October 10, 1980, that to correct health and safety deficiencies, the National Park Service (NPS), Department of the Interior; and Forest Service, Department of Agriculture; would have to spend about \$1.6 billion and \$109 million, respectively. Because these figures greatly exceed annual construction appropriations, we recommended that the Congress repeal section 402 of Public Law 96-87 (93 stat. 666) (which froze entrance fees at their January 1979 level) to permit the Park Service to increase entrance fees and direct that the Park and Forest Services use funds resulting from increased entrance and camping fees for health and safety projects in the parks and forests where they are collected.

We also recommended that the Secretaries of Agriculture and the Interior negotiate with concessioners to have them make health and safety improvements on facilities they own or manage.

Relevant GAO Reports: CED-80-115, CED-80-102, CED-81-88,  
and CED-81-135

GAO Contact: Roy J. Kirk, 376-8212

U.S. COAST GUARD

(DEPARTMENT OF TRANSPORTATION)

Supplementary GAO Discussion

GAO Views. In an April 1980 report, GAO recognized the Coast Guard's inability to meet its legislative responsibilities with its limited resources. GAO identified serious problems with the number and condition of the Coast Guard's vessels, the number and experience of its personnel, and the condition of its shore facilities. Estimates of future needs show the need for substantial increases in funds to provide additional vessels and personnel to meet the Coast Guard's increased duties. GAO provided 5 alternatives for the Senate oversight committee to consider, considering that funds might not be available. One alternative was to charge users for Coast Guard services.

GAO agrees with the Administration's proposal to establish fees to recover the cost of Coast Guard services. Such fees could be used to help cover the costs of operating the Coast Guard at the current level of services it provides. Given its large future needs, the fees could also be used to finance some of the vessel and personnel needs the Coast Guard has projected.

GAO's April report did, however, recognize certain disadvantages or difficulties in implementing a user charge system:

- Mariners requiring assistance at sea may hesitate to contact the Coast Guard if they know they are to be charged for services performed. As a result, mariner safety may be jeopardized.
- The users of some Coast Guard services--radio navigation services, aids to navigation, law enforcement, etc.--may be difficult to identify and it may be difficult to establish equitable charges for some services.
- Costs to implement and administer a user charge system (billing and collection, rate revisions, etc.) could be costly. Also, collection of charges may be a protracted and difficult task.

GAO believes the potential disadvantages or difficulties outlined should be taken into consideration in extending the user charge concept to the various Coast Guard programs.

GAO is currently assessing the appropriateness of user charges for a variety of Coast Guard services and will be completing its review later this year.

Relevant GAO Reports: CED-80-76

GAO Contact: Frank V. Subalusky, 443-8691

## COMMODITY FUTURES TRADING COMMISSION (CFTC) USER FEES

The President's FY 1983 Budget proposes a transaction-based user fee of \$.25 per futures contract which would recover CFTC's total budget (estimated at \$23 million in FY 1983.) This fee would be legislatively imposed and would be paid directly to the Treasury.

We are currently conducting a review of CFTC to provide assistance to the Congress during the 1982 reauthorization of the Commission. Our draft report suggests a different fee approach than the President's FY 1983 Budget. Under our approach fees would be charged for specific CFTC services, for example, the licensing of commodity exchanges to trade futures contracts in a particular commodity. This approach would not require legislative change, but would require CFTC to take into account court decisions which have placed limits on the share of its costs an agency can recover through fees.

CFTC has proposed legislation (H.R. 5447 and S.2109) which includes a transaction fee; however, CFTC's approach differs in several important respects from the President's proposal. First, the fees are lower and are designed to recover about two-thirds of CFTC's budget. Second, the legislation prohibits the fees from exceeding CFTC's budget, regardless of the growth in the volume of contracts traded. Third, CFTC would be authorized to reduce, suspend, or waive any part of the fee if it is having an adverse effect on the market. Finally, the legislation would create an advisory committee which would counsel CFTC on any actions it might take regarding fees and prepare a study of the fee system for submission to the Congress in 1985.

### Relevant reports

"Regulation of the Commodity Futures Markets--What needs to Be Done",  
CED-78-110, May 17, 1978

"The Congress Should Consider Exploring Opportunities To Expand And Improve The Application Of User Charges By Federal Agencies",  
PAD-80-25, March 28, 1980

For further information call: Ron Wood 634-1967

President's  
Proposal - CORPS OF ENGINEERS NAVIGATION USER FEES

GAO Supplementary Discussion

GAO Views. GAO agrees with the principle of full recovery of future expenditures on inland waterways, since this would be both equitable and efficient.

GAO pointed out in its November 1975 report that if user charges were kept at a rate that would not exceed 10 percent of existing barge rates--a rate sufficient to recover the waterways' 1973 operation and maintenance costs--some traffic diversion could be expected but most of the inland waterways shippers we interviewed did not believe this would result in any major diversion.

In a later report, GAO pointed out that the efficiency of inland waterways can be increased by changing the form of the charge from the present fuel tax to the use of congestion charges. Charges for waterways that cost more to construct and operate should be higher than charges for less expensive waterways. A fuel tax cannot accomplish this. However, segment charges which vary from one waterway to another can accomplish this.

In some cases, the operating costs of a waterway may be quite low relative to initial construction costs. In such cases, efficiency in waterway use can be enhanced by using a two-part tariff, which imposes a (commonly annual) fixed charge for access to the waterway, and a lower charge for each use of it. The fuel tax is, again, less efficient in these cases.

Finally, congestion charge should be used when demand for the use of a waterway exceeds its capacity. Such charges will even out demand, reducing or eliminating peak loads. Congestion charges may have to take the form of a tax, since they would not be associated with any cost incurred by the Government. The legal restrictions on implementing congestion charges should be fully explored prior to implementation.

Relevant GAO Reports: RED-76-35, PAD-80-25.

Contact: Hugh Wessinger, 275-5489 or Craig Simmons, 275-3588

## MANAGEMENT INITIATIVES

### President's Proposals Addressed:

Reducing Federal Employment  
Dismantling the Department of Energy  
Health Planning  
Bureau of Indian Affairs Administrative Staff  
Fraud, Waste and Abuse  
Federal Housing Administration Mortgage  
Insurance Premiums  
Reducing Federal Intrusion

President's Proposal - Reductions of Federal  
Civilian Employment

GAO Supplementary Discussion

GAO Views. Reductions in the number of civilian employees are anticipated through reduced program levels in the revised budget and "by reducing overhead and by greater efficiencies in carrying out Federal programs." These reductions are being effected through the imposition of lower personnel ceilings.

We have maintained in reports over the past 10 years that personnel ceilings are not effective manpower controls because they limit management flexibility to plan and achieve work goals. Personnel ceilings are established from the administration's perspective of what constitutes a politically acceptable level of direct Federal employment. Past staffing levels have a major influence on these decisions. These personnel ceilings are not based on workload analysis and work force requirements and are generally lower than positions requested by agencies in the budget review process. We have recommended replacing personnel ceilings with funding controls and suggested that the Congress should carefully assess the impact of personnel ceilings and cutbacks if it is to avoid reducing staff at the expense of effectively administering important programs.

Our work has shown that personnel ceilings are inefficient because they

- are arbitrarily applied,
- are inflexible to program changes,
- are uneconomical because they increase overtime usage and contracting,
- cause skill imbalances,
- cause work and services to be deferred or cancelled, and
- cause managers to emphasize meeting the ceiling instead of the work.

Substantial employment cutbacks suggest the possibility of formal reductions in force. We have found that widespread use of reductions in force leads to the same problems--workload and skill imbalances, curtailed services, and overtime or contracting out--that result from ceilings. Program disruption and lost productivity can also occur when thousands of employees are told that they may lose their jobs. In addition, reductions in force are usually associated with opportunities for earlier than normal retirement which increases the loss of the Government's most experienced and skilled employees and adds to the retirement system's already serious financial condition. Other costs attributed to reductions in force include severance pay, unemployment compensation, and lump-sum annual leave payments.

In summary, reductions--whether by ceilings or reductions in force--would be credible if they were based on sound analysis that matched staffing levels directly to workload. However, this has rarely been the practice

in the past, and it does not seem likely that renewed emphasis on ceilings without such analysis will reduce inefficiency or lead to increased productivity.

Relevant GAO Reports. B-165959, April 30, 1971; FPCD-74-46, July 21, 1974; FPCD-74-50, June 21, 1974; FPCD-75-129, January 7, 1975; FPCD-76-88, June 2, 1977; FPCD-77-85, February 9, 1978; GGD-77-85, September 13, 1977, FGMSD-79-43, July 27, 1979; PSAD-80-76, September 29, 1980; FPCD-81-54, July 17, 1981; FPCD-82-23, January 15, 1982.

GAO Contact. John Anderson, 275-5245.

## DISMANTLEMENT OF DCE

The proposal to reorganize Federal energy activities is, according to the administration, the culmination of a process to place more reliance on the private sector. This process includes sharp budget reductions for many energy programs and the transfer of energy program responsibilities to other agencies. Energy research and development activities would be carried out within the Department of Commerce by a new organization, an Energy Research and Technology Administration. The Strategic Petroleum Reserve operations, the Naval Petroleum Reserve, and the Power Marketing Administrations would be transferred to the Department of Interior. The Department of Justice would become responsible for completing enforcement legislation responsibilities, and the Federal Energy Regulatory Commission would become an independent regulatory agency.

Energy is a serious, long-term problem with important implications for security, the economy, our quality of life, and international coordination. Despite some progress, the U.S. remains dependent on expensive and unreliable oil imports. Further energy progress will depend upon a coordinated approach designed to effect long-term solutions which reduce U.S. reliance on insecure sources of imported oil. Therefore, although CAO agrees that reducing Federal regulation and increasing reliance on the private sector are worthy goals and can help to ameliorate the energy problem, GAO also believes that there is a continuing need for a strong Federal role in key energy areas.

GAO has the following observations on three broad options for managing Federal programs.

- The proposal to disperse DCE programs and responsibilities should be examined with particular emphasis on the effects such changes would have on program management and decision-making. In addition, given the need for coordination for energy programs, particularly in the case of possible future energy emergencies, information should be sought and careful attention paid to ways in which such coordination would take place. In summary, the dismantling option raises a number of questions about program coordination which require analysis.
- The option of keeping existing energy programs together and reducing them to sub-Cabinet status obviously does not raise the same issues of energy program coordination. The principal point of focus in examining this option is whether the reduced stature is appropriate given the long term nature and other national and international implications of energy issues.
- The option of retaining Cabinet-level status for energy would provide a focus on the energy problem, help ensure



that sufficient emphasis and visibility is directed toward the problem, and provide the opportunity for energy issues to be considered at the highest levels of the Government. It would also demonstrate to foreign nations this Nation's commitment to solving the problem and assure that international energy efforts are coordinated.

In addition, the cost savings or increases which are attributable to each option are factors to consider in weighing re-organization proposals.

In examining organizational options, one must recognize the inherent difficulties of defining right or wrong. Over the years, GAO has identified serious program management and decisionmaking problems both before and after ECE became the centralized Federal energy agency. Organizational changes will not necessarily solve management problems. Ultimately, choosing among the organizational options requires congressional exercise of political and value judgments about the nature of the energy problem; the "best" organizational structure; the stature, visibility and prestige energy merits; and the practicality of fundamental changes in energy organization structure at this time.

Relevant GAO Report. EMD-82-21

GAO Contact. Edward Kratzer - 376-9713

President's  
Proposal -PHASE-OUT FEDERAL HEALTH PLANNING PROGRAMSupplementary GAO DiscussionGAO Views

We have done considerable work in the health planning program over the last several years. Our initial effort, which resulted in a report to the Congress in November 1978 (HRD-77-157), identified several problems the program was experiencing during the early stages of its implementation. More recently we analyzed the adequacy of health systems plans developed by Health Systems Agencies (HSA). This effort determined that the plans, which are fundamental for accomplishing HSA objectives, were inadequately developed and did not represent a well-developed framework for making needed changes in the health care system.

Other limited work done in this area indicates that local governments do perform health planning functions; that is, they identify health needs, develop plans and to the degree possible, devote resources to address the needs. Little reference seems to be made to the HSA or its health systems plan during this process. This leads us to question whether any substantial benefit exists due to the health planning functions performed by HSAs.

HSAs have little authority to bring about change in the health care system. They provide only advice to States in the certificate-of-need process and appropriateness review process. Their only real authority is to approve or disapprove proposed uses of Federal

grant funds in their health service areas. Most of the programs providing these funds have been or are proposed to be put into block grants.

Relevant GAO Reports

Status of the Implementation of the National Health Planning and Resources Development Act of 1974  
(HRD-77-157, November 28, 1978)

Letter Report to the Secretary of HHS on Health Planning Savings Claimed by the American Health Planning Association  
(HRD-80-49, March 13, 1980)

Health Systems Plans: A Poor Framework for Promoting Health Care Improvements  
(HRD-81-93, June 22, 1981)

GAO Contact

J. William Gadsby, 443-3596

President's Proposal - Reduction of Indian Affairs  
Administrative Costs

GAO supplementary discussion

The President has proposed to (1) reduce the Bureau of Indian Affairs (BIA), Department of the Interior, administrative overhead costs by \$16 million through improved efficiency and elimination of overlapping activities, and (2) reallocate the funds to a program for tribal government development for small tribes and a program for assisting Indian enterprises.

Improved efficiency and reducing administrative cost-- GAO's audit efforts over the past several years have shown that opportunities exist for improving the efficiency of BIA. For example, we reported in February 1978 and again in September 1981 that there were serious problems in the administration and monitoring of contracts and grants awarded to Indian tribes because contract or grant officers were located in area offices while their representatives responsible for the contracts were located in agency offices and, in most cases, were members of the tribe which had the contract or grant. In many cases the contract/grant officer did not even know the individual assigned to monitor the contract or grant. We recommended that contract/grant officer representatives be designated at the area level to reduce potential for conflict of interest and to improve contract administration.

Further, we have noted in numerous audits that BIA Indian agencies provide most services to Indians; area offices do not provide many direct services to Indians. Over 40 percent of BIA area office personnel do not provide any direct services to Indians. The Indian Policy Review Commission has made proposals for either abolishing area offices or curtailing their activities. Our October 1978 report also pointed out continuing management weaknesses and included four alternatives for improving delivery of services to Indians to make them more effective.

While we cannot comment on the dollar savings shown in the President's proposal, we would agree that BIA's organizational structure needs to be examined closely and inefficiencies eliminated.

Tribal government development and Indian enterprise assistance programs--In a February 15, 1978, report, we concluded that eight Federal agencies administering 25 grant, loan and technical assistance programs had not

been very successful in helping Indian businesses. Profitable businesses are needed on reservations to help Indians overcome cultural and economic barriers, become self-sufficient, and achieve a standard of living comparable to that enjoyed by non-Indians in neighboring communities. Indian reservations generally are not well suited for the development of profitable businesses. Some of them have little, if any, potential for success without Federal financial and technical assistance. However, comprehensive economic feasibility studies should be done to determine which ones need only initial Federal financial assistance and which ones need long-term Federal financial assistance.

Relevant GAO Reports: CED-81-122, CED-78-166, CED-78-50  
and FGMSD-78-17

GAO Contact: Roy J. Kirk (376-8212)

## PREVENTION OF FRAUD, WASTE AND ABUSE

GAO Views: The Administration has projected \$1 billion in annual savings to result from executive branch fraud, waste and abuse prevention activities during fiscal years 1982 through 1987. Proposed activities include joint management improvement projects conducted by Inspectors General with their agency Assistant Secretaries for Management. Vigorous management attention is the most effective strategy against fraud because fraud cannot be legislated out of existence.

The fiscal year 1983 budget states that during the last six months of fiscal year 1981, Inspector General efforts saved over \$2 billion, in funds recovered and costs avoided. This figure contains \$406 million in funds recovered and \$1.7 billion in costs avoided. GAO believes these figures need to be verified and tied to specific appropriation and receipt accounts in order to document actual savings.

A monitoring system based on OMB's apportionment data from agencies is needed to establish actual amounts saved. The \$406 million in funds recovered appears to be overstated. "Recovery" is defined to include money or property originally lost through mismanagement, non-compliance with applicable laws and regulations, or malfeasance. Included in the \$406 million in "recoveries" are amounts to be collected as offsets against future awards, as well as recoveries and penalties assessed through litigation but not necessarily reflecting total monetary recoveries by the Federal government. The \$1 billion projected annual gross savings figure included in Outlay Reductions caused by Management Initiatives is not derived from other information present in the budget, except the \$2 billion savings figure quoted for a six-month period in 1981. The \$1 billion is supposed to be a conservative annual gross projection, given that \$2 billion could be saved over a six-month period.

The President directed each department and agency head to designate a senior management official with personal responsibility to assure that audit recommendations are implemented. Federal agencies designated these individuals, and OMB has met with them to emphasize the President's expectations. In addition, OMB is revising circulars A-50 and A-73 to recognize the role of Federal Inspectors General and strengthen procedures for follow-up and resolution of audit reports by executive branch agencies. Thus, the Administration has placed responsibility for audit follow-up on management instead of the Inspectors General.

The President's Council on Integrity and Efficiency should issue the revised OMB Circulars A-73 and A-50 and implement procedures for dealing with the audit findings in its reviews of agency management, budget, and litigation and debt collection activities. Publication of these revised Circulars and

implementation of related procedures will enhance Federal agencies' capacity to take corrective action based on audit recommendations.

Tied in with improved resolution and follow-up procedures, the savings agencies achieve by collecting funds to be recovered or avoided costs, through Inspector General efforts, should be periodically reported to OMB when agencies submit their apportionment and reapportionment schedules.

Generally, GAO believes that the objectives of the Council on Integrity and Efficiency are good in that top management in the Office of Management and Budget who have an oversight responsibility take an active role in overseeing Inspector General's efforts to reduce, if not eliminate, fraud and waste in the Federal Government. GAO regularly keeps in contact with the Council to keep abreast of its activities. The Comptroller General frequently attends the Council's meetings. In addition, GAO's Accounting and Financial Management Division's work in the fraud prevention and audit oversight area necessitates periodic contact with the Council's staff.

GAO is currently verifying the accuracy of audit-related dollar findings recently reported by the Council.

Relevant GAO reports

AFMD-82-32  
AFMD-81-27  
FGMSD-79-3

GAO contact: George Egan, Jr., 275-5824.

President's  
Proposal - CHANGE IN METHOD OF COLLECTING

FHA MORTGAGE INSURANCE PREMIUMS

GAO Supplementary Discussion

GAO Views: The administration proposes to change the way FHA-insured homebuyers pay insurance premiums. Instead of paying a premium equal to 1/24 of one percent of the outstanding mortgage balance every month, each FHA-insured homebuyer will make a one-time payment at settlement equal to the discounted present value of the monthly premium payments they might have otherwise paid. GAO believes this is a reasonable proposal. The change obviously will provide the Federal Government with immediate access to substantial funds. Also, savings should occur in the FHA accounting and collection functions. There are, however, a number of qualifications which should be considered.

First, the proposal states that this change would be more consistent with private insurance premium payment methods. While this proposal would require an up front payment as do private insurers, the private companies require only the first year's premium payment to be made up front--not the whole premium for the life of the mortgage--and then they assess 1/12 of the yearly premium charge each month thereafter. A related consideration is that if mortgages in FHA's portfolio turn out to have much longer lives than in the past, the premiums collected up front may be far less than they would be if collected over the life of the mortgage.

Second, GAO generally agrees with the direction of the proposal but has not verified or computed estimated savings. A very significant effect of the change has not been emphasized in the administration's proposal. GAO has issued several reports in the past on ways HUD can improve its accounting and collection procedures. Because lenders frequently sell mortgages, HUD has a difficult time accounting for premiums due and spends significant amounts of time and money to collect delinquent premiums. Often HUD has to write-off significant amounts. However, because HUD has not fully implemented such recommendations and perhaps because of the nature of the problem itself, losses are still occurring.

A significant negative impact which can not be adequately evaluated is the potential effect the change may have on disqualifying or discouraging homebuyers from purchasing homes because the total amount financed by the homebuyer increases. It also is not clear whether the total premium, estimated to average about \$1,500, will be applied toward the FHA mortgage limit.

Relevant GAO Reports: FGMS-79-14, and FGMS-80-27.

Contact: Steven J. Wozny, (426-1780).



Real Property Management

GAO Views. The President's proposal to undertake a concerted program to improve Federal land management and to dispose of unneeded Federal property is a worthwhile and needed undertaking.

The sale of unneeded real property can be a significant source of revenue for the Federal Government. In the past, GSA has been responsible for many of the sales. To accomplish this, GSA has relied on holding agencies to report unneeded property to GSA as excess. But, in addition GSA has, through its survey program, sought out property that was unneeded or was not fully utilized and attempted to have agencies declare the property excess. Disagreements between GSA and the holding agencies have delayed the disposal process and restricted the quantity of property turned over to GSA. The Administration's proposal to establish a White House/Cabinet-level Real Property Review Board should help alleviate this situation. The Board can arbitrate disputes and rule on the disposition of properties that holding agencies may be reluctant to release.

The establishment of the Review Board could also significantly help in overseeing acquisitions. The Board could monitor and coordinate purchases to assure that only needed property was acquired and that utilization of current holdings is improved. This would not contribute to greater receipts from real property disposals, but Board actions could help reduce real property expenditures by restricting additions to the Federal inventory and by arranging or directing transfers and redistributions of existing property holdings.

While the proposal to improve land management and dispose of unneeded property is a good one, we have some reservations on the estimated receipts from the increased effort to dispose of unneeded real property. The President's goal is to realize \$4 billion annually by 1984, with receipts from sale of GSA managed property totaling \$1 billion in 1983 and receipts from the sale of GSA managed property plus the sale of land held by the Department of Interior, Agriculture, and the Army Corps of Engineers expected to total \$4 billion annually beginning in 1984.

In the 2-year period ending September 30, 1981, GSA's Office of Real Property has disposed of real property with an estimated fair market value of around \$280 million, or an average of about \$140 million per year. To increase the sale of GSA managed real property to \$1 billion in 1983 will represent a seven-fold increase which may be difficult to attain. Further, GSA anticipates personnel reductions in real property disposal operations in 1983.

While we are unaware of the basis for projecting receipts of \$4 billion annually starting in 1984, the amount of real property identified as candidates for sale will have to substantially increase, thus requiring considerable Federal agency resources (either in-house or contracted out) to identify, appraise, and sell the property. Further, it is uncertain whether local

economies can absorb a multi-billion dollar annual Government disposal program and the Government can assure that it receives appraised fair market values for the sale of such a large amount of surplus real property.

Relevant GAO Reports. CED-82-18, 12/11/81; CED-81-135, 9/11/81;  
CED-81-135, 9/11/81; CED-81-107, 8/24/81; PLRD-81-28, 5/28/81;  
CED-81-75, 5/8/81; CED-81-10, 1/22/81; LCD-80-96, 9/12/80;  
LCD-80-84, 8/13/80; CED-80-82, 7/16/80; CED-80-14, 12/14/79;  
LCD-79-321, 9/12/79

Contacts. James G. Mitchell, 275-4128  
Roy J. Kirk, 376-8212

COST-SAVING PROPOSALS NOT INCLUDED IN ADMINISTRATION PACKAGE

ADDITIONAL ITEM:

INCREASED REVENUES FROM FEDERAL WATER RESOURCES PROJECTS

GAO Views. The Army's Corps of Engineers and the Department of the Interior's Water and Power Resources Service are two principal Federal agencies which build and operate multi-purpose water projects. Over \$4 billion in Federal funds will be spent in fiscal year 1982 for numerous construction, operation, and maintenance activities.

Federal water laws generally require that when projects are completed and water is delivered, the beneficiaries (water users) who receive irrigation and municipal and industrial water must repay their share of project costs. GAO's audit work shows that the agencies repayment policies and practices do not ensure fair and timely cost recovery from project water users when water supply and storage space in Bureau of Reclamation and Corps of Engineers reservoirs has not been sold, or fully utilized. Because about 15 million acre-feet of available water or storage space in Bureau of Reclamation and Corps of Engineers reservoirs has not been sold, the Government has absorbed substantial costs associated with the underutilized reservoirs.

In addition, reclamation law and water supply law do not require repayment of interest on irrigation costs or full repayment of interest costs on municipal and industrial water projects.

Consequently, the water agencies have not required the existing water users to share more equitably in project cost recovery. To achieve this objective, changes in agency policies and practices are necessary, to make project repayment a priority. In order to have municipal and industrial water users fully repay total interest costs, the Congress should reform pertinent provisions in the Law. Also, because conditions have changed since Federal provisions for repayment of irrigation costs were established, the Congress may wish to consider including interests costs in the repayment provisions for irrigation projects.

Adoption of such policies would be fair to the water users and lessen the taxpayers' increasing burden for repaying the costs of constructing and operating water resources projects.

Relevant GAO Report: CED-81-77, August 7, 1981 and CED-82-3, October 22, 1981.

Contact: Bob Procaccini, 376-8200

ADDITIONAL ITEM:

POTENTIAL SAVINGS FROM DISCONTINUING CONTRACTOR  
INSPECTIONS OF FEDERAL WATER PROJECTS

GAO Views. Since 1966 the U.S. Army Corps of Engineers has required construction contractors to inspect their own work on Corps dams, powerhouses, and other water projects. In practice, Corps civil works officials, to assure project quality, inspect the same activities they require contractors to inspect. Corps estimates showed that in fiscal year 1980 it devoted 1,523 staff years to construction inspections and the cost for such service averaged \$25.6 million annually over the 5-year period ending September 30, 1980.

Past experience and several studies have demonstrated the ineffectiveness of contractor inspection requirements. Rather than improving construction quality while reducing Government inspections, the requirement has resulted in a duplication of inspection efforts and facilities, unnecessary paperwork, and increased administrative costs.

The Defense Department could avoid these unnecessary costs and burdens by exempting water project construction activities from its contractor inspection regulations. The requirement has significantly increased the Government's construction costs over its 15-year history. Lifting the requirement should reduce costs about \$6-7 million a year. To help reduce costs and provide the quality control essential for activities in constructing dams, powerhouses, and other water projects, we recommended that the Secretary of Defense exempt Corps water project construction activities from its requirement for contractor inspections.

Relevant GAO Report: CED-81-146, September 29, 1981.

Contact: Bob Procaccini, 376-8200

ADDITIONAL ITEM:

INCREASED NON-FEDERAL COST SHARING  
FOR WATER RESOURCE PROJECTS

GAO Views. Many water resource projects provide benefits to large segments of the country; however, the Corps of Engineers and the Soil Conservation Service have built some projects that primarily benefit only a few landowners or businesses.

For Corps and Service projects, the non-Federal entity is seldom required to share a larger portion of project cost to compensate for these special benefits, such as land enhancement or increased local taxes. For example, of the 14 projects we reviewed, estimated to cost over \$447 million, 11 projects totaling \$259 million provide highly localized benefits. The Federal share for these projects was \$211 million, or 81 percent of the total project costs.

We recommended that the Congress clarify its intent regarding cost sharing for water resource projects which do not offer widespread benefits and provide additional guidance to Federal agencies involved in water resource development.

In addition, non-Federal entities provide land, easements, rights-of-way, and relocate utilities. The estimated costs of such items are shown as the non-Federal cost share in project feasibility studies. The estimated non-Federal cost share for Service projects usually contained extraneous cost items which are not actual project costs. Such costs inflate the total project cost and also make the non-Federal "share" appear much higher than it actually is. We recommended that this practice be stopped.

Relevant GAO Report: CED-81-12, November 13, 1980.

Contact: Bob Procaccini, 376-8200.

ADDITIONAL ITEM:

FEE SYSTEMS: A MEANS FOR UNDERWRITING  
HAZARDOUS WASTE PROGRAM COSTS

GAO Views. In a January 1979 report, GAO stated that many States may not accept responsibility for implementing the hazardous waste provisions of the Resource Conservation and Recovery Act (RCRA). Under such circumstances, the Environmental Protection Agency (EPA) will need funding to provide program oversight and to operate hazardous waste programs in States that do not seek or receive EPA authorization to operate their own program. GAO recommended that EPA request that RCRA be amended to allow EPA to include a fee system to cover hazardous waste program costs where (1) a State cannot or will not assume responsibility for its program and (2) EPA is required by RCRA to assume responsibility for a State program.

The fee system approach recommended is similar to the funding source for the recently passed "Superfund" legislation, which allows EPA to clean up spilled toxic wastes and hazardous waste sites and later to attempt to recover the costs of such cleanup from responsible parties.

Amendment of RCRA and the adoption of a fee system would eliminate the need for Federal general revenue support for EPA to provide oversight and operate hazardous waste programs in States that do not seek or receive EPA authorization to operate their own programs.

Relevant GAO Reports: CED-79-14

GAO Contact: David L. Jones, 382-4326

ADDITIONAL ITEM:

ADDITIONAL REFORMS OF MUNICIPAL WASTE TREATMENT  
GRANTS COULD FURTHER REDUCE THE COST OF ACHIEVING  
ENVIRONMENTAL PROTECTION

GAO Views. Reducing the cost of the water pollution construction grant program has been the thread running through many GAO reports issued during the past 4 years. While the Municipal Wastewater Treatment Construction Grant Amendments of 1981 the Congress recently enacted will reduce the long-term cost of the program through limiting eligible funding categories and reducing the Federal participation rate, additional opportunities for long-term cost reductions continue to exist, but would require the elimination of certain inflexible requirements in the Clean Water Act.

The GAO reports deal with the subjects of mandatory secondary treatment requirements, the basis for advanced waste treatment, the effect of nonpoint pollution on water quality goals, the high cost of projects to correct combined sewer overflow problems, and the insufficient user charges necessary to cover operation and maintenance.

GAO reports have demonstrated that the current legislation can result in constructing projects which have only a marginal impact on water quality. A May 1978 report on secondary treatment in the St. Louis area showed that constructing \$163 million in facilities to obtain a secondary level of treatment would not significantly improve Mississippi River water quality or uses. The law nevertheless requires that secondary treatment facilities be built. Similarly, a July 1980 report showed that advanced waste treatment--which removes some pollutants left after secondary treatment--with few exceptions, may not be justified because the treatment might not make a substantial difference in water quality. In both reports, GAO recommended that the Congress amend the Clean Water Act to allow EPA more flexibility to consider the impact of the secondary or advanced treatment on water quality.

The December 1977 report demonstrated the lack of adequate data on diffused or "nonpoint" pollution sources of water pollution which produce more than half the pollutants entering national waterways. Such data is crucial because funds are insufficient to treat all pollution sources. Priorities must be established to assure the selection of control projects that will most benefit water quality. Constructing waste treatment facilities, for example, may not be as beneficial as implementing practices to control nonpoint pollution.

The enormous funds required for the large construction projects to curb pollution caused by sewer overflows and flooding was the subject of GAO reports in May 1979 on the



Chicago Tunnel and Reservoir Plan, and in December 1979 on the Combined Sewer Program in 15 U. S. cities. Because neither the Federal Government nor local communities can supply the \$88 billion needed to stem the pollution and flooding, GAO recommended that new techniques using inexpensive measures be attempted before considering costly solutions.

Once municipal wastewater treatment plants were built, the Congress intended municipalities to raise funds through user charge systems to operate and maintain them. A December 1981 report showed that half the plants reviewed were not raising sufficient funds, nor were they setting aside funds to replace the treatment plants when they reach the extent of their economical/technological life. GAO recommended changes to improve the user charge system and asked the Congress to decide whether the Federal Government will help finance treatment plant replacement.

Relevant GAO Reports: CED-78-76, CED-80-86, CED-78-6,  
CED-79-77, CED-80-40, CED-82-1

GAO Contact: David L. Jones, 382-4326

Not Included in the Administration's Proposal

Reduction of the Number of Commissioners at  
the Federal Communications Commission

GAO Views - The size of regulatory commissions is largely a matter of historical accident or haphazardness rather than the result of a well conceived theory of regulation. Commissions range in size from three persons to eleven. The number of commissioners provided for FCC under the Communications Act of 1934 is seven. However, the most common size and the one most characteristic of recently created commissions is five.

In a 1979 report and in testimony presented in May 1981 we pointed out several benefits which would result from reducing the number of FCC Commissioners from seven to five. First, it should make the decisionmaking process at the Commission proceed more quickly and easily. Second, it should improve agency management by facilitating the Chairman's leadership role, and third, it should result in substantial cost savings by eliminating the salaries of two commissioners and their staff as well as related expenditures for office space, equipment, travel, and other administrative costs. We believe such a reduction would eliminate unnecessary Federal expenditures and also improve regulatory efficiency and effectiveness.

Relevant GAO Products:

Organizing the Federal Communications Commission for Greater Management and Regulatory Effectiveness (CED-79-107, July 30, 1979)

Testimony of Henry Eschwege, Director, Community and Economic Development Division, before the Committee on Commerce, Science and Transportation, United States Senate on S. 821 (May 1, 1981)

GAO Contact: Ron Wood, 634-1967

Not included in the Administration's proposal

Use of User Charges to Recover  
Federal Communications Commission Regulatory Costs

GAO Views - Since January 1977 the Federal Communications Commission (FCC) has not charged fees for the services which it provides to persons or organizations in carrying out its regulatory responsibilities. One month earlier the U.S. Court of Appeals overturned previous FCC fee schedules and called for the Commission to clarify their justification and recalculate its fees accordingly. In a May 1977 report we stated that the Commission could and should recalculate previous fee schedules, refund excess fees collected, and establish a new fee schedule. We noted, however, that the Congress could provide additional legislative guidance in this area by either amending the Independent Offices Appropriation Act, 1952 or by enacting new legislation. In 1981 we supported legislation which would establish a new FCC fee schedule.

We continue to believe that private beneficiaries should pay the full cost incurred by FCC in providing them a product, service, or privilege. The establishment of a new FCC fee schedule is needed, therefore, to eliminate the preferential treatment which such persons are currently receiving at the expense of the general taxpayer.

Relevant GAO Products:

Establishing a Proper Fee Schedule Under the Independent Offices Appropriation Act, 1952 (CED-77-70; May 6, 1977)

Testimony of Henry Eschwege, Director, Community and Economic Development Division before the Committee on Commerce, Science and Transportation, United States Senate on S. 821 (May 1, 1981)

B-203297 (June 9, 1981)

GAO Contact: Ron Wood, 634-1967

DISCONTINUING OR REDUCING OPERATING HOURS  
OF SOME AIRPORT TRAFFIC CONTROL TOWERS

GAO Views. FAA does not have uniform criteria to identify control towers that could be discontinued nor does it adequately review towers that operate 24 hours a day to determine if reduced hours are feasible. The lack of a uniform criteria has resulted in the continued operation of economically unjustified control towers and keeping some towers in operation longer than needed.

Using FAA's criteria on a uniform basis, GAO identified 66 control towers that would be candidates for discontinuance. In addition, of the 17 control towers surveyed by GAO, 16 had traffic levels which would identify them as candidates for reduced operating hours.

GAO estimated that FAA could save an average of about \$287,000 annually for each tower the agency discontinued and could save salary and other costs up to \$47,000 annually at each control tower at which operating hours were reduced.

GAO recommended that the Secretary of Transportation require the Administrator, FAA, to adopt uniform criteria for identifying control towers for discontinuance, ensure that the criteria are applied periodically and that discontinuance of candidate towers be actively pursued. GAO also recommended that 24-hour control towers be surveyed to identify candidates for reductions in operating hours and complete necessary studies that would show the hours of operation could be safely and efficiently reduced.

The Department of Transportation generally agreed with GAO's recommendations to discontinue economically unjustified towers and stated it was working on establishing uniform and updated economic criteria. Although the Department believed its efforts to reduce operating hours had been effective, it recognized the need for reemphasis.

FAA has been unable to effectively carry out these recommendations because of the air traffic controllers strike which started in August 1981.

Relevant GAO report: CED-81-100, June 1, 1981.

Contact: Thomas D. Reese (426-8462)

National Weather Service  
National Oceanic and  
Atmospheric Administration  
Department of Commerce

IMPLEMENTING THE NATIONAL WEATHER SERVICE'S ADP PROJECT--THE  
AUTOMATION OF FIELD OPERATIONS AND SERVICES (AFOS)

The National Weather Service expended approximately \$100 million to develop AFOS over a 7-year period. AFOS is a nationwide telecommunications network of minicomputers designed to aid local weather forecasting offices in meeting forecasting and meteorological observation responsibilities. The Weather Service is proceeding with national implementation of AFOS. At the same time it plans to maintain the system AFOS replaces, an FAA-owned set of teletype networks as a backup system to AFOS, at least until 1984. In addition, the Service plans to develop a new system to replace AFOS and the current FAA teletype system.

GAO Views

In its recent report entitled "Problems Plague National Weather Service ADP System", GAO stated that the Weather Service should halt implementation of its automated data processing and telecommunications system (AFOS) until it more completely resolves the systems' problems. In addition, the Weather Service should clearly establish that the benefits of full operation are worth the substantial costs.

GAO also recommends that the Weather Service (1) establish an overall project management office and assign personnel to it, including a project manager, on a full-time basis both for completing AFOS and for developing any new system, (2) adhere to standard software development practices in completing AFOS and in developing any new system, (3) replace completely all AFOS software, hardware, and telecommunications in developing any new system, (4) contract out system

development activities when they exceed in-house capabilities, and (5) account for all costs, including the full personnel costs attributable to using AFOS and developing a new system.

The House Committee on Appropriations, Congressman Gradison and several legislative committees in the House and Senate expressed concern with the National Weather Services' management and development of the AFOS system. High committee interest continued throughout the period GAO was conducting its review of the AFOS system. Because of the high risk in implementing this costly, complex, and comprehensive ADP and telecommunications system, strong congressional interest continues. Further, because of the large expenditure of funds required to implement and operate AFOS and to develop a new system to replace AFOS, these activities warrant monitoring.

Relevant GAO Report

Problems Plague National Weather Service ADP System, CED-82-6, November 18, 1981.

GAO Contact

Dan Soranno - 275-1000

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Relevant GAO report: CED-81-100, June 1, 1981.

Contact: Thomas D. Reese (426-8462)

ADMINISTRATION BUDGET PROPOSALS FOR ENERGY PROGRAMS  
OVERALL ISSUES

The administration's energy budget intensifies its efforts for a fundamental reorientation of the Federal Government's role in energy policy and programs initiated by last year's budget process. While it is important to analyze each separate proposal, it is equally important for the Congress to consider carefully the basic issues raised by this reorientation.

This paper briefly discusses the more important assumptions which guide the administration's approach to energy policy and programs and the issues GAO has identified based on its past and ongoing work. Selected energy-related proposals are discussed using as a base the OMB report, "Major Themes and Additional Budget Details." In addition, other budget issues are discussed in the context of CAC work relevant to the congressional budget process.

Administration assumptions

The administration's basic approach to energy policy and programs has not shifted much in the last year. This year's energy budget continues the redefinitions of the Federal role in energy matters begun last year by building on the same themes that dominated last year's budget. A year ago GAO generally characterized the administration's assumptions underlying its energy policy and program direction as follows.

1. Principal reliance should be placed on private market forces in achieving energy goals. Energy deregulation provides sufficient incentive for private sector actions in fossil fuel research and development, synthetic fuels, and greater use of conservation and solar alternatives. Except for the Strategic Petroleum Reserve, few additional Government planning efforts are needed to prepare for future energy emergencies.

2. Consistent with the assumption about private market forces is the view that, when additional incentives are needed, particularly for conservation and renewable programs, the best way to provide them is through tax incentives.

3. Also consistent with the assumption about private market forces is the belief that regulations should be de-emphasized or eliminated as a method to bring about changes in patterns of energy production and use. This view extends not only to price regulation, but also to regulations dealing with efficiency of energy use in buildings and appliances.

4. Government's appropriate role with respect to technology development is in the area of long-term research and development. As efforts move closer to commercialization, the Government role should be curtailed and private market forces used to make any decisions on commercialization.



Direct Government support in energy research and development involving costly near-term activities, such as construction and operation of pilot and demonstration plants, would be eliminated or reduced.

In addition to these basic assumptions, the budget assumes a dismantled Department of Energy. This is consistent with the administration's view that the Nation's energy problems will be resolved primarily by the American people through the marketplace and not by the Government. The administration believes the existence of the Department of Energy has deluded energy producers and consumers into a sense of complacency, and that instead of improving the Nation's energy situation, has actually reduced the Nation's ability to respond effectively to energy supply disruptions and rapid price increases.

Using these assumptions and budget documents, the administration's fiscal year 1983 budget proposals can be broadly categorized as follows:

1. Most Government support for non-nuclear research and development would be sharply trimmed down. To be sharply reduced or eliminated are programs supporting private sector involvement in new technologies using fossil fuels; solar and geothermal energy; energy conservation research; new methods of electricity transmission and energy storage; and energy-related health and environmental effects research. Many of these programs are now considered "unnecessary business subsidies."
2. Government support would continue for nuclear energy programs, particularly magnetic fusion and technology development for nuclear breeder reactors. Neither of these technologies is viewed as at the stage where significant industry investment can be expected.
3. Incentives for non-conventional fuel production are primarily to come from price, purchase, and loan guarantees that the Synthetic Fuels Corporation may employ to demonstrate the feasibility of producing synthetic fuels commercially. The Department of Energy's support programs would be virtually eliminated.
4. The need for much Government spending on conservation has been eliminated by more realistic energy prices. Fiscal year 1983 would be the final year of funding for grants for low income home weatherization and energy saving investments in schools and hospitals. Only limited long-term research on energy use that the private sector is unlikely to undertake would be done by Government.

5. Only the Strategic Petroleum Reserve would serve as a major emergency energy preparedness measure to help the economy adjust to severe disruptions in oil supply.

#### Issues for congressional consideration

Our analyses of the administration's specific proposals indicate support in some areas and concerns and questions in others. (See attached discussion papers). Also important for congressional consideration are several fundamental energy-related issues raised by the administration's approach.

1. How far and how fast should the Government go in withdrawing direct investment in non-nuclear research and development programs? A considerable amount of GAO work on various conservation, solar, geothermal, and fossil programs has identified numerous constraints which may impede the effectiveness of private market forces and tax incentives to bring on line promising energy technologies. Given the varying financial capability and infrastructure of private energy firms and industries, a complete transfer of present Government R&D responsibilities to them, or too quick a transfer, could result in promising technologies receiving no further support. (For example, see attached papers on conservation, solar, geothermal, and fossil programs).
2. Related to the first issue are arguments of balance and equity between nuclear and non-nuclear R&D programs. In comparison to the previous administration, this year's budget proposals strongly favor continued Government support of nuclear energy programs. While both program areas involve discretionary spending, the administration's major theme document considers most previous non-nuclear R&D funding as a "Government subsidy to business" that is no longer needed. On the other hand, the administration considers a strong nuclear energy program as an "investment in research and development."
3. While not specifically indicated as a budget theme, escalating market prices of natural gas under phased deregulation are likely to surface the issue of earlier deregulation or other changes. The Congress will not only have to weigh carefully the advantages and disadvantages of accelerating the existing schedule of deregulation, but also be alert to the implications of "de facto" deregulation of certain categories of natural gas through Federal Energy Regulatory Commission rulemaking procedures. In either event, higher gas prices could result

in some increase in production from existing fields and further encourage conservation; it would also increase consumer costs in the short term and could cause some industrial users to switch to alternative fuels, including oil. Residential customers would have to absorb a greater share of the system costs.

4. To what extent should the Government prepare plans for dealing with energy emergencies? The fiscal year 1983 proposed budget for the Emergency Preparedness Program was cut 47 percent seemingly on the basis that free market forces are the most effective mechanism for dealing with energy emergencies. GAO's recent work, and the work of others, has found that with the exception of the Strategic Petroleum Reserve, the Government is almost totally unprepared to deal with disruptions in oil imports. (See discussion paper on energy emergency preparedness.)
5. Related to the fourth issue are possible national security arguments for Government efforts to further breakthroughs in technologies which are not yet cost-effective, but which offer substantial possibility for reducing U.S. reliance on imported energy sources. This was the principal justification for the synthetic fuels program, as well as for other programs to spur energy activity where private market forces and tax incentives may not yet be adequate.
6. The substantial cut in that part of the regulatory budget devoted to enforcement of oil pricing regulations could imply a phasing out of efforts before decisions are reached to resolve substantial alleged price violations. The need to resolve all alleged violations involves considerations of equity--between companies that complied with the regulations and those that did not and between companies that have settled complaints about overcharges and those that have not--which should be carefully considered.

## ENERGY CONSERVATION

### Schools and Hospitals Grant Program

The administration proposes to completely terminate funding in FY 1983 for the Schools and Hospitals Program. This is a reversal of its position in FY 1982 when the Schools and Hospitals Program was singled out as needing Federal support. GAO's work has indicated that there are a substantial number of institutions which could benefit from energy audits under this program, with resultant energy savings.

In its fiscal year 1982 budget request, the administration noted that schools and hospitals were large consumers of energy, and as such, faced severe financial burdens because of rising energy prices. It also stated that market forces are slow to affect this sector since most school and hospital operating funds come from tax revenues (property taxes, medicare, medicaid, etc.) and these institutions do not benefit from tax incentives.

In its fiscal year 1983 justification, however, the administration states that there is clear evidence that the market place has responded favorably to higher energy prices and that public awareness of energy conservation benefits and the high level of private investment in energy conservation clearly show that the State/local grant programs should not be continued.

GAO's 1981 report on the Schools and Hospitals Program noted that a substantial number of institutions which could benefit from energy audits under the program had not received them. Such audits at other institutions had resulted in identifying energy savings opportunities up to 30 percent. GAO recommended that the program's focus be redirected toward placing more emphasis on energy audits, providing energy audits to more schools and hospitals, and more closely matching the assistance provided to the needs of schools and hospitals.

Relevant GAO Report. EMD-81-47

GAC Contact. William C. Celkers - 252-1400

The Residential Conservation Service  
and Energy Extension Service

The administration's proposal to abandon the Residential Conservation Service (RCS) is apparently based on the assumption that utilities will respond to consumer needs when conservation represents an economic alternative. Because individual utilities face vastly different demand, supply, and cost situations, however, GAC believes that the administration's strategy could result in a fragmented assortment of residential conservation programs--unequal in application, quality, or comprehensiveness. Ultimately, this strategy could lead to many years of delay in realizing the energy conservation potential available.

In a report on residential energy conservation outreach programs, including the Energy Extension Service (EES) and RCS, GAC discussed the contribution such programs made in encouraging residential consumers to conserve energy. GAO concluded that comprehensive site-specific information, delivered on a personal basis, was the most effective means to inform and encourage consumers to voluntarily take energy conservation actions. GAC found that the lack of effective management of these programs at the Federal level had severely diminished their potential impact. GAO also concluded that EES and RCS had the potential to meet such consumer information needs if DCE more effectively managed EES and made RCS the key program in its residential energy conservation outreach strategy.

Relevant GAC Report. EML-81-8

GAC Contact. William C. Celkers - 252-1400

## Low Income Weatherization Assistance

The administration proposes to terminate DOE's low-income weatherization program and provide emergency financial aid and crisis support through a Department of Health and Human Services (HHS) program. If this latter program does not include a weatherization element, there will no longer be a Federal weatherization effort. Even if it retains a weatherization element, it could be limited by a ceiling on eligible weatherization measures. If it is so limited, GAO believes that the program won't provide the coverage DOE's program would provide and is not likely to be as effective in reducing energy costs.

Pursuant to specific legislative mandate, GAO has issued three reports on DOE's low-income weatherization program. In an October 1981 report, GAO reported that although weatherization production increased in 1980, the outlook for maintaining a high level beyond 1981 was doubtful because of budget reductions and increased cost per unit due to more reliance on contract services to do weatherization work. GAO also reported that the program has been hampered by poor workmanship, inadequate energy savings data, and inadequate financial management and program monitoring.

GAO concluded, however, that a successful low-income weatherization program could go a long way toward reducing the energy bills of low-income households--estimated at about 12 million. Also, a successful program could reduce the costs of the Low-Income Home Energy Assistance Program, which received funding in FY 1982 of about \$1.8 billion to provide grants to States for assistance to low-income persons for payment of home energy costs.

The Low-Income Home Energy Assistance Program, which is administered by HHS, permits each State to use up to 15 percent of its allotment for low-cost residential weatherization or other energy-related home repairs for low-income households. In the FY 1983 budget, the administration proposes merging the HHS energy assistance program with another HHS program providing emergency financial aid and crisis support. Funding of \$1.3 billion (vs. \$1.8 billion in FY 1982) is proposed for the merged programs.

If the DOE low-income weatherization program is terminated as proposed by the administration and the HHS program retains its weatherization element, it will be the sole remaining Federal program providing low-income weatherization assistance. However, under the existing HHS program, weatherization is limited to "low-cost" measures, whereas under the DOE program up to \$1,600 per unit can be expended for weatherization. Therefore, if the

proposed HHS program is similarly limited, the program is not likely to be as effective as the DCE program in reducing energy costs.

Relevant GAO Reports. EMD-78-81, EMD-80-59, EMD-82-2

GAO Contact. William C. Celkers - 252-1400

## Building and Appliance Standards

No funds are provided for building or appliance standards in FY 1983.

GAO believes that a Building Energy Performance Standards Program could close the gap between cost effective energy conservation opportunities and the level of energy conservation achieved by market forces. Such a gap exists because of imperfections in the market. For example, consumers do not have precise knowledge of how future energy prices should affect current energy conservation decisions or what energy conservation actions are needed to maximize cost effectiveness. GAO has reviewed the program, and while a mandatory standard may not be justified, establishing a voluntary standard could facilitate market forces by identifying the optimal level of energy conservation that could be cost effectively achieved. DCE indicated that it was in the process of implementing a voluntary building energy performance standards program. It is unclear at this time as to whether such efforts can be completed without funding.

Beginning in 1978, DOE engaged a number of consulting firms to work on the preparation of appliance efficiency standards and the analyses which would support them. Since that time, DOE has completed three separate analyses to support a final rule on appliance efficiency standards. The analyses have resulted in significantly different estimates of the impact appliance efficiency standards could have in achieving energy conservation. As such, questions have been raised by the Congress and the public about the basis for the three LCE analyses. LCE plans to terminate its appliance standards effort. Based on the results of GAO work soon to be completed, it does not appear that LCE has an adequate basis for such termination.

Relevant GAO Reports. EMD-81-2, EMD-81-122, EMD-82-33

GAO Contact. William C. Oelkers - 252-1400.



INTERNAL FEDERAL GOVERNMENT  
CONSERVATION EFFORTS

Federal Energy Management Program

The administration proposes to terminate funding for the Federal Energy Management Program (FEMP). GAO believes this proposal is unwise not only from an energy conservation standpoint, but also because a strong program can help reduce the Federal Government's energy costs.

In the FY 1982 budget, the administration requested \$1.0 million for the program and stated that this internal conservation effort would be retained. However, in the FY 1983 submission no funds are being requested and the program is proposed for termination. This means that all efforts to develop and carry out a comprehensive energy conservation program, including data collection, Federal buildings conservation plans, and overall coordination and leadership for the Nation's largest single energy user will be abolished.

The Federal Government spent almost \$9 billion in FY 1980 for energy--approximately 2.2 percent of total national energy use. Federal energy use has declined since 1975, but recent trends show it is on the rise. For the first 3 quarters of FY 1981, energy use increased 4.4 percent above the same period for FY 1980. Identifying cost effective conservation opportunities nationwide and taking necessary corrective measures could result in substantial savings. For example, a one-percent decrease in consumption could save about \$90 million.

Numerous GAO reports have concluded that the Federal Government needs to have an aggressive energy conservation program. Yet, many of the legislative and executive order mandates which direct and support an aggressive in-house conservation effort are not being met because of insufficient commitment in the areas of organizational visibility, staffing, and management support.

GAO believes that the Federal Government, as the Nation's largest single energy consumer, needs to have an aggressive energy conservation program. GAO's recent work strongly suggests that problems previously identified in the Federal Government's in-house energy conservation program continue to exist. FEMP has the potential, however, given top management leadership and support at CMB and DCE, to reduce Federal energy consumption and help reduce the Government's \$9 billion energy bill.

Relevant GAO Reports. EMD-81-93, EMD-80-11, EMD-79-11, EMD-79-68

GAO Contact. William C. Oelkers - 252-1400.

## ENERGY EMERGENCY PREPAREDNESS

### Emergency Preparedness Program

The proposed FY 1983 budget for the Emergency Preparedness Program contains \$5.44 million and 72 staff years. This represents a cut of 47 percent (from \$10.25 million) in funds and 23 percent (from 94) in staff from this year's appropriation. The total cut from FY 1981 was 58 percent in funds and 44 percent in staff. The proposed budget may have adequate funding for an emergency preparedness program, but without planning in these areas progress toward energy security will be slow.

The costs of oil disruptions can be high, running into billions of dollars in lost GNP, higher inflation and higher unemployment. An emergency preparedness program is needed to help avert the worst effects of disruptions. To be adequately prepared, the Government needs a program with measures that are: fully developed, tested, kept ready, and can be implemented quickly. Without a commitment to developing such programs, the U.S. will continue to be vulnerable to disruptions.

In September 1981, GAO published an extensive report on emergency preparedness. We recommended improvements in five contingency planning areas which we believe merit attention. The following table summarizes the areas and specific actions we recommended along with DOE's efforts in each area projected for FY 1983. As can easily be seen, DOE's FY 1983 level of effort will only minimally address some of our recommendations.

<u>GAO AREA OF CONCERN AND RECOMMENDATION</u>	<u>DOE FY 1983 LEVEL OF EFFORT</u>
--Increasing oil supplies, including --realistic planning for SPR use, including rates, amounts, timing, and method of distribution,	None
--cooperation with the States in developing plans for surge oil production from government and private oil fields	Minor
--planning for both needed build- up and drawdown of industry- held oil stocks;	None

GAO AREA OF CONCERN  
AND RECOMMENDATION

DOE FY 1983  
LEVEL OF EFFORT

- Substituting for oil, including acquiring needed information and removing constraints to implementing effective emergency programs in
  - switching from oil to gas, Minor
  - switching from oil to coal, Minor
  - increasing electricity transfers, Minor
  - increasing electricity and gas imports, Minor
  - increasing electricity generation from coal and nuclear; Minor
- Developing adequate emergency demand restraint plans on the Federal and State levels, including
  - consumer information programs, None
  - voluntary programs, None
  - mandatory programs, None
  - revising the basic law on demand restraint to make planning and implementation more timely; None
- Replacing the expired EPAA authorities with standby ones to help assure continued oil availability during disruptions, specifically
  - reviewing tax and rebate alternatives to physical oil allocation and recommending legislation if appropriate; Minor

GAC AREA OF CONCERN  
AND RECOMMENDATION

LCE FY 1983  
LEVEL OF EFFORT

- Improving the international emergency preparedness program by
- encouraging higher international oil stock holdings, Minor
  - setting aside some reserves to alleviate small disruptions, Minor
  - reviewing demand restraint and fair sharing programs, Minor
  - establishing a mechanism to resolve price disputes between IEA member countries during disruptions. Minor

Relevant GAC Report. EMD-81-57, EMD-81-117

GAC Contact. Don Forcier - 275-3563

## Strategic Petroleum Reserve

The administration proposes \$2.1 billion for off-budget petroleum acquisition and transportation, and \$242 million for on-budget storage facilities development and operations, planning, and program direction. In addition, the administration proposes to defer in FY 1982 \$53 million for land acquisition and long lead equipment procurement for the Phase III Big Hill site. The effect of the deferral is to delay the development of the 140 million barrel site by one year, thereby delaying the completion of the 750 million barrel SPR by one year until 1990, and to slow the potential fill rate unless alternative storage capacity is made available.

GAO has recently completed a series of periodic status reports and an overall final report on DCE oil fill activities through December 31, 1981. Under current plans, DOE will not be able to fill the SPR at the minimum average annual goal of 300,000 barrels per day established by the Omnibus Budget Reconciliation Act of 1981. In addition, if the current budget and deferral is approved, the SPR will not be filled during FY 1988 at the minimum 100,000-barrel-per-day rate required by the Energy Security Act.

In our December 1981 report, we recommended that DCE evaluate options for achieving an average fill rate of 300,000 barrels per day. DCE's evaluation, which should be available for FY 1983 congressional budget deliberations, should assess costs and benefits to constructing new underground storage facilities, including such options as leasing existing storage capacity. We also stated that the Congress, as part of the FY 1983 budget process, should explore DCE's capacity expansion plans and options to achieve a 300,000 barrel-per-day fill rate. Based on its evaluation, the Congress should reaffirm or provide new guidance on its desired SPR fill rate.

Relevant GAO Reports. EMD-80-127, EMD-81-4, EMD-81-24,  
EMD-81-37, EMD-81-49, EMD-81-85,  
EMD-81-107, EMD-81-118, EMD-81-136,  
EMD-82-7, EMD-82-19

GAO Contact. Flora H. Milans - 353-3408

## Electric System Emergency Preparedness

The administration is proposing to reduce funding for emergency preparedness from \$10 to \$5 million in moving this function to Department of Commerce from Department of Energy. Electric emergency preparedness is under this area. DCE does not know to what extent funds for electrical emergency preparedness will be cut. Under the current proposal, the approximate staffing for the electric emergency area is being reduced from 20 to 10 staff years.

We recently reviewed the vulnerability of the Nation's electric power systems to disruptions from acts of war, sabotage, and terrorism and analyzed the Federal role in dealing with major, long-term electrical emergencies resulting from such acts. We found (1) Federal leadership for electrical emergency planning and preparation is unorganized and ineffective; (2) DOE has an inadequate program for dealing with major electrical disruptions; (3) DCE Emergency Electric Power Administration representatives are unsure of their status, roles, authority, and responsibility, and doubtful that the organization could operate during an emergency; (4) DCE does not have adequate plans to manage and mitigate electric power disruptions; (5) emergency plans to manage such disruptions and restore the power system are needed; and (6) problems exist in Federal coordination with respect to electric emergency preparedness.

GAO believes, and the utility industry concurred, that the Federal Government must take a more active role in developing and coordinating its preparedness plans for electric emergencies. The proposed reductions raise questions whether such plans will be developed. We continue to believe that the Federal Government needs to develop and coordinate a program and plan to deal with electric emergencies.

Relevant GAO Report. EMD-81-50

GAO Contact. John Brown - 275-3572

## FEDERAL RESOURCES MANAGEMENT

### OCS Leasing Program

In July 1981, the Administration announced a proposed new 5-year offshore oil and gas leasing program designed to accelerate the leasing and inventorying of offshore lands for hydrocarbons. Under the proposed program, the Administration plans to hold more sales, offer more land for lease in each sale, and reduce the amount of time required to plan for sales. Revenues to the U.S. Government from offshore leasing and hydrocarbon production are expected to increase substantially as a result of the new program. Fiscal year 1983 revenues are projected to be \$18 billion.

GAO supports reasonable efforts to accelerate leasing and development of hydrocarbons on offshore lands. We have made numerous recommendations in past reports to improve the efficiency and effectiveness of the program--many of these have been adopted by the Interior Department. While in favor of the overall thrust of the Administration's proposed program, GAO believes that serious pitfalls exist in implementing the proposed program--particularly the streamlining procedures. Also, we have reservations as to whether the \$18 billion revenue projection is a realistic estimate.

In December 1981, GAO reported that Interior's planning for the new program fell short of what is necessary to clearly demonstrate that the new program can be successfully implemented. Specifically, GAO noted that Interior had not (1) detailed how the streamlining procedures were to be implemented in practice, (2) assessed the potential impacts of the program, nor (3) evaluated the Department's capabilities to handle the program. GAO also reported at the same time that the program is being accelerated, the Administration is reducing the staff-years (11 percent), and appropriations (5.6 percent) for the program.

Offshore revenues are projected at \$18 billion for the coming fiscal year--a 128 percent increase from 1982. A major factor that will impact on the realization of these revenues is Interior's ability to hold lease sales as planned. In the past, lease sale plans have been frequently disrupted due to litigation brought about by those questioning OCS leasing and development practices. Because of the major changes being made in the program by Secretary Watt, a new round of litigation may emerge once the final program is approved. If this should happen, fiscal year 1983 leasing plans, and the anticipated revenues, may not be realized. Another factor that could impact on revenues, if sales can be held as planned, is industry's valuation of and willingness to lease offered land. Thus far, industry has indicated that it plans to accelerate leasing, however, there seems to be skepticism that the \$18 billion is too high an expectation.

Relevant GAO Reports. EMD-81-48, EMD-81-59, EMD-82-26

GAO Contact. Lowell Mininger - 254-6937

Proposed Transfer of  
Leasing Policy to the  
Department of the Interior

The Department of Energy Organization Act placed several mineral leasing policy responsibilities within DOE, such as establishing production rates for all Federal leases and gathering and analyzing data on fuel supply and demand. The fiscal year 1963 budget request shows these functions transferred to Interior, but no funding is shown for either Department. These responsibilities need to be carried out, but it is not clear how this will be done without the necessary funding.

Specifically, Sections 302(b) and (c) and Section 303 of the DOE Organization Act (P.L. 95-91) established DOE's responsibility for promulgating regulations under the Outer Continental Shelf Lands Act, the Mineral Lands Leasing Act, and other acts to

- Foster competition for Federal leases;
- Implement alternative bidding systems;
- Establish diligence requirements for operations on Federal leases;
- Set production rates for Federal leases, and
- Specify procedures, terms, and conditions for acquisition and disposition of Federal royalty interests.

GAO has not examined the issue of DOE's and DOI's relationship since 1979. However, a report that year stated that the split leasing responsibilities of the Department of Energy and Interior were causing problems. GAO made several recommendations to clarify the roles and responsibilities of each Department.

Relevant GAO Report. EMD-79-60

GAO Contact. Lowell Mininger - 254-6937



## Naval Petroleum Reserves

There are four Naval Petroleum Reserves (NPRs), three under the jurisdiction of the Department of Energy and one under the Department of the Interior. The President's fiscal year 1983 budget request gives the Department of the Interior management responsibility for all of the NPRs. The proposed transfer of the NPRs to Interior will consolidate NPR management. There are no budgetary savings indicated in the budget request for fiscal year 1983 directly attributable to the transfer of functions.

The budget does contemplate continued production from the NPR at Elk Hills, California, which is the ninth largest known petroleum reserve in the United States. The budget request anticipates production at 160,000 barrels of oil per day with the Federal share amounting to approximately 125,000 barrels per day. Gross receipts are estimated to be approximately \$1.7 billion. Funding for this program anticipates continued operation, maintenance, development, and production.

CAO reported in 1981 that the continued production at Elk Hills raises several issues. Any degree of shut-in of Elk Hills would cost the Government substantial revenues. However, continued production at the current maximum efficient rate will quickly deplete the reserve. The present plan is to continue at the present production level and to allocate the Government's share of production to the Department of Defense requirements which could result in consumption of most of this oil during peacetime, non-emergency situations. And further, the plan excludes a set-aside program for small refiners in the area which are almost totally reliant on the set-aside program for their light crude oil needs with few viable alternatives.

Relevant CAC Report. EMD-82-14

CAC Contact. Lowell Mininger - 254-6937

## ENERGY REGULATION AND INFORMATION

### Petroleum Regulatory Activities

The Administration proposes \$14 million for the enforcement of oil pricing regulation in 1983. The Administration also proposes to transfer this activity, now the responsibility of the Economic Regulatory Administration, to the Department of Justice. The \$14 million represents a reduction of \$23 million from the 1982 budget of \$37 million. Unfortunately, the formulation of the \$14 million budget amount was not the result of a carefully developed plan for bringing the oil pricing enforcement program to a fair and orderly resolution.

Although the 1983 budget can probably be reduced, we are concerned that such a large reduction--over 62 percent--might impair the Government's ability to fairly and effectively phase out the compliance program. Under this program there are a large number of unresolved cases involving billions of dollars in alleged violations. As of October 17, 1981, DCE had a compliance staff of 770. Under the proposed 1983 budget plan, DCE would have to reduce its compliance staff to 280 full time equivalent positions during fiscal year 1983. Considering the lack of progress made by DCE in resolving alleged violations over the past year, particularly in the Crude Reseller Program, affected oil companies could perceive such a staffing reduction as a lack of commitment on the part of the Government to effectively resolve all violations and could cease any attempts to settle with the Government.

As recommended in our March 1981 report (EMD-81-45, Mar. 31, 1981), and again in our follow-up report on this subject which we expect to publish in April 1982, GAO believes that DCE should develop a plan calling for the orderly resolution of all outstanding violations and litigation. GAO believes that the pursuit of fair resolutions is important in the interest of fairness to the companies that did not violate pricing regulations and to those companies that agreed to settle their violations, and that a failure to follow through on these charges could set a dangerous precedent for any future enforcement regulations established to implement Federal laws.

Relevant GAO Reports. EMD-81-45, EMD-82-46

GAO Contact. Gerald Elsen - 376-9710

### Coal Switching

The administration proposes to terminate Federal coal switching activities and requests no funding for FY 1983. This proposal is consistent with the administration's plans initiated during FY 1982. Only limited coal switching activities were conducted during FY 1982, using \$4.8 million which had not been spent during the previous year. Program termination means that the Powerplant and Industrial Fuel Use Act regulatory programs will cease.

GAO generally agrees with the administration budget proposal. Increased coal use is not strongly dependent on these programs, since economic incentives to use coal as an alternative fuel exist already. Most new boiler capacity which will be built in the U.S. will be coal-fired, according to various reports. The electric utility industry, for example, has projected that 53 percent of the generating capacity to be added between 1980 and 1989 will be coal-fired, 36 percent nuclear, and only 3 percent oil- or gas-fired. In addition, many utilities have been reducing their oil use and are attempting voluntarily to convert existing boilers to coal. Exemptions from the Powerplant and Industrial Fuel Use Act are available if companies cannot afford to use coal, cannot comply with environmental rules, or are limited to oil or gas use by practical considerations.

Relevant GAO Reports. EMD-81-31, EMD-81-71

GAC Contact. Gerald Elsken - 376-9710

## Utility Programs

The administration's budget proposal appears to provide no Federal funding for utility programs. This proposal would apparently eliminate the third annual report on State and utility consideration of various ratemaking and regulatory standards required by the Public Utility Regulatory Policies Act (PURPA) in order to promote energy conservation as well as Federal interventions in State regulatory commission proceedings. DCE's ability to improve utility planning on a national level would also be eliminated.

GAC has pointed out that States need improvement in electricity demand/supply planning and that electricity planning in many instances goes beyond State boundaries. For these reasons, GAO recommended that DCE take an active role in working with States to improve electricity planning in order to protect consumers and to provide consistency with national energy policy. GAC also recommended that, if State action is inadequate DCE should intervene at State and regional levels to promote consistency with national energy policy. (The Utility Program within DOE is responsible for these functions.)

GAO still believes that the Federal Government has a responsibility to ensure that States and utilities consider the national energy interest in developing plans for balancing electricity supply and demand. Further, electric utilities, States, and Federal Government agencies should work together to improve electric power planning and decisionmaking. This would improve the quality of overall electric planning and help provide better information upon which electricity demand/supply decisions are made.

Ongoing GAC work indicates that with improved planning and data collection, the ability to meet Federal responsibilities for approving international electricity interconnections and power transfers in a timely fashion could be facilitated.

Relevant GAO Reports. EMD-80-112, EML-81-105

GAC Contact. John Brown - 275-3572

## Energy Information

The administration's budget proposal for energy information collection and analysis continues its general policy of deemphasizing the Federal energy information role. Our specific comments on the budget are based on our involvement in the work of the Professional Audit Review Team (PART), an interagency group created by the Energy Conservation and Production Act to perform an annual performance audit of the Energy Information Administration (EIA). The PART Chairman is appointed by the Comptroller General of the United States.

The administration's fiscal year 1983 budget request of \$54.5 million is a \$24.4 million, or about a 31 percent, decrease from the fiscal year 1982 appropriation for energy information activities. However, many energy information systems and functions are specifically mandated by the Congress and cannot be carried out with the reduced funding the administration has requested. The adequacy of the budget request, therefore, is dependent on the willingness of the Congress to remove or alter legislative requirements previously imposed on EIA and transferable to the proposed Bureau of Energy Information within the Commerce Department.

Toward this end, the administration has proposed legislation to relieve the energy information agency from several major legal reporting requirements. Known as the "Energy Information Amendments of 1981", the legislation was submitted to the Congress in May 1981 and proposes to reduce operating costs by allowing EIA to obtain, on a confidential basis, statistical information from other Federal agencies. The legislation also calls for eliminating

- the Financial Reporting System,
- quarterly reports to the Congress on domestic reserves and production, imports, and energy inventories,
- a system for tracking and reporting every transaction, sale, exchange, or shipment involving imports of coal and oil, and
- an annual report on coal reserves disclosure.

The Chairman of the Senate Committee on Energy and Natural Resources introduced the bill in the Senate in May 1981. However, no further action has been taken by the Senate. In the House of Representatives no legislative action has been taken or is currently planned.

Relevant Reports. Draft PART report on EIA Activities, scheduled to be issued in April 1982.

GAC Contact. Ed Kratzer - 376-9713

MILITARY NONDISABILITY RETIREMENT

PROVISIONS NEED TO BE CHANGED

GAO Views - Military retired pay has been one of the fastest growing items in the Defense budget. The President's 1983 budget contains two cost-containment proposals--the proposal to change the annual cost-of-living adjustment formula and a so-called reverse recomputation proposal--both of which we support. However, in our opinion, the President's budget proposal did not go far enough in recommending changes to certain provisions of the military retirement system which are not only costly, but are not justified in that there is no quantitative evidence that these provisions have been cost-effective retention incentives.

These provisions, which should be eliminated, are referred to as "look back," which means that, if retired pay will be higher, a new retiree can "look back" to an earlier active duty pay scale for the purpose of calculating retired pay. One provision allows a new retiree to "look back" to one prior pay scale--even one in effect before the person was eligible to retire--and the other allows a new retiree to "look back" to any pay scale in effect after January 1, 1971, but only if the person had already become eligible to retire under the pay scale to which he or she is "looking back."

Eliminating the one-prior pay scale "look back" provision at this time will produce little if any savings in the current fiscal year because the active duty pay rates now in use would

provide more retired pay than "looking back" to the previous pay scale. Prior to the two recent active duty pay raises and the partial uncapping of Federal executive salaries, however, new retirees benefited from the "look back" authority. Indeed, at any time when cost-of-living adjustments for retirees exceeds active duty raises, "look back" comes into play. If the future pattern of active duty and retired pay adjustments is similar to the historical pattern, significant long-term costs can be avoided by eliminating the 1-year "look back."

The multi-year "look-back" provision should also be eliminated. It was enacted primarily as an incentive to retain highly qualified military personnel on active duty beyond when they first became eligible for retirement. However, neither DOD nor the services have been able to demonstrate quantitatively that this costly provision has been an effective retention incentive. Unfortunately, DOD does not account separately for the cost of either "look-back" provision, nor does it keep automated records from which the cost can be computed. However, the calculated initial annual value of "look back" to a Major General (O-8) retiring with 30 years of service on March 1, 1981, was \$4,474. If this hypothetical General lived an additional 23 years the nondiscounted life-time cost of "look back" for this individual would be about \$239,000, assuming a 7 percent annual inflation rate.

Relevant GAO Reports - FPCD-78-2; November 17, 1977, and ongoing work.

GAO Contact - Jim Johnson - 275-3980

## Federal Civilian Pay Comparability

GAO Views. The Administration is withdrawing the pay comparability proposal submitted to Congress in February 1981 and is anticipating a 5-percent pay increase in fiscal year 1983 for Federal civilian employees. We are concerned that the credibility of the Federal white-collar comparability system has become suspect due to the frequent Presidential use of the alternative plan authority to reduce or delay annual comparability adjustments. Since 1975, Federal white-collar employees have been denied annual comparability increases totalling \$6.9 billion. Similar authority has been proposed for the Federal blue-collar pay system. We believe that this credibility could be improved by limiting the alternative plan authority by the President to truly unusual situations.

The Administration is also planning to initiate a new review of Federal civilian compensation and then submit a new compensation proposal with the fiscal year 1984 budget. Changes to the Federal compensation policies and the pay-setting processes are needed, and the administration's new proposal should include certain features.

GAO has recommended that a policy which allows for adjusting not only pay but also benefits to achieve total compensation comparability between the Federal and non-Federal sectors be adopted. Benefits, however, are numerous, complex, and difficult to quantify, and many assumptions and predictions must be made when estimating benefit levels and costs. While different assumptions may be equally reasonable and acceptable, they can yield different results. With the Federal nonpostal civilian payroll at nearly \$71 billion, changes brought about by instituting total compensation comparability could have a substantial effect.

A further refinement of the principle of comparability would be to include State and local governments in Federal white- and blue-collar pay surveys. We believe that the present legislated pay principle of comparability with the private sector is too restrictive. While the exclusion of State and local governments was originally justified on the grounds that their salaries were "administered rates" which lacked the economic characteristics of private enterprise pay and that pay data gathered from State and local governments would be negligible, compared to data from private firms, conditions have changed. State and local government employees now represent about 15 percent of the civilian work force, and their pay--especially through collective bargaining--has become more competitive in the marketplace. We support their inclusion.

Salaries for comparable jobs often vary substantially from one geographic area to another. Setting Federal white-collar pay on a locality basis similar to the Federal blue-collar system would lessen situations where the Federal Government overpays in some areas and is unable to effectively recruit and retain employees in others. It would also obviate the need for separate cost-of-living allowances in nonforeign areas.



We support the movement to a locality pay system. We have some concerns, though, over how a total compensation policy might be implemented on a locality basis. Since indications are that private sector benefits can vary significantly from area to area, the use of local pay but national (instead of local) benefit measures in a total comparability analysis and adjustment could introduce some additional inequities into Federal compensation. We have recommended that OPM analyze local benefits, and if they are found to differ materially by locality, OPM should be required to take not only local pay but also local benefits into account when assessing and adjusting Federal compensation on the local level.

GAO has recommended several other changes to certain features in the blue-collar pay system that cause Federal wages to depart from prevailing private-sector rates. The features that should be modified are

- a five-step grade system with the average private-sector rate equated to the Federal step 2 even though 80 percent of the employees are above step 2,
- Federal rates which are sometimes set on rates paid in other than the local wage area,
- night-shift differentials that are not set according to local prevailing practice, and
- exclusion of State and local government jobs from the pay surveys.

By causing Federal blue-collar pay to exceed private-sector rates, these features reduce confidence in the Government's pay-setting policies, and increase outlays for pay and benefits. To the detriment of Federal blue-collar employees, these features also increase the likelihood of contracting out inasmuch as private-sector employees will tend to be less costly.

We support attempts to make Federal premium pay more consistent with non-Federal practices. For example, as mentioned earlier, cost-of-living allowances--a form of premium pay--for Federal employees in non-foreign areas should be unnecessary under a locality-determined pay system supplemented by special staffing differentials. We also believe that a comprehensive approach is needed to reconcile inherent conflicts not only between the Fair Labor Standards Act and certain title 5 provisions (such as overtime entitlement) but also among all of the statutes, regulations, and instructions affecting premium pay.

We are generally in favor of the executive branch having additional pay flexibilities for recruiting and effectively managing a quality work force. For example, we have in the past recommended that more rational pay systems are needed to be designed around more logical groups of occupations. The authority to establish special occupational schedules for Federal white-collar employees could greatly assist in this area.

Changes should be made to the current pay-setting process to eliminate survey duplication, reduce Government survey costs, reduce private sector respondent burden, and maximize the use of Government resources. These changes are:

- Amend the Prevailing Rate Systems Act of 1972, making BLS responsible for conducting the Federal Wage System Surveys as part of its area wage survey program.
- Direct the Office of Personnel Management in coordination with the Department of Defense, to study the feasibility of (1) having BLS do the nonappropriated fund wage surveys or (2) linking or indexing nonappropriated fund wages to the appropriated fund pay system.
- Amend the Federal Pay Comparability Act of 1970 to eliminate the requirement to conduct the comparability survey each year and to provide for interim year pay adjustments by using BLS's Employment Cost Index.

Relevant GAO Reports. B-167266, May 11, 1973; FPCD-75-122, June 3, 1975; FPCD-75-62, July 1, 1975; FPCD-76-9, October 30, 1975; FPCD-75-161, February 12, 1976; FPCD-76-95, April 18, 1977; FPCD-78-60, July 21, 1978; FPCD-80-12, October 29, 1979; FPCD-80-17, November 13, 1979; FPCD-80-82, September 5, 1980; and FPCD-81-12, December 5, 1980; FPCD-81-50, June 23, 1981.

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