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

January 1996

STATUS OF OPEN RECOMMENDATIONS

Improving Operations of Federal Departments and Agencies





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

**Comptroller General
of the United States**

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January 16, 1996

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

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

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

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

This is our annual report on the status of open recommendations resulting from the General Accounting Office's (GAO) audits, evaluations, and other review work in federal departments and agencies. To encourage prompt, responsive actions on our recommendations, we systematically followup on them and annually report on their status.

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

A handwritten signature in black ink that reads 'Charles A. Bowsher'. The signature is written in a cursive, flowing style.

Charles A. Bowsher
Comptroller General
of the United States

Preface

Each year, GAO's work contributes to many legislative and executive branch actions that result in significant financial savings and other improvements in government operations. Some, but not all, are identified through GAO's system for periodically following up to determine the status of actions taken on the recommendations made in its audits and evaluation reports. About 3 out of 4 recommendations made over the past 5 years have been implemented.

This report includes issue area summaries highlighting the impact of GAO's work and associated key open recommendations. It also includes a set of computer diskettes with details on all open recommendations. This information should help congressional and agency leaders prepare for upcoming appropriations and oversight activities and stimulate further actions to achieve the desired improvements in government operations.

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

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

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Abbreviations

ACS	Automated Commercial System
AFDC	Aid to Families With Dependent Children
AHCPR	Agency for Health Care Policy and Research
AID	Agency for International Development
AOUSC	Administrative Office of the United States Courts
ATC	air traffic control

BIA	Bureau of Indian Affairs
BIF	Bank Insurance Fund
BLM	Bureau of Land Management
CBO	Congressional Budget Office
CDR	Continuing Disability Review
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CHCS	Composite Health Care System
CRADA	cooperative research and development agreement
CRS	Congressional Research Service
DBOF	Defense Business Operating Fund
DFAS	Defense Finance and Accounting Service
DI	Disability Insurance
DOD	Department of Defense
DOE	Department of Energy
DOJ	Department of Justice
DOT	Department of Transportation
EEOC	Equal Employment Opportunity Commission
EPA	Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
FAA	Federal Aviation Administration
FACNET	Federal Acquisition Computer Network
FAS	Foreign Agricultural Service
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FDA	Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FHWA	Federal Highway Administration
FSA	Farm Service Agency
FTA	Federal Transit Administration
FYDP	future years defense program
GAO	General Accounting Office
GNMA	Government National Mortgage Association
GPRA	Government Performance and Results Act
GSA	General Services Administration
GSE	government-sponsored enterprise
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services

HMO	health maintenance organization
HRM	human resources management
HUD	Department of Housing and Urban Development
IG	Inspector General
IHS	Indian Health Service
INS	Immigration and Naturalization Service
IRM	information resources management
IRS	Internal Revenue Service
IT	information technology
JOBS	Job Opportunities and Basic Skills Training Program
MTS	Medicare Transaction System
NASA	National Aeronautics and Space Administration
NASD	National Association of Securities Dealers
NATO	North Atlantic Treaty Organization
NEH	National Endowment for the Humanities
NHTSA	National Highway Traffic Safety Administration
NIH	National Institutes of Health
NIST	National Institute of Standards and Technology
NOAA	National Oceanic and Atmospheric Administration
NPR	National Performance Review
NPR-1	Naval Petroleum Reserve in Elk Hills, California
NRC	Nuclear Regulatory Commission
NRCS	Natural Resources Conservation Service
NSF	National Science Foundation
NSLDS	National Student Loan Data System
NWS	National Weather Service
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
PBGC	Pension Benefit Guaranty Corporation
PMAs	power marketing administrations
PME	personnel management evaluation
RCRA	Resource Conservation and Recovery Act
RHCDS	Rural Housing and Community Development Services
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SIM	strategic information management
SRO	self-regulating organization

Contents

SSA	Social Security Administration
SSI	Supplemental Security Income
TSCA	Toxic Substance and Control Act
TSM	Tax Systems Modernization
TVA	Tennessee Valley Authority
USDA	United States Department of Agriculture
USEC	United States Enrichment Corporation
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration

Improving National Security and International Affairs Programs

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

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

Impact of GAO's Work

Each year, the Department of Defense (DOD) spends about \$118 billion on goods—ranging from military weapons to computers to everyday commodities—and a wide array of services. New budgetary realities are accelerating demands for fundamental changes in DOD's acquisition system as a prerequisite to making it a more efficient purchaser.

A number of initiatives are underway in DOD to make it a "world class buyer." For example, efforts are underway to downsize the acquisition workforce, streamline and simplify the regulations governing defense acquisition, reengineer oversight and management systems and processes, reduce or eliminate nonvalue-added regulatory requirements, and employ best practices in the development and production of major weapon systems. All of these efforts are aimed at maintaining a technologically superior military capability at an affordable price.

During fiscal year 1995, we continued to focus our evaluations on DOD's efforts to improve its acquisition process. In our reports and testimony, we highlighted the high cost of DOD's unnecessary reliance on military specifications and standards in acquiring new weapon systems. We also reviewed DOD's efforts to implement the Federal Acquisition Streamlining Act of 1994 and expressed concern about the lack of a well-defined architecture and overall strategy for implementing the Federal Acquisition Computer Network (FACNET). Finally, we examined the Army's purchase of a new training helicopter, which the Army cited as an early example of success in streamlining its acquisition system.

Another outcome of recent defense budget reductions is the acceleration of defense industry mergers and acquisitions. DOD is paying a large share of the costs of restructuring activities with the expectation that it will ultimately recoup benefits exceeding those costs. In addition, the declining industrial and technology base is increasing congressional concerns that costly weapon systems must be built to sustain pockets of industrial base production and technology capabilities.

In our reports and testimony, we highlighted issues related to (1) DOD's efforts to ensure that the critical technology and production capabilities needed for both short- and long-term national security will be available, (2) the continuing mergers and acquisitions in the defense industry, and (3) the government's infrastructure for and management of defense-related science and technology, particularly Federally Funded Research and Development Centers.

Key Open Recommendations

Our work has shown that DOD overpaid contractors millions of dollars. Sound financial controls are critical to ensuring that DOD effectively manages contracts and that taxpayers' funds are disbursed properly. We reported that during a 6-month period, the Defense Finance and Accounting Service (DFAS) in Columbus, Ohio—the principal DOD contract paying activity—processed \$751 million in checks from defense contractors. Our examination of \$392 million of the \$751 million returned by contractors disclosed that about \$305 million, or about 78 percent, represented overpayments by the government. DFAS-Columbus overpaid contractors principally because it (1) paid invoices without considering previous progress payments or (2) made duplicate payments. The majority of these overpayments were detected by the contractors rather than the government.

Subsequently, we examined the records of a group of large and small defense contractors to identify both overpayments and underpayments. We found that 374 business units representing 82 large defense contractors and 57 small contractors reported about \$232 million in outstanding overpayments and about \$626 million in underpayments. These contractors generally followed up to collect underpayments but did not always return overpayments unless instructed to do so.

Unfortunately, DFAS cannot readily detect payment discrepancies because of significant errors in its automated payment records. Thus, incorrect payments are likely to continue. Further, DFAS has not aggressively pursued the recovery of overpayments reported by the contractor or identified through contract reconciliation. We estimate that delays in collecting \$84 million in overpayment cost the government about \$10.6 million in interest.

We recommended that DOD mobilize available DOD contract, financing, and audit resources to identify, verify, and correct payment discrepancies identified in contractors' records. DOD told us that various actions were

underway or planned to reduce payment discrepancies and to use contractor records to facilitate reconciliations. (GAO/NSIAD-94-245 and GAO/NSIAD-96-8)

Our work has also shown that unclear lines of jurisdiction among federal agencies responsible for stealth-related commodities and technology may lead to the inappropriate export of militarily sensitive stealth items. Stealth technology greatly improves the effectiveness of military weapons and forces and, as such, is highly sensitive for national security reasons. Some stealth-related materials and processes also have civilian applications, making it difficult for the United States to control exports and further dissemination of the commodities and to retain leadership in stealth technology. Thus, we recommended that the Secretary of State, with the concurrence of the Secretary of Defense and in consultation with the Secretary of Commerce, clarify the licensing jurisdiction for all stealth-related commodities and technologies. We also recommended that the Secretary of Commerce revise licensing referral procedures on all stealth-related items on the Commerce Control List to ensure that Commerce refers all applications for the export of stealth-related commodities and technology to DOD and State for review unless the Secretaries of Defense and State determine their review is unnecessary. (GAO/NSIAD-95-140)

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

GAO Contact: David R. Warren, 202/512-8412

Impact of GAO's Work

Defense and National Aeronautics and Space Administration (NASA) managers face many challenges as they strive to streamline operations, control high cost programs, reduce infrastructure costs, and accomplish their missions in a constrained fiscal environment.

Our overall strategy for Defense Management and NASA issues is to identify innovative, efficient, and cost-effective approaches for managing DOD and NASA operations as well as opportunities for reducing infrastructure costs. Our work focuses on identifying opportunities for reengineering and streamlining Defense and NASA operations through new processes and best management practices and, where appropriate, privatization of functions and activities. Our goal is to identify opportunities to save money, achieve management efficiencies, and improve results.

Although DOD recognizes the need to reengineer and streamline its operations and infrastructure, cultural changes are needed to overcome long-standing problems and to decrease costs, particularly in the areas of inventory management and installation support activities. For example, infrastructure costs accounted for \$160 billion (59 percent) of DOD's fiscal year 1994 budget. DOD anticipates that savings and efficiencies will be achieved as a result of the base closure process and that additional infrastructure savings and efficiencies could be achieved through further consolidation of functions. Our work has shown that best practices in the private sector often serve as excellent models for change.

NASA's budget continues its downward trend. In such an environment, NASA needs to make its projects affordable by identifying and implementing more efficient management practices, developing a more efficient infrastructure, improving its oversight of contractors, and entering into domestic and international arrangements that allow for the sharing of development costs and risks with others. NASA also needs to make its research results more relevant and available to other sectors of the U.S. economy.

Key areas we focused on in fiscal year 1995 included assessing DOD's base closure and realignment process, the transition of former bases to civilian use, depot maintenance workloads, inventory management, and opportunities to save money and achieve management efficiencies by implementing best management practices. We also addressed unfunded liabilities facing DOD, including environmental cleanup costs at bases being closed and the disposal of the chemical weapons stockpile. Regarding NASA, we focused on issues dealing with the affordability and cost, schedule, and performance of major programs such as the space station, shuttle, and Earth Observing System.

Key Open
Recommendations

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

To ensure that DOD's medical prime vendor programs are more consistently and aggressively applied, we recommended a number of actions to enhance the partnership between DOD medical facilities and the prime vendors, further reduce inventory layers in the DOD system, and bring military medical facilities closer to the levels of success achieved by progressive private sector hospitals. The recommended actions included integrating the vendor into day-to-day supply operations and using the vendor's expertise to improve inventory management operations. (GAO/NSIAD-93-173)

To help resolve environmental cleanup issues at military bases that are being closed and realigned, we recommended that DOD (1) develop an environmental program cost estimate that reflects the total financial impact of realignment and closure actions, (2) limit the approval of sites for high priority cleanup, and (3) develop standards for assessing the program's progress. (GAO/NSIAD-95-70)

On the basis of our analysis of DOD's 1995 military base closure and realignment process and recommendations, we made a number of recommendations to improve future rounds, including identifying and making policy decisions that would result in further reductions in infrastructure prior to beginning the process. (GAO/NSIAD-95-133)

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

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

Impact of GAO's Work

During fiscal year 1995, we (1) reviewed DOD's proposed fiscal year 1996 funding for operations and maintenance to identify potential budget reductions; (2) assessed several key military capabilities, including U.S. and South Korean capabilities to defend Korea, DOD capabilities to detect and clear unexploded ordnance, and the capabilities of medical forces; (3) reviewed several DOD programs aimed at ensuring retention of a quality force, including those related to recruiting, housing, movement of household goods, and equal opportunity; and (4) evaluated several aspects of DOD's readiness to engage in military operations. We provided the Congress with a major analysis of readiness indicators and trends from a cross section of military units from all the services. We also reported on the readiness of National Guard combat troops, changes in personnel staffing over the course of the drawdown, DOD budgeting for operating tempo and depot maintenance, and DOD joint training activities.

DOD has acted on many of our recommendations to improve readiness. For example, DOD will now require the services to separate reserve personnel who repeatedly fail either mission-specific or general fitness tests and has instituted more controls to ensure the integrity of physical fitness test results. In response to our report on readiness indicators, DOD is tracking data on a subset of the indicators we identified and is assessing the usefulness of this data in predicting future readiness. Based on the readiness deficiencies we noted in the Army National Guard, DOD took several remedial actions to ensure the reasonableness of training goals, clarify the role of active Army advisers, and develop pre-mobilization training strategies for mechanized and light infantry forces.

DOD also acted on our recommendations to improve efficiency in military operations. For example, it reduced the number of flying hours during which the C-5 and C-141 airlifters are used in peacetime and agreed to study our other suggested ways to extend these aircrafts' service lives. Based on our analysis of claims related to the movement of household goods, DOD has shifted substantial claims costs from the government to the commercial carriers. This change will provide carriers an increased

incentive to improve their service and save DOD millions of dollars annually.

In the inventory management area, DOD directed the Army to reevaluate its inventory levels in light of our findings that (1) installation supply subsystems could readily fill the need for items also stocked by resident divisions and (2) divisions retain inventories of items that are rarely demanded by customers. Savings from reduced inventories should exceed \$100 million. Based on our finding that the services were basing inventory levels on excessive leadtimes, DOD reduced the Defense Business Operating Fund (DBOF) purchase authority of the Army, Air Force, and Defense Logistics Agency by \$966.8 million. Given this reduction, these entities will be forced to reduce acquisition leadtime as we recommended and thereby reduce their inventory levels.

The Congress has reduced the services' and DOD's fiscal year 1995 operations and maintenance budget requests by over \$1 billion. Almost \$900 million of this reduction related to specific issues identified during our annual review. These suggested reductions were based on work that identified potential savings in the areas of inventory management, civilian personnel, and funding related to the defense facilities turned over to host governments overseas. Based in part on our work, the Congress also mandated that DOD prepare a report on the readiness of combined U.S.-South Korean forces. This report describes U.S. and South Korean actions to improve the combined forces' ground warfighting capabilities.

**Key Open
Recommendations**

In January 1995, we reported many inefficiencies in DOD's recruiting program and concluded that additional funding might not improve the quality of personnel recruited. For example, we found that 50 percent of all recruiting offices accounted for only about 13.5 percent of all new recruits. We also found that recruiting challenges were overstated in that DOD had met its recruiting goals over the course of the drawdown, recruit quality had actually increased, and the recruiting pool was expected to grow steadily through the year 2000. We recommended that rather than increase funding for recruiting, DOD (1) develop a more cost-effective mix of recruiters and advertising, (2) streamline its recruiting bureaucracy by eliminating management layers, (3) encourage consolidation of recruiting offices, and (4) close unproductive recruiting offices. Adopting our recommendations would lower costs and improve efficiency without jeopardizing the effectiveness of the recruiting program. (GAO/NSIAD-95-22)

Substantial savings and other operational benefits could accrue if DOD were to identify and replace military support positions with civilians. In our October 1994 report, we showed major differences among the services in the percentage of positions in specific support fields that were filled by civilians. Our analysis showed that civilians could be used for up to 147,000 military positions DOD-wide at an estimated savings of \$2 billion—the savings that would result if a comparable number of military positions were removed from the force. In a mandated report to the Congress, DOD reported on an occupational analysis of its workforce and concluded, as we did, that civilians could be used for many positions. However, DOD does not plan to make such conversions until the drawdown is completed on the grounds that it would be counterproductive to increase civilian positions while the total workforce continues to decline. Our position is that the sooner these identified positions can be converted, the sooner these savings can be realized. (GAO/NSIAD-95-5)

National Security
Analysis Issue Area
(Budget Function 050)

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

Impact of GAO's Work

DOD faces many critical issues in implementing the nation's national security policy with a smaller fighting force to respond to post-Cold War national security needs. DOD's forces must be maintained in a high state of readiness and capability and be modernized in an environment of tight budgets and concern over balancing the budget. DOD must overcome diverse obstacles as it seeks the right balance. Our reports and testimonies have been used extensively by the Congress in its oversight of budget, force structure, peacekeeping, modernization, and intelligence issues.

We assisted the Congress in its efforts to evaluate DOD's budget and the reasonableness of the future years defense program (FYDP). For example, we testified on the major funding assumptions underlying DOD's fiscal years 1995-99 FYDP. We stated that the FYDP contained a substantial amount of cost risk, with potential overprogramming exceeding \$150 billion. We also reported on the level of spending in the FYDP on programs not directly related to defense—about \$13 billion to \$15 billion. We subsequently reviewed the fiscal years 1996-2001 FYDP and reported that it was considerably different from the previous FYDP in that the total defense program increased by about \$12.6 billion in the four common years of both plans and that there was a considerable shift from procurement to other accounts.

We helped the Congress evaluate DOD's downsizing plans by analyzing the assumptions underlying force structure decisions and assessing alternative ways to accomplish missions. For example, we examined the key assumptions underlying DOD's bottom-up review of the nation's defense needs to determine whether they reasonably supported DOD's conclusion that the projected force, with capability improvements, can execute the stated military strategy. We reported that DOD had not fully analyzed key bottom-up review assumptions about the availability of forces, supporting capabilities, and enhancements to those capabilities that it concluded were necessary for executing the strategy. We further reported that some of DOD's assumptions were questionable. We also reported on options for augmenting wartime support capability by using Army National Guard divisions.

Our reviews of peacekeeping issues have increased congressional information on how these types of operations affect DOD's military operations and resources. For example, we reported that peace operations have heavily stressed some U.S. military capabilities, including certain Army support forces and specialized Air Force aircraft. We further reported that extended participation in multiple and/or large-scale peace operations could impede the services' timely response to major regional conflicts. Since peace operations can have a major impact on DOD's annual spending plans, we reported on the cost of peace operations in fiscal years 1994 and 1995 and the adequacy of funding in fiscal year 1994 to cover reported costs. To assist the new Congress we also summarized our past and ongoing work in a report on U.S. and United Nations activities in support of peace operations.

We have provided information to the Congress on the modernization of weapons systems. For example, we testified and reported on the Navy's shipbuilding programs and the planned F-14 upgrade. We concluded that the Navy could defer planned construction of a new aircraft carrier without adversely affecting its force structure objectives. We also reported that there were alternatives for a more affordable attack submarine force structure and testified that building the Seawolf submarine was unnecessary. We also reported that the planned F-14 upgrade was not justified. The Congress subsequently reduced the program by \$400 million.

We have assisted the Congress in its decision-making on intelligence issues. For example, we reported on efforts to reorganize defense intelligence and support military operations and on signal intelligence matters.

Key Open Recommendations

We made several recommendations to DOD to overcome its budgetary and force structure problems. We recommended that the Secretary of the Army consider the merits of restructuring one or more of the latest deploying National Guard combat divisions to provide additional personnel spaces to (1) round out active divisions at the battalion and company levels and (2) add reserve support units to the Army's force. We subsequently recommended the Army identify other ways to more productively use the National Guard to support the active Army. (GAO/NSIAD-93-80 and GAO/NSIAD-95-80)

We also made several recommendations to the Secretary of Defense to seek consolidation of North Atlantic Treaty Organization (NATO) nuclear

Chapter 1
Improving National Security and
International Affairs Programs

bases and storage sites and to obtain greater host nation support from the NATO allies. (GAO/NSIAD-94-84)

Systems Development and Production Issue Area (Budget Function 050)

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

Impact of GAO's Work

The U.S. armed forces' technologically advanced weapon systems have been seen as a major factor in U.S. military success. Our technological superiority was emphasized as the strength we needed to meet the numerically superior Warsaw Pact. The need to maintain this edge even after the collapse of the Soviet Union and the dissolution of the Warsaw Pact has been a constant theme of the services and DOD. However, the long-range cost of acquiring the advanced systems that the services see as needed is staggering—especially as defense budgets shrink.

In response to congressional interest in reducing unneeded expenditures, we continued in fiscal year 1995 to evaluate requirements for and the economy, efficiency and effectiveness of planned acquisitions of major air, sea, ground, space, missile, electronic warfare, and command, control, communication, and intelligence systems. In addition, to assist the Senate and House Appropriations Committees, the Senate Armed Services Committee, and the House National Security Committee, we conducted specific budget analyses that identified about \$2.4 billion in potential reductions/rescissions and restrictions in the fiscal year 1996 and prior year procurement and research, development, test, and evaluation budgets. We also identified about \$125 million in potential reductions in the ammunition budget.

We continued our work in support of congressional deliberations on the B-2, F-22, C-17, and B-1B aircraft. For example, we identified \$48.7 million in specific reductions in the C-17 budget for initial spare parts and found that as much as \$10 billion could be saved by buying a mixed fleet of C-17s and commercial freighters.

Our work on DOD space programs has resulted in recommendations for changes that could reduce program costs by about \$3 billion.

Our sea systems work has contributed to the restructuring and combining of the National and International Surface Ship Torpedo Defense Programs and a planned reduction in program expenditures of about \$1.4 billion.

During our work on unmanned aerial vehicles, we found that DOD plans to proceed to production before adequately testing a new system. We recommended that the Secretary of Defense change the maneuver system's acquisition strategy to ensure that sufficient operational testing will have been done before low-rate production is initiated. This testing should demonstrate that the system can achieve its primary mission and meet performance and suitability requirements.

**Key Open
Recommendations**

In August 1993, we reported on the Army's procurement of medium tactical trucks—the 2.5-ton and 5-ton payload classes. The original procurement plan called for replacing about 120,000 trucks over 15 years at a cost of over \$17 billion. Because the plan to stretch out the procurement over 30 years was not practical, we recommended that the Secretary of the Army not proceed to full-rate production until a reassessment of the plan was complete. The Army now plans to do a full program assessment during fiscal year 1996. We subsequently found that the Army planned to increase the number of vehicles authorized for low-rate initial production. We recommended that the Army cancel plans to modify the contract and delay the planned production increase until the system has successfully completed operational testing. (GAO/NSIAD-93-232 and GAO/NSIAD-95-77R)

Our analysis of the C-17 program showed that significant savings were possible through the acquisition of a mixture of C-17s and commercial freighters instead of 120 C-17s. We recommended that the Secretary of Defense establish specific cost, schedule, and performance criteria to evaluate improvements in the contractor's performance to help make an informed decision whether to continue the program. We also recommended in a subsequent report that the Congress not support the C-17 program beyond the minimum number needed to fulfill unique military requirements. (GAO/NSIAD-94-141 and GAO/NSIAD-95-26)

During our review of the Advanced Field Artillery System, we found that the Army plans to proceed to the next stage in development, even though it had not corrected identified problems. The system uses a technology that cannot currently meet its required rate of fire. We recommended that the Army continue the concurrent development of the unicharge gun until the liquid propellant gun technology has been successfully demonstrated in live-fire tests and postpone the artillery system integration until it makes a decision whether to proceed with the liquid propellant or unicharge gun. (GAO/NSIAD-95-25)

In our work on the F-22 aircraft, we found that the program involves a high degree of concurrency despite the degree of inherent technical risk. The F-22 will enter production well before commencement of initial operational test and evaluation. We recommended that the Air Force reduce the degree of concurrency and limit low-rate initial production to six to eight aircraft a year. (GAO/NSIAD-95-59)

Information
Resources
Management -
National Security and
International Affairs
Issue Area (Budget
Function 990)

GAO Contact: Jack Brock, 202/512-6240

Impact of GAO's Work

The effective and efficient use of information resources is essential to the agencies that we audit—DOD, NASA, the State Department, and USAID. These agencies spend about \$40 billion annually—75 percent of the federal government's expenditures for computers and software—for everything from automated business and financial systems, to computer systems embedded in space and weapons platforms.

This investment in technology is critical if these agencies are to (1) streamline operations and downsize, (2) strengthen financial accountability and control, and (3) maintain world leadership in space and weapons technology. However, the benefits available through the effective use of technology are not being achieved. Automated systems are not being effectively implemented, technology dollars are not being wisely spent, and the military components are still working more independently than need be. This not only increases costs, but undermines the ability of these agencies to effectively and efficiently accomplish their missions.

Over the past year, our work has heightened the awareness of the Congress and agency management to the severity of the problems they face. Our accomplishments include the following.

- Using our prior DBOF work as a basis, the National Defense Authorization Act for Fiscal Year 1995 directed the Secretary of Defense to submit to the congressional defense committees a report on the progress made in implementing the September 1993 DBOF Improvement Plan. In March 1995, we reported that after 3 years of effort, DOD continued to have problems in effectively operating the \$77 billion entity and little progress had been made in resolving the long-standing problems that hinder the operations of DBOF. Specifically, we found that DOD has not (1) developed a process to ensure that DBOF's policies are consistently implemented, (2) improved the accuracy and reliability of DBOF's systems, (3) improved the accuracy of

DBOF's monthly financial reports, (4) adequately managed DBOF's cash, and (5) developed performance measures and goals. Acting upon the results of our work, the Congress reduced Defense's fiscal year 1995 budget request by approximately \$200 million.

- Our work on DOD disbursements has helped the Congress better understand the magnitude of DOD's lack of adequate financial controls over its disbursement operations. For years, DOD had successfully downplayed the seriousness of its disbursing problems until our work disclosed that the Department could not adequately account for and report on over \$25 billion of payments it had made to contractors. After we identified the seriousness of the problem, the Congress enacted legislation to strengthen controls over DOD's payments to contractors. In addition, DOD has numerous initiatives underway and planned to address our findings, conclusions, and recommendations. When fully implemented, these initiatives will significantly improve financial management within DOD.
- Our DBOF, disbursement, and reengineering work were key ingredients of the testimonies presented to the Senate on DOD's efforts to reform its financial management operations. The successful implementation of these reform efforts will play a critical role in making sure that every possible defense dollar goes toward maintaining the readiness of the fighting force while reducing the costs of DOD's support operations. The results of our DOD financial management work were highlighted in several congressional committee reports on DOD's fiscal year 1996 budget process.
- Our work at the State Department resulted in significant improvements in the agency's information resources management (IRM) operations. For example, consistent with our recommendation, State has established an executive level board of senior officials to review proposed information technology investments. State is also initiating a departmentwide planning process to better integrate the IRM planning and budgeting functions.
- Our reviews of DOD and governmentwide telecommunications issues were highly influential in improving two major programs. For example, our work on the Defense Information Systems Network contributed to DOD taking steps to reassess and to adequately identify its requirements. Further, our testimony on planning for the Post-FTS 2000 acquisition identified 8 key issues that the General Services Administration (GSA) needs to address before the final requests for proposals are released. These issues were widely endorsed by industry and government officials as central to the success of this multibillion dollar program.

- DOD's continuing difficulties in managing automated information systems were the impetus for our review of its management controls and performance measures. We evaluated DOD's report to the Congress, which discussed DOD's new performance measures. Our review disclosed that the measures were inadequate because they did not effectively measure the benefits, or outcomes of modernizing, operating, and maintaining the systems. As a result, the committee directed DOD to reevaluate the reported performance measures and to develop acceptable, precise performance measures to effectively measure the benefits, in terms of dollars and contribution to mission performance, of implementing migration systems, establishing data standards, and improving processes.
- DOD continues to have great difficulty in managing the development, acquisition, and support of computers and software embedded in weapons systems. The effectiveness with which DOD manages its \$20+ billion annual investment in software often determines the success or failure of today's major weapons acquisition programs. Our work this year on the C-17 aircraft, the B-1B Bomber, and the Comanche helicopter continued to chronicle the software problems plaguing these programs and helped focus congressional and top-Defense management attention on this important, but often neglected area. In order to leverage our resources, we will continue to work with DOD, the Software Engineering Institute, the Software Program Managers Network, and others to help improve software acquisition management practices. We expect these improved practices to increase software quality and reduce costs in future acquisitions.
- Our 1994 report on the Navy's TAC-4 computer procurement identified opportunities to significantly improve the acquisition. In following up our report this year, we noted that the contract was awarded in January 1995 at significantly less cost than originally projected. Our overall work on the TAC-4 procurement resulted in increased competition, improved contract administration, and a cost avoidance of more than \$900 million over the 6-year life of the contract.
- Our recent work on DOD's Depot Maintenance Standard System resulted in adjustments to DOD's migration systems strategy to take advantage of commercial off-the-shelf technology and cut implementation time frames for this important readiness-related program. We are currently working with DOD to evaluate plans for expanding the Automated Systems Demonstration project at Warner-Robbins Air Force Base to other high

priority areas in materiel management and transportation, thereby gaining near-term benefits and return on investment in military readiness areas.

- Our review of DOD's administrative travel processes concluded that DOD was spending about 30 percent of each travel dollar on administrative expenses while well-run organizations spent less than 6 percent. We concluded that DOD's travel processes could be reengineered with a resulting savings of several hundred million dollars per year with increased levels of service for the traveler. DOD now has 30 pilot projects to test new ways of administering travel and expects to have new processes in place over the next 2 years.

**Key Open
Recommendations**

One of the benefits DOD cited in the establishment of DBOF was that the central management of cash at the Office of Secretary of Defense (Comptroller) level would result in a reduction in the amount of cash needed for day-to-day operations. However, on February 1, 1995, the management of cash and related Antideficiency Act limitations was returned to the military service and Defense component level. This change is a major departure from the benefits of a single cash balance and could result in DBOF cash requirements increasing. We recommended that DOD reverse its decision. The House National Security Committee has proposed legislation requiring that the management of DBOF cash be returned to the Office of the Secretary of Defense. (GAO/AIMD-95-80)

**International Affairs
Issue Area (Budget
Function 150)**

GAO Contact: Benjamin Nelson, 202/512-4128

Impact of GAO's Work

U.S. national security and foreign affairs policies and objectives continue to come under scrutiny in recognition of continuing global change and the corresponding need to reassess the extent to which military, political, and economic activities serve U.S. interests. Federal budget constraints have further reinforced the need to reexamine the foreign affairs infrastructure, program priorities, and management performance. In fiscal year 1995, our work focused on foreign affairs management, the efficiency and effectiveness of bilateral assistance programs, and expenditures of international organizations to which the United States is a major contributor.

To assist the Congress in its oversight responsibilities and have a significant impact on major aspects of the U.S. government's foreign policy and economic assistance organizations, we completed comprehensive assessments of U.S. arms control efforts, assistance to the former Soviet Union, U.S. involvement in various peacekeeping operations, and U.S. antinarcotics programs. We also completed work to identify cost savings opportunities in the Department of State's overseas operations. In addition, we examined some of the key programs and activities of the U.S. Agency for International Development (USAID).

We issued several reports on assistance to the former Soviet Union successor states to promote economic change and development and the destruction of weapons of mass destruction. Our review of assistance to the successor states resulted in the first comprehensive inventory of U.S. government programs, thereby enabling the Congress to understand the full magnitude of the programs of 23 agencies as it considers the level of future support. Similarly, our assessment of the multibillion dollar weapons destruction program for the former Soviet Union led to improved planning by DOD, strengthened congressional oversight, and resulted in a significant reduction in funds appropriated for this program.

Our work on United Nations peacekeeping documented the many problems encountered in missions in Cambodia, Bosnia, Somalia, Haiti, and elsewhere; detailed U.S. costs of some of these operations; and showed that the existing cost-sharing formula results in the United States paying a large share of multilateral peacekeeping costs. We facilitated

discussions between the State Department and DOD on ways to better coordinate the military and humanitarian components of peacekeeping. Our reports and briefings contributed to the congressional debate over U.S. participation in these operations. Additionally, the United Nations has taken steps to improve its logistics operations and internal coordination based on the lessons learned that we identified.

From our examination of U.S. bilateral assistance, we identified programs that are not achieving their intended objectives as well as significant management weaknesses. An example of one of these programs is USAID's Housing Guarantee Program, a key component of the overall foreign aid program. During a fundamental assessment of the program, we found that it was not achieving the desired outcomes and was costing the United States millions of dollars, with a potential unfunded liability of more than \$1 billion.

In our report on the U.S. military presence in Honduras, we identified obsolete missions and excessive military resources. We questioned whether the U.S. military presence in Honduras was needed and recommended that DOD reduce the U.S. military presence to levels necessary to support antidrug activities. The Department accordingly reduced the level of military personnel and equipment and revised its mission to meet post-Cold War needs. These actions will result in savings of several million dollars.

Our report on overseas diplomatic presence provided comprehensive, accurate, and previously unavailable data on staff levels and costs. The report has become a reference document and is being used by the President's Management Council as it looks for ways to streamline government operations overseas.

Key Open Recommendations

We recommended that the Congress terminate AID's Housing Guaranty Program. We also recommended that if the Congress chose not to terminate the program, the AID Administrator take action to minimize the program's financial impact on the U.S. budget deficit by (1) withholding future loan disbursements from borrowers that have repeatedly rescheduled debt repayments and (2) increasing program revenues by revising the fee structure. (GAO/NSIAD-95-108)

We recommended that the State Department develop a fully integrated, objective, quantifiable staffing methodology to help ensure a sound basis

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for allocating personnel resources in line with U.S. interests overseas.
(GAO/NSIAD-94-228)

We recommended that the Departments of Treasury and State sell certain properties in Tokyo and that State prepare a plan identifying how other properties can be used to meet the Embassy's current and future needs.
(GAO/NSIAD-95-73)

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

GAO Contact: Benjamin Nelson, 202/512-4128

Impact of GAO's Work

The strength of the U.S. economy in the new global marketplace is the dominant theme of domestic and international economic policy. The major concern over how government affects the U.S. economy through its policies and programs is centered on the impact on the standard of living for U.S. citizens. Though the economy showed signs of improvement this past year, concerns remain that the trade deficit continues to be large and that the overall standard of living of many Americans is not improving, despite improvements in worker productivity and the creation of a number of new jobs. In fiscal year 1995, we continued to look at these issues in three ways:

- Reviewed multilateral and bilateral agreements and relations such as dispute resolution under the U.S.-Canada Free Trade Agreement, the U.S.-European Union Large Civil Aircraft Agreement, and the U.S.-China agreements on improving market access and protecting intellectual property rights.
- Assessed how the government is organized to manage international trade policies, programs, and activities and evaluated programs—for example, export promotion programs—aimed at helping U.S. businesses better participate in global markets.
- Evaluated U.S. programs' (such as the manufacturing extension programs) policies and procedures to see how they affect overall economic development and standards of living.

Key Open
Recommendations

In January 1992, we reported that U.S. government export promotion programs lacked organization and funding cohesiveness. As a result, the government did not have reasonable assurance that its export promotion resources, which totaled \$2.7 billion in fiscal year 1991, were being used most effectively. We recommended that the Secretary of Commerce, as Chair of the 19-member Interagency Trade Promotion Coordinating Committee, work with other member agencies and the Office of

Management and Budget (OMB) to (1) develop a governmentwide strategic plan for carrying out federal export promotion programs and (2) ensure the budget requests for these programs were consistent with their relative strategic importance. While a strategic plan has been created, budget priorities based on relative program import have not yet been established. The plan was largely a list of recommendations. It did not establish truly governmentwide priorities or reallocate funds among government agencies in accordance with these priorities. (GAO/NSIAD-92-49)

In July 1993, we identified changes needed to improve the effectiveness of the Market Promotion Program at the U.S. Department of Agriculture (USDA). To ensure that program funds are used more effectively, we recommended that the Secretary of Agriculture direct the Administrator of USDA's Foreign Agricultural Service (FAS) to (1) require that program funds be used to increase expenditures for foreign market development activities over those that would take place without the program's support; (2) develop criteria on the maximum length of time commercial firms can continue to receive program funds for a particular market; (3) define the conditions under which foreign firms would be allowed to participate in the program to ensure that U.S. firms are not adversely affected; (4) establish criteria and procedures for the allocation of program funds to small and new-to-export firms; and (5) require that program applicants submit, and that FAS periodically evaluate the accuracy of, support for statements regarding the U.S content of brand-name products to be promoted with program funds and the extent of the brand-name products' U.S. processing. FAS has revised Market Promotion Program regulations in response to the majority of our recommendations. However, insufficient time has passed to determine whether these regulatory changes are being implemented in a way that responds to the substance of our recommendations. (GAO/GGD-93-125)

In December 1992, we examined the costs of the Commodity Credit Corporation's export credit and intermediate credit guarantee programs in USDA. We estimated that as of June 30, 1992, the Corporation had cumulative program costs of about \$6.5 billion, or about 48 percent of its total outstanding guarantees, and accounts receivable of \$13.5 billion if they were terminated. Past operations of the programs had incurred high costs because the Corporation had provided a large amount of guarantees to high-risk countries such as Iraq and the former Soviet Union. (GAO/GGD-93-45)

In a February 1995 related report on the Export Credit Guarantee Program, we addressed the creditworthiness of former Soviet Union successor states. We found that most, if not all, of the successor states were not very creditworthy and that all should be considered at least high risk from a creditworthiness perspective. We suggested that if the Congress concludes that the creditworthiness of Russia or other successor states is too risky for the United States to provide additional export credit guarantees, and if it concludes that continued agricultural exports to the successor states serve important U.S. economic and national security interests, it may wish to consider authorizing additional foreign aid to finance the sale of food. Such aid could then be weighed against other priorities for U.S. foreign economic assistance. To reduce further exposure of the export credit guarantee portfolio to default, we suggested that the Congress may wish to consider limiting the total amount of guarantees that can be issued each year to high-risk countries and the amount that can be provided to any single high-risk country. In addition, we suggested that the Congress may wish to consider (1) amending the statutory provision that precludes the Commodity Credit Corporation from charging a fee in excess of 1 percent of the amount of the credit guarantee and (2) requiring the Corporation to include risk-based charges as part of its overall fee for export credit guarantees. Such fees could help offset the cost of potential defaults to taxpayers and equalize the value of the guarantees across all client countries. (GAO/GGD-95-60)

In a September 1994 report, we concluded that the objectives of cargo preference requirements were not being significantly advanced when used in U.S. food aid programs. We suggested that if the Congress continues to support cargo preference for food aid programs and is willing to devote resources to that end, it may wish to consider a more efficient alternative for achieving its objectives. For example, the subsidy program, which offsets ship operating costs, could be used to support crewed ships that the Department of Defense finds militarily useful and could successfully compete for U.S. foreign commercial cargos. We also suggested that if the Congress decides to continue to apply cargo preference to food aid programs, it may wish to consider giving U.S. shipowners incentives to invest in more efficient ships to reduce food aid transportation costs. (GAO/GGD-94-215)

We recommended that the Secretary of Transportation instruct the Administrator of the Maritime Administration to promote the efficiency of ships that carry food aid preference cargos. One way this could be done is by calculating guideline rates based on average operating costs for all

similarly sized ships instead of actual operating costs for each individual ship. Such a change should reduce food aid transportation costs. We also recommended that the Secretary of Agriculture and the Administrator of AID take the following steps because of their potential to reduce food aid transportation costs: (1) experiment with the use of contract terms that are more consistent with those used for similar commercial cargos to determine whether their use would reduce food aid transportation costs and (2) encourage recipient countries to space their food aid shipments more evenly throughout the year.

In June 1995, we reported that competing goals and requirements hinder Public Law 480 title I food aid program results. We concluded that the size and importance of the program have declined and that, as structured, the program does not significantly advance economic or market development objectives of the 1990 Food, Agriculture, Conservation and Trade Act (P.L.101-624). Thus, we suggested that if the Congress wants to continue to support these objectives and devote resources to achieving them, it may want to consider alternative approaches to doing so. Among the alternatives available to the Congress are (1) refocusing the program on more specific economic and/or market development objectives by eliminating some of the multiple and competing requirements; (2) restructuring the program to concentrate on a single objective, such as market development; (3) eliminating the program and transferring its resources to existing programs with compatible purposes; and (4) eliminating the program and replacing it with a new program or programs unencumbered with a history of competing objectives and outdated program requirements. (GAO/GGD-95-68)

In September 1995 we reported that FAS could benefit from better strategic planning. We recommended that the Secretary of Agriculture direct the FAS Administrator to (1) ensure that the strategic plan under development, the revised long-term agricultural trade strategy, and country marketing plans better reflect criteria described in our report, including differentiation among priorities and appropriate measures for gauging progress and ensuring accountability; (2) devise and implement a strategy to better ensure that decisions on locations of overseas offices involve the consideration of systemic and local circumstances and include an assessment of the cost-effectiveness of the locations; (3) reevaluate FAS workforce capacity needs for both the foreign service cadre and other workforce components and reassess the policy that foreign service officers spend an average of only 50 percent of their careers in overseas posts; and (4) ensure that the commodity reporting system contributes to

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FAS strategic priorities; that is, reports meet the needs of external and internal users and do not unnecessarily duplicate information available from other sources. FAS officials generally agreed with the substance of our recommendations and are beginning to address them. (GAO/GGD-95-225)

Improving Resources, Community, and Economic Development Programs

Energy and Science Issue Area (Budget Function 270)

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

Impact of GAO's Work

About 2 years ago, the Department of Energy (DOE) and an array of science and technology-related agencies, including the National Science Foundation (NSF) and Commerce's National Institute of Standards and Technology (NIST)—with budgets totaling about \$30 billion—embarked on a new and ambitious agenda to open their scientific laboratories and form partnerships with industry to fuel a more competitive economy; improve the environment by cleaning up and finding better ways to store and dispose of nuclear and other hazardous wastes; and reduce the nuclear dangers in a still risky and chaotic world. However, questions and concerns about the role of government in these and other activities, as well as of government's ability to efficiently and effectively manage them, soon made these agencies a special target of scrutiny by a Congress with a new mandate to reduce the budget deficit and sell or privatize various government activities. This focus, coupled with new disclosures about the costs of cleaning up the nuclear weapons complex—recently estimated at \$230 billion; the rising debt obligations of the Tennessee Valley Authority (TVA) and the power marketing administrations (PMAs), now close to \$50 billion; and DOE's \$100 billion system of national laboratories lacking a clear mission, led to requests for information and analysis to help the Congress come to grips with these and related issues.

We responded to the requests. For example, we helped the Congress consider how to restructure DOE, as well as to frame the debate for the broader restructuring of government. Our report calling for a reevaluation of DOE presented a systematic framework for evaluating alternative ways to implement each of DOE's missions and suggested that the restructuring of DOE be a part of a broader, governmentwide restructuring effort. In our report on the national laboratories, we also recommended that before the Congress could begin the process of eliminating unnecessary or duplicative facilities, it needed first to define what it wanted the national laboratories to accomplish. Our work contributed to DOE's initiation of one of the most sweeping strategic realignment in DOE's history.

We have also contributed to the ongoing debate over the future of various government activities. Options under consideration include selling the entity to the private sector, contracting for the service, or forming a government corporation to provide the service. For example:

- Our report and testimony supported management changes at the Naval Petroleum Reserve in Elk Hills, California (NPR-1), including options for selling it or forming a government corporation to operate it. We also recommended ways to enhance its profitability and complement the management changes being considered, such as by making final decisions on ownership shares between Chevron and the U.S. government and by eliminating the requirement that DOE operate this field to increase the recovery of oil to the maximum as opposed to increasing profits to the maximum. In addition, we pointed out that in the event of a sale, the government was more likely to receive fair market value if it established a minimum asking price. During testimony, we also questioned the rationale for the government's involvement in what would otherwise be the operation of a commercial oil and gas field. Subsequently, both the House and Senate included a provision in the 1996 Defense Authorization Act to sell NPR-1, as well as language to make ownership shares final, eliminate the requirement to increase the recovery of oil to the maximum, and establish a minimum asking price before the asset is sold.
- Our recent report on the privatization plan for the United States Enrichment Corporation (USEC) provides the Congress with information it will need during debates on whether to privatize, including the impact such privatization would have on the Treasury. We stated that because USEC's privatization may set a precedent for future privatization, it needs to be accomplished in a manner that will set the standard for ensuring that taxpayers' interests are protected. Moreover, because of the national security implications and the financial complexity of the sale—and to fully protect taxpayers' interests—we recommended that the Congress require the President to approve the final sale agreement and require the Secretary of the Treasury, not USEC and its board of directors, to lead the privatization process, including determining the sales price.
- We are currently looking at the operating and financial conditions of PMAs. This work is intended to serve as a backdrop for congressional deliberations on various bills that have been introduced in the Congress to privatize the PMAs and TVA, as well as to transform the Bonneville Power Administration into a government corporation.

In a related matter, we recently issued a report that alerted the Congress about the precarious financial position of TVA. We pointed out that because TVA is \$26 billion in debt and has invested \$14 billion in nonproducing nuclear assets that have not been included in its electricity rates (called "deferred assets"), the agency has far more financing costs and deferred

assets than its likely competitors have, thus giving it little flexibility to meet competitive challenges. We reported that if TVA cannot compete effectively and improve its financial condition, its long-term viability will be threatened and the federal government will be at risk for some portion of its debt. Although TVA has taken various actions and announced plans to reduce its costs and limit its debt, our report noted that these actions may not be sufficient over the long term and highlighted several options to reduce the risks to taxpayers and help prepare TVA to compete in the electricity market.

In connection with nuclear issues:

- Our work on the \$6 billion a year cleanup program at DOE's nuclear weapons complex has continued to influence decisions both in the Congress and at DOE. For example, we issued a report calling for a national risk-based system for setting priorities for cleaning up the nuclear weapons complex. In addition, we issued a report that pointed out the difficulties of coordinating cleanup activities under two different environmental laws—the Resource Conservation and Recovery Act of 1976, as amended (RCRA), and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA). This report was used by the Congress in deliberations over amending CERCLA and also led to our testimony on the need for a risk-based national prioritization system for the cleanup program.
- Our work over the past several years on DOE's management of its program for disposing of highly radioactive waste from commercial nuclear power plants has also contributed to legislative proposals and to the ongoing debate over how to restructure the program and has spurred DOE efforts to more efficiently manage the program. For example, we found that DOE was spending tens of millions of dollars on efforts to begin accepting and storing nuclear waste beginning in 1998 that had little chance of success. At the same time, the Department was spending relatively few of its funds directly on the real centerpiece of the disposal program itself—the scientific investigation of Yucca Mountain, Nevada, as a candidate site for a geologic repository. More recently, we found that DOE has not achieved its objective of consolidating work on the repository project to reduce support costs, despite its intention to hire a contractor to accomplish that objective.
- In connection with international nuclear safety, our recent testimony on Cuba's nuclear reactors provided the Congress with first-hand information

on the condition of the potentially dangerous reactors being built 150 miles off our shores. In addition, we issued a report on U.S. assistance to upgrade the Czech nuclear reactor which was widely cited during congressional deliberations on whether to approve further assistance. Our nonproliferation work has also contributed to congressional debate. For example, our report on DOE's nuclear tracking system pointed out the limitations of that system and increased congressional oversight. And our recently issued and forthcoming reports on the agreement between the U.S. and the European Atomic Energy Community on the peaceful uses of atomic energy will provide the Congress with information it needs in considering whether to renew the agreement.

We have also contributed in other specific ways to the Congress's effort to reduce the budget deficit through our annual "budget scrubs." For example:

- Over the past 3 years, we have identified carryover funding balances, totaling almost \$1 billion, that DOE did not need for numerous projects. For example, in our fiscal year 1995 review, we found that the contractor at DOE's Hanford Site was holding over \$50 million in uncosted funds for a tank facility that would never be built. Moreover, DOE had requested an additional \$31 million for this project in its fiscal year 1996 budget request.
- At NIST, our evaluations of the Advanced Technology Program were instrumental in congressional appropriations proposals to eliminate the program, a fiscal year 1996 budget savings of \$491 million.
- After we pointed out that DOE was experiencing problems in obtaining suitable sites and adequate private-sector financing for the Clean Coal Technology Program, the Congress reduced funding for this program by \$200 million.
- In another case, our assistance in providing information on the Nuclear Regulatory Commission's (NRC) budget contributed to the Appropriations Committee reducing NRC's budget by 10 percent (\$50 million).

In our March 1995 report on addressing the deficit, we offered 13 options related to the energy and science area for savings or additional revenues totaling over \$3 billion in fiscal year 1996 alone. Many of these options are being actively pursued during the current budget proceedings.

In the energy supply area, we have completed a body of work on federal efforts to make the natural gas pipeline industry more competitive. This work has been useful to the Congress in considering whether to roll back the regulatory structure for this industry. In addition, our work on alternative motor fuels, including a recent report addressing DOE's efforts to develop advanced batteries for use in electric vehicles, identified the many uncertainties about the costs and environmental and energy security benefits of alternative fuels. Our input has contributed to ongoing debate at both the federal and state levels about the use of such fuels.

Our work in the science and technology area contributed to the following results:

- Funding for the purchase of the NSF's \$120 million arctic research vessel was halted until NSF determines the need for it, given scientific and budgetary considerations.
- NSF and the National Institutes of Health (NIH) implemented our recommendations to better manage potential conflicts of interest at universities and other organizations carrying out federal research.
- The Small Business Administration (SBA) is implementing the recommendations included in our report on the Small Business Innovation Research program to reduce the likelihood that companies will receive duplicate funding for research proposals from multiple federal agencies in the future.
- The Office of Science and Technology Policy has been asked to reduce indirect costs for federally funded research at universities by 10 percent and to ensure more uniform accounting.
- DOE has simplified its process for entering into cooperative research and development agreements (CRADA) with industry and also initiated a follow-up system to monitor their outcomes.

Key Open Recommendations

Nuclear Weapons Complex Cleanup

In March 1995, we recommended that in order to enable DOE to target its limited resources on cleaning up the sites that represent the greatest risks, the Secretary of Energy should (1) set national priorities for cleaning up

the Department's contaminated sites using data gathered during DOE's ongoing risk evaluation as a starting point and (2) initiate discussions with regulators to renegotiate milestones that no longer reflect national priorities. Faced with severe budget reductions, DOE is attempting to use risk evaluations to a greater extent in its cleanup decision-making. At this point, however, it is too early to determine to what extent national risk-based priorities will be set. In addition, DOE has begun renegotiating cleanup agreements that better reflect budget realities and technical capabilities. (GAO/RCED-95-1)

National Laboratories

In January 1995, we recommended that the Secretary of Energy evaluate alternatives for managing DOE's national laboratories that more fully support the achievement of clear and coordinated missions. If DOE is unable to refocus the laboratories' missions and develop a management approach consistent with these new missions, we suggested that the Congress may wish to consider alternatives to the present DOE-laboratory relationship. Such alternatives, we said, might include placing the laboratories under the control of different agencies or creating a separate structure for the sole purpose of developing a consensus on the laboratories' missions. DOE has created a Laboratory Operations Board to develop a strategic vision for the national labs as well as an action plan to implement most of the recommendations made by an outside task force. Many of the task force's recommendations address issues raised in our report. Meanwhile, members of the House of Representatives have introduced four separate bills that call for restructuring the laboratories. (GAO/RCED-95-10)

Nuclear Cleanup

In August 1994, we suggested that the Congress consider amending the CERCLA to provide more specific direction about incorporating future land uses when determining cleanup levels and selecting remedial actions. The Congress is considering revisions to CERCLA, as it is scheduled for reauthorization. (GAO/RCED-94-144)

Nuclear Health and Safety

To better unify federal radiation protection policy, we recommended in September 1994 that the Environmental Protection Agency (EPA), in cooperation with NRC, pursue interagency consensus on preferred radiation dose and risk calculation methods and radiation protection strategies, as well as on how much radiation risk to the public is acceptable. Although interagency cooperation is taking place, EPA and NRC have only begun to address the need for interagency consensus on acceptable radiation risk. (GAO/RCED-94-190)

Nuclear Safety Oversight

In June 1994, we recommended that DOE take steps to increase the authority, independence, and staffing of its office responsible for independent oversight of nuclear safety and enforcement of nuclear safety standards at the Department's facilities. To separate its oversight activities from its assistance activities, the Environmental, Safety, and Health Office, in a December 1994 reorganization, placed its oversight functions in a separate office and has begun developing procedures aimed at ensuring its independence. However, the nuclear safety enforcement and investigations staff, whose responsibilities include investigating potential violations of nuclear safety regulations, remains within a suboffice responsible for assisting DOE's facilities in improving nuclear safety. DOE officials told us they are currently reevaluating the organizational placement of this staff. (GAO/RCED-94-129)

Contracting for Laboratory Analyses

To realize the cost savings inherent in centrally procured laboratory analyses and to eliminate other related inefficiencies resulting from decentralized procurement, in May 1995 we recommended that DOE centralize its procurement of commonly used laboratory analyses for environmental contaminants in the cleanup of its nuclear facilities. In doing so, we said the Department should also identify and eliminate contracted resources that will no longer be needed under a centralized procurement system. In a July 1995 interim response, DOE agreed that it should centralize its procurement of these analyses, at least at the field office level. It is studying EPA's centralized procurement approach for similar services to determine the best practices applicable to DOE. In its response, DOE did not address the second recommendation. (GAO/RCED-95-118)

Safety of Nuclear Materials

In April 1993, we recommended that NRC establish specific criteria and procedures for suspending or revoking an agreement-state program. The purpose was to eliminate the inconsistent way in which NRC was evaluating the effectiveness of its two nuclear materials programs in achieving the goal of adequately protecting the public from radiation. In June, 1995, NRC approved a Final Statement of Principles and Policy for the agreement-state program and requested submittal of implementing procedures for NRC's final approval by September 30, 1996. (GAO/RCED-93-90)

Nuclear Regulation

In May 1994, we recommended that NRC determine what actions may be needed to better control the spread of radioactivity-contaminated sludge, ash, and related by-products from sewage treatment plants that receive radioactive materials from NRC's licensees. NRC is working with EPA and sewerage consortia to develop a national approach to ensuring the

protection of treatment workers and the public. NRC addressed various rulemaking options in June 1995 and plans to use the results that EPA obtains in its upcoming sewage sludge survey—slated for 1997-1998—in considering the need for any rulemaking. (GAO/RCED-94-133)

Contract Management

In August 1994, we recommended that DOE, in contracting with the University of California for the management of three national laboratories, (1) propose contract modifications where there is not a sound basis for deviating from standard contract clauses, (2) require advance DOE approval for University-sponsored research projects at the laboratories, and (3) ensure that fees paid to contractors for increased financial risks are cost-effective by developing criteria for measuring their costs and benefits. DOE is reviewing the nonstandard clauses in the University's contracts to identify changes needed, but it plans no action until the current contracts expire in 2 years. DOE also negotiated a change in the contracts, effective May 1995, that requires the University to provide information to DOE on any projects not requiring DOE's approval that the University sponsors at the laboratories. Utilizing performance-based provisions, DOE is modifying management and operating contracts for both profit and nonprofit contractors. For example, the recently renewed contract with the nonprofit contractor operating the Argonne National Laboratory provides for an award fee tied to specific performance measures. DOE has not yet evaluated the effectiveness of the use of performance-based contracts. (GAO/RCED-94-202)

Nuclear Waste Disposal

In September 1991, we recommended that DOE plan for the increasing likelihood that it might not be able to accept utilities' nuclear waste for storage or disposal as planned to begin in 1998. We also suggested that the Congress explore whether additional legislation is desirable to address the likelihood that DOE will be unable to begin accepting the waste by that year. Recently, DOE sought the views of affected parties on, among other things, whether DOE has an obligation to begin accepting nuclear waste in 1998. Subsequently, DOE concluded that it does not have such an obligation in the absence of a federal storage or disposal facility. At the same time, the Congress has been considering legislative proposals that would, among other things, authorize and require DOE to store utilities' nuclear waste at a federal facility until DOE completes a facility for permanent disposal of the waste. (GAO/RCED-91-194)

Naval Petroleum Reserve

In January 1995, we suggested that to enhance the profitability of the NPR-1, the Congress should consider amending the Naval Petroleum Reserve Production Act of 1976 to, among other things, (1) eliminate the

requirement that the fields be operated to increase the recovery of oil to the maximum, as opposed to increasing profits to the maximum, and (2) require that ownership shares between the U.S. government and Chevron be made final. We pointed out that these actions were desirable whether NPR-1 is sold or is operated as a government corporation. Since then, the 1996 Defense Authorization Act has been approved by the Senate and the House conferees with a provision to sell the reserve. The act also includes language to make ownership shares final and eliminate the recovery requirement. (GAO/RCED-95-65)

Environmental Protection Issue Area (Budget Function 270)

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

Impact of GAO's Work

Environmental regulation significantly affects the nation's economy, costing upward of \$115 billion annually. It also directly touches the lives of all citizens. Although the Congress and the American public have traditionally supported strong environmental protection laws, the rising costs of these environmental protection programs to state and local governments, in the face of dwindling federal financial assistance, has caused some environmental programs to be identified as "unfunded mandates." Industry's compliance costs are also rising. But by far the largest growth in environmental costs will be for the federal government itself. In fiscal years 1989 through 1995, DOD's and DOE's facilities' cleanup and compliance costs tripled from \$2.9 billion to \$8.7 billion, and currently they exceed EPA's entire budget. While concerns have been raised about the costs of these programs in relation to their benefits, there is growing support for rethinking the nation's fundamental approach to environmental regulation.

Our work has been in the forefront, highlighting our nation's recurring environmental problems and recommending ways in which the Congress and EPA can effectively address those concerns. In an effort to seek a more realistic balance between environmental expectations and available resources, we have continued to recommend that EPA incorporate strategic planning to help ensure that its limited resources are targeted to high-risk environmental and public health problems. For example, we reported that EPA's priorities for taking cleanup actions in the Superfund program were not set in accordance with the environmental risks posed by those sites. Other factors, such as the time a site spent in the queue, were more important, even though the agency has information available to rank sites for cleanup. To better measure program success, we recommended that the agency develop performance indicators that are based on environmental outcomes rather than on activities taken by the agency. Finally, our work over the past several years has stressed the need to adequately fund those programs that address high risks to the public and to adopt more cost-effective methods of achieving environmental results through alternatives and supplements to traditional regulatory approaches, such as pollution taxes, pollutant trading, public disclosure of emissions, and pollution prevention. EPA has started to implement these key recommendations—several of which will require years to fully put in

place. Also, EPA and the Congress appear increasingly open to alternatives to traditional regulatory approaches as the key environmental statutes go through the reauthorization process.

Key Open Recommendations

Air Quality

The Clean Air Act Amendments of 1990 established ambitious milestones for protecting and enhancing the quality of the nation's air. A key step in meeting these milestones—translating the act's statutory mandates into workable rules and regulations—requires EPA to develop and issue rules at an unprecedented rate. At the time of the act's passage, EPA's rulemaking process averaged more than 3 years, and some rules took as many as 9 years to complete. To expedite its clean air rulemaking, EPA has made a number of changes to its internal review process. However, despite these efforts, EPA acknowledges that it has missed over 60 percent of the statutory deadlines imposed by the 1990 act. Exacerbating this situation is the fact that the agency does not have a system for identifying problems in its rulemaking process or assessing the effectiveness of its streamlining initiatives. We recommended that EPA implement a tracking system that would yield key information to monitor and evaluate the agency's clean air rulemaking process. In response, EPA has modified several of its existing information systems to allow manual tracking of the time and resources allocated to the agency's rulemakings. As a long-term solution, the agency plans to develop a new resource management system that will track implementation progress and resource demands for rulemaking and other activities. EPA expects the system to be in place by the end of fiscal year 1997. (GAO/RCED-95-70)

Safe Drinking Water

Several of our reports highlighted serious shortcomings in EPA's drinking water protection program. In 1992, we reported that operators of public drinking water systems often do not issue, in a timely manner, required notices to their customers each time their water system fails to meet one of the drinking water standards for regulated contaminants. Untimely notification occurred even in cases when contamination may pose a serious potential health risk. We recommended that EPA work with the states to help operators to increase the issuance of required public notices. In 1995, EPA issued a report that identified this issue as a priority and held a public meeting to solicit comments on how to improve public notification. Any further actions are on hold pending the availability of resources. (GAO/RCED-92-135)

In 1993, we reported that periodic inspection, or sanitary surveys, of public water systems—a key means of ensuring the quality of drinking water—are often deficient in how they are conducted, documented, and/or interpreted. Furthermore, we reported that many of the 200 surveys that we reviewed showed recurring problems with water systems' equipment and management, particularly among small systems. To improve the effectiveness of these surveys, we recommended that EPA work with the states to establish minimum requirements governing the frequency of the surveys and the manner in which they should be conducted and documented. EPA is planning to publish additional guidance on these surveys. (GAO/RCED-93-97)

Because small communities' financial problems are particularly acute, in 1994 we reported on cost-effective management and technology alternatives that could be used to improve these communities' compliance with the drinking water regulations. We found one option that holds particular promise: the restructuring of systems, such as consolidating nonviable small systems with viable ones. Among other things, we recommended that EPA (1) work with the cognizant committees of Congress to develop a detailed funding strategy to accompany the EPA-proposed requirement that states develop viability programs for small systems, and (2) revise drinking water program priorities to place greater emphasis on developing and implementing viability programs.

Since our report, EPA has (1) worked with the Congress to address funding for the development of viability programs (such as the establishment of user fees); (2) recommended to the Congress that the Safe Drinking Water Act be amended to require that viability be a condition of delegating authority to states for managing drinking water programs; and (3) agreed to make viability program development a top priority following the reauthorization of the act. The Congress is currently considering these issues but has yet to enact legislation. (GAO/RCED-94-40)

Clean Water

In 1992, we reported that a tremendous gap exists between the need for wastewater treatment facilities and the resources available in the State Water Pollution Control Revolving Fund Program to meet those needs. States estimate that the state revolving funds will meet only a small percentage of their needs and will pose particular problems for small communities. As a result, we recommended that EPA develop a long-term strategy to help state and local governments close this gap, particularly for small communities. EPA is considering options to address the needs for

small communities. In addition, the Congress is currently considering this issue. (GAO/RCED-92-35)

In 1994, we also found that EPA has made limited progress in developing water quality criteria—the technical information that states consider in adopting water quality standards and setting pollutant limits in facilities' discharge permits. To ensure that the agency is focusing its limited resources on the most important elements of water criteria development, we recommended that EPA prepare an implementation plan that identifies its top priorities and the bases for them and that establishes a timetable for addressing these activities. We also recommended that EPA regularly solicit input from interested parties when the implementation plan is being developed and when specific regulatory actions are being considered. EPA agrees that it should prepare an implementation plan that sets priorities but wishes to have the Congress direct the agency (through amendments to the Clean Water Act) to develop such a plan and to require EPA to solicit input from interested parties. (GAO/RCED-94-117)

Pesticides and Toxic Substances

In 1986 and 1994, we reported on the inconsistent regulation of carcinogenic pesticides for food use stemming from federal law that allows some food uses of carcinogenic pesticides and prohibits others (commonly referred to as the “Delaney dilemma”). These varying legal requirements result in EPA’s using different standards for regulating the same foods depending on whether they are processed or unprocessed. We identified several alternatives for the Congress to consider in amending the relevant food safety laws whose provisions result in this inconsistent treatment of carcinogenic food-use pesticides. The Congress has considered this issue but has not yet enacted legislation. (GAO/RCED-86-125 and GAO/RCED-94-57).

In 1972, EPA was given the formidable task to reassess all older pesticides on the basis of current scientific standards, including those pertaining to cancer, reproductive disorders, and birth defects. Disappointed with EPA’s progress, in 1988 the Congress provided funds for additional resources and mandated that the reassessment be essentially completed by 1998. Our review of the program disclosed that, despite some recent progress, EPA may not complete this process until 2006. More importantly, the progress of reregistration to date has not always focused on those pesticides that present the highest risk to public health and the environment. We recommended that the Congress amend the Federal Insecticide, Fungicide, and Rodenticide Act to require that, except in unusual circumstances, EPA

focus its efforts on completing reregistration of the highest-priority food-use pesticides first. (GAO/RCED-93-94)

Our work also showed that about one-third of pesticide-tainted shipments of imported food ended up on grocery shelves. We recommended that FDA take stronger prevention actions, including targeting repeat offenders for penalties, applying more-stringent control over suspect shipments, and using its program resources more effectively. To better achieve these goals, we recommended that the Congress authorize the agency to impose civil administrative penalties on violators. (GAO/RCED-92-205)

We recently made a number of recommendations to help strengthen EPA's ability to regulate toxic chemicals. Under the Toxic Substances Control Act (TSCA), EPA can limit the manufacture, distribution, and use of toxic chemicals. However, the legal standards for taking action and the burden of proof placed on EPA by the act make it difficult for the agency to use this authority. EPA has reviewed the risks of only 2 percent of some 62,000 chemicals and must use cumbersome procedures to acquire test data. New chemicals are marketed without EPA's having sufficient data to fully assess the potential risks. EPA also believes that industry has made excessive claims of confidential business information for data submitted under TSCA. Among other things, we asked the Congress to consider improving EPA's ability to conduct chemical reviews by requiring industry to submit additional data on new chemicals and by shifting to industry some of the burden of compiling data on existing chemicals. In addition, to supplement TSCA's slow chemical-by-chemical approach, we recommended that the Congress may wish to consider establishing overall goals for reductions in the use of toxic chemicals and provide EPA with tools, such as market-based incentives, to achieve these goals. (GAO/RCED-94-103)

Hazardous and Solid Waste Management

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

cases where only some stabilization actions have occurred. EPA plans to address this problem in the future. (GAO/RCED-93-15)

Debate over the Superfund program's reauthorization comes at a time when cost estimates to clean up the nation's hazardous waste problem are growing at an alarming rate. The Congressional Budget Office (CBO) has projected that ultimately the nation could need \$75 billion to clean up a total of 4,500 nonfederal Superfund sites. We found that EPA has recovered only a limited portion of its costs from parties responsible for the problem. In part because of limitations on the interest and indirect costs EPA can recover, the agency has a low rate of recovery for Superfund expenditures. Because of these limitations, we found that through 1993, EPA had excluded from its recovery efforts about \$3.3 billion of its program-related costs. Accordingly, we recommended that the Congress encourage cost-recovery efforts by authorizing EPA to apply market rates to, and accrue interest on, its expenditures earlier in the process and by requiring EPA to more broadly define which costs are recoverable. (GAO/T-RCED-94-274)

We also recommended that EPA expedite the issuance of its proposed rule that would broaden the definition of indirect costs that it could recover and increase the program costs that it seeks to recover. Some of the excluded indirect costs include the costs for research and development and for the preliminary work to assess whether a site should be included in the Superfund program. EPA is currently revising its proposed rulemaking. Due to the numerous public comments the proposed rule received, agency officials are considering whether to repropose the rulemaking; therefore, they were unable to estimate a final issuance date. (GAO/RCED-94-196)

State/Federal Relations

Most federal environmental programs are designed to be administered at state and local levels. Accordingly, once a state demonstrates that it is capable of implementing an environmental program, EPA authorizes the state to implement the program. After such authorization, EPA regions, with guidance from headquarters, continue to set goals for the states, provide them with financial assistance, and monitor their performance in meeting grant and program requirements.

Most states authorized to manage federal environmental programs have been unable to meet some of the requirements to implement these programs. Many states have had difficulty in performing key functions, such as monitoring environmental quality, issuing permits, and enforcing

compliance. As a result, states have become increasingly reluctant to accept additional responsibilities associated with recent environmental laws. Resource limitations have been identified as a major factor in the states' reluctance. Federal funding has not kept pace with these new requirements, and the states have been unable to make up the funding difference. We recommended that EPA work with states to identify how each state's limited funds can be most efficiently allocated within each program to address the state's highest environmental priorities and to take steps to increase the agency's flexibility in dealing with states to achieve improvements in environmental quality. We also recommended actions that EPA could take to strengthen its working relationships with states. EPA has a number of initiatives under way to improve its communication with the states and bring greater flexibility in its oversight of state activities. (GAO/RCED-95-64)

Food and Agriculture Issue Area (Budget Function 350)

GAO Contact: Robert Robinson, 202/512-5138

Impact of GAO's Work

USDA is the third largest civilian agency in the federal government with a budget of over \$60 billion. Because the U.S. food and agriculture sector accounts for 17 percent of the gross domestic product and 20 million jobs and because U.S. agricultural products account for 10 percent of U.S. export dollars, USDA's programs affect the lives of all Americans and millions of people around the world. USDA manages a variety of programs designed to support farm income, develop markets, boost farm production and exports, ensure food safety, and provide consumers with food information and assistance. USDA's outlays for fiscal year 1996, by major policy area, include: (1) \$40.6 billion in food and nutrition assistance programs, (2) \$14 billion in farm and marketing programs, (3) \$3 billion in rural development assistance, (4) \$1.8 billion in research, education, and economics activities, and (5) \$500 million in food safety.

In 1995, congressional committees made extensive use of our work, and as a result of a number of program changes, federal food and agriculture funds were used more effectively.

USDA's Reorganization

Our management reviews of USDA and subsequent follow-up work contributed to the development and passage of the Department of Agriculture Reorganization Act of 1994. The act mandates that USDA reduce its staff and consolidate and streamline its operations. As a result, USDA has established six major mission areas; reduced the number of agencies from 43 to 29; closed or consolidated about 1,166 field offices; established Field Office Service Centers in about 2,500 locations which collocate the Farm Service Agency (FSA) and Natural Resources Conservation Service (NRCS) to provide farmers with one-stop service. FSA administers programs from the former Agricultural Stabilization and Conservation Service and the Farmers Home Administration; NRCS administers programs from the former Soil Conservation Service. These changes are expected to reduce federal employment by about 13,200 staff years and save taxpayers \$4.1 billion in personnel and other costs over 5 years.

Farm Programs

Our past reviews of farm programs have contributed to the congressional decisions to eliminate the price support programs for wool and mohair, and to limit payments under the honey program, that are expected to save tax payers over \$200 million a year. Changes to other commodity programs

are also being considered as part of the debate surrounding the 1995 Farm Bill. Our reviews of the outdated federal dairy pricing systems contributed to legislation being proposed that will completely revamp the system and possibly eliminate it. Our analysis of USDA's farm loan programs alerted the Congress that billions of federal dollars are at risk if current lending practices continue. As a result, the Congress is currently considering legislation that would change some of these practices, such as prohibiting new loans to borrowers who caused USDA to incur losses on previous loans. Finally, in part as a result of our analyses of the crop insurance and disaster assistance programs, the Congress enacted legislation in October 1994 integrating both programs and requiring improved internal controls. This reform legislation is expected to save taxpayers over \$350 million.

Food Safety

Our analyses of the federal food safety inspection system have found that the current system could better protect consumers against microbial contamination, which is the greatest food safety hazard. Our principal recommendation—to move to a scientific, risk-based approach—has been influential in spurring federal agencies to develop new inspection regulations that will require a more scientific approach to food safety.

Key Open Recommendations

Shifting Farm Programs Toward a Greater Market Orientation

We believe USDA's commodity programs need to move toward a more global market orientation. Our work has focused on revamping the agricultural farm, export, and market development programs to help make them more competitive in the global marketplace. As the Congress debates the 1995 Farm Bill, various proposals are being considered that are consistent with our recommendations and propose to move the agricultural sector toward a greater market orientation. (GAO/RCED-92-2 and GAO/RCED-92-54)

A reevaluation of USDA's support programs is needed in several areas because current subsidies provide incentives to address government objectives rather than increase the flexibility of the agricultural sector. Our analysis also shows that flexible farming provisions, such as "flex acres," have generally had a positive impact on farmers' operations and are projected to reduce government spending. We recommended that the Congress consider reauthorizing or expanding the flex acres provisions in the 1995 Farm Bill. Although the Congress has eliminated some subsidy

payments, our work indicates additional changes are needed on the cotton, rice, dairy, sugar, and peanut programs. (GAO/RCED-94-76)

Our review of the cotton program found that government expenditures for the cotton program totaled \$12 billion between 1986 and 1993, an average of \$1.5 billion per year. Government costs remained high during this 8-year period despite the legislative reforms of 1985 and 1990 designed to reduce costs and increase the U.S. share of the world cotton market. The new cotton program provisions did not expand U.S. cotton exports when world prices were low. We recommended that because the severe economic conditions and many of the motivations that led to the cotton program in the 1930s no longer exist, the Congress may wish to consider reducing or phasing out payments or outlays over a number of years, perhaps over the life of the next farm bill. The Congress is currently considering the costs and benefits of commodity programs, including cotton, in its drafting of the 1995 Farm Bill. (GAO/RCED-95-107)

On the rice program, we found that the program continues to be costly for the government and for rice buyers. In 1986 through 1992, rice program support costs averaged \$863 million annually. We recommended that the Congress consider ways to move rice producers toward a greater market orientation and reduce their dependency on government support. Among other things, the Congress could lower the target price and reduce export assistance. While the Congress has not yet taken action on the rice program, it may do so in the 1995 Farm Bill. (GAO/RCED-94-88)

Similarly, on the dairy program we found that the dairy industry is not taking full advantage of what could be an expanding international market. The federal price support programs are partly the reason why U.S. dairy products do not meet global market needs and their costs exceed world prices. We have recommended the development of a long-range dairy policy that better recognizes the importance of dairy exports for the continued viability of the U.S. dairy industry. As part of its deliberations on the 1995 Farm Bill, the Congress is considering a number of options to revamp the dairy program that are consistent with our recommendations. (GAO/RCED-90-88 and GAO/RCED-94-19)

For the sugar program, we recommended that the Congress consider legislation that would move the sugar industry toward a more open market. As part of this transition, the market price for sugar should be lowered. We recommended that the Congress gradually lower the loan rate for sugar and direct USDA to adjust import quotas accordingly. Changes to

the sugar program are also being considered during the 1995 Farm Bill debate. (GAO/RCED-93-84)

Finally, for the peanut program, economic studies and our analysis show that the peanut program adds between \$314 and \$513 million each year to consumers' costs of buying peanuts. At the same time, USDA spends tens of millions of dollars each year to run the peanut program, make mandatory payments to producers, and cover the high cost of peanut products it buys under various food assistance programs. Finally, the program, by boosting the volume of U.S. peanuts available for export, may be lowering prices paid for peanuts abroad. The peanut program is one of the commodity programs being considered for change as part of the 1995 Farm Bill. (GAO/RCED-93-18)

Problems Facing USDA's Farm Loan Programs

USDA's farm loan programs are not adequately protecting the multimillion-dollar federal investment in farmers. This year, we reported that in fiscal year 1989 through June 30, 1995, USDA made \$448 million in new direct and guaranteed loans to borrowers for whom the agency had previously incurred losses. As of March 31, 1995, 42 percent of these borrowers were delinquent on their new loans. We found numerous examples of borrowers with poor repayment histories who were subsequently unable to repay new loans made to them. For example, one borrower received a guaranteed loan for \$80,000 in 1991 after receiving about \$317,000 in direct debt loan relief in 1989; by 1993, this borrower was delinquent on the new guaranteed loan.

A number of factors have contributed to these problems. Although some of these factors—such as the decline of the agricultural economy—are beyond the immediate control of either the Congress or USDA, two are not. First, lending officials in USDA's field offices often fail to follow the agency's own standards for making loans, servicing loans, and managing property. Second, certain USDA-authorized or congressionally authorized loan-making, loan-servicing, and property management policies themselves increase the agency's vulnerability to loss. For example, borrowers who have defaulted on past loans may obtain new loans, and under a congressionally directed policy, borrowers can obtain new USDA direct loans for operating expenses without demonstrating the ability to repay their existing debt.

We have made numerous recommendations to the Congress and the Secretary of Agriculture that are aimed at (1) improving compliance with loan standards and (2) strengthening policies and program design for

direct loans, guaranteed loans, and acquired farm property. The agency generally agrees with most of the report's recommendations for the need to tighten controls over loan making and loan servicing. USDA has begun to implement some of these recommendations but has not yet completed action on any of them. For example, the agency is in the process of developing regulations that would require loan classifications to be updated every 2 years and borrowers to be assessed for "graduation" (refinancing mortgages through private lenders) annually. The Congress is also considering legislation that will make some of the other changes we have suggested. More broadly, we have suggested that the Congress clarify USDA's role and mission, noting that USDA's attempts to operate simultaneously as a fiscally prudent lender and as a temporary assistance agency have not worked. (GAO/RCED-95-11, GAO/RCED-95-9, and GAO/RCED-92-86)

Problems Facing the Federal Food Safety System

The federal system to ensure the safety and quality of the nation's food—at an annual cost of \$1 billion a year—is inefficient and outdated. The food safety inspection system suffers from overlapping and duplicative inspections, poor coordination, inefficient allocation of resources, and outdated inspection procedures. As many as 12 different agencies administering over 35 different laws oversee food safety inspection. (GAO/RCED-92-152)

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

The federal programs in place to ensure that foods are not contaminated with unsafe chemicals also need fundamental changes. Structural weaknesses of a long-standing nature continue to limit the ability of federal agencies to reduce the risk of unsafe chemicals in food. Many of these problems are the result of the very laws and regulations that undergird the food safety system. We believe that improved effectiveness, efficiency, and uniformity in the federal food safety system could be realized by creating a single food safety agency to administer a uniform set of food safety laws that are based on the principle that the objective of an inspection system is to protect the public from the most serious health

risks, both microbial and chemical, associated with food-borne hazards. (GAO/RCED-92-209 and GAO/RCED-94-192)

Currently USDA has several initiatives under way to strengthen the meat and poultry inspection system and develop improved methods to detect and control microbial contamination. At the same time, there has also been extensive congressional interest in (1) the need to improve the meat and poultry inspection system; (2) the adequacy of USDA's and the Food Safety Inspection Service's actions to strengthen inspections; (3) the adequacy of Department and agency management; and (4) the adequacy of current food inspection laws. However, it is too early to tell when these improvements will be completed or whether the Congress will move toward the creation of a single food safety agency. (GAO/RCED-T-93-22, GAO/RCED-94-192, GAO/RCED-94-110, GAO/RCED-T-93-22, GAO/RCED-92-209, and GAO/RCED-92-152)

Problems Facing Rural America

Billions of federal dollars are spent every year for rural America, but these funds are not addressing the problems of rural areas in a coherent, responsive manner. Our work in the area of rural development identified several basic problems in the federal approach to rural America. First, many of the rural federal assistance programs target agriculture, which is no longer the principal economic base of most rural communities. Second, many federal programs that could benefit rural communities do not because they require coordination of expertise and resources, which are often not available in rural communities. Third, federal programs do not adequately distinguish among communities of different population densities. Finally, federal programs focus on process rather than effectiveness—they tend to measure effectiveness by numbers served or dollars spent rather than by the achievement of program goals. This process orientation hinders rural areas from using resources efficiently.

Our analysis of which factors influence a rural area's economic success or failure found that many factors are responsible and that no single factor or combination of factors can guarantee success. However, effective local leadership and long-range planning are critical factors in successfully finding solutions to an area's economic problems. In addition, the web of federal programs, policies, and regulations that accompany federal funding make the delivery of assistance inefficient. We recommended that the Congress consider (1) developing both a short- and long-term strategy to improve federal assistance programs to rural areas and (2) establishing a permanent interagency executive committee to oversee and provide better delivery mechanisms for federal programs and services. The

Chapter 2
Improving Resources, Community, and
Economic Development Programs

Congress is currently considering changes to the 1995 Farm Bill that may have an impact on and include rural development programs.
(GAO/RCED-94-165)

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

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

Impact of GAO's Work

The federal government has established over \$1 trillion worth of financial services and operates more than 300 programs that are aimed at providing decent, affordable housing and healthy communities. The agencies primarily responsible for these programs include the Department of Housing and Urban Development (HUD) and its Federal Housing Administration (FHA); the Department of Veterans Affairs (VA); the Rural Housing and Community Development Services (RHCDs); SBA; and the Federal Emergency Management Agency (FEMA).

After decades of costly housing and community development assistance and with future budget needs of over \$100 billion, the Congress and the administration are considering options to abolish or streamline HUD. To address congressional concerns, in December 1994, HUD announced its latest attempt to overhaul and streamline an agency that has long been plagued with scandals of mismanagement and poor service. At the same time, alternative approaches to community revitalization are being discussed. As detailed below, this issue area's work has significantly contributed to congressional debate and decision-making on the future of housing and community development at the federal and state levels. As a result of our work, HUD and the aforementioned agencies have taken action to improve the efficiency and effectiveness of housing and community development policies and programs.

Mortgage Assistance

We reviewed various issues of federal agencies' efforts to help low- and moderate-income individuals and families obtain housing through direct, insured, and guaranteed loans. The review included work on programs operated by HUD and RHCDs. Some of the work we undertook on FHA focused on the future of FHA and how to restructure both its multifamily and single-family programs. Specifically, we provided several briefings to Members of Congress and/or their staffs on (1) housing and community development program operations and issues facing HUD, (2) assessments of proposals to restructure FHA, and (3) questions that should be asked

about FHA's mission when considering restructuring FHA. These briefings contributed to the House and Senate Banking Committees' inquiries to HUD on its restructuring proposal.

In the multifamily area, we testified before subcommittees of the House and Senate authorizing committees on HUD's "mark-to-market" proposal for restructuring its multifamily housing portfolio. We also issued reports that should lead to improvements in the way HUD manages its \$45 billion insured multifamily loan portfolio. For example, in response to our recommendation, HUD agreed to make improvements in the method it uses to estimate its multifamily loan loss reserve. These improvements should result in more accurate estimates of loan loss reserves. Also, in responding to our draft report on HUD's multifamily rent-restriction program, HUD agreed to implement proposed recommendations aimed at clarifying rent-restriction program requirements and compliance procedures. Also, HUD has begun to take actions to address problems that we found in a recently issued report on HUD's multifamily nursing home program. These include initiating actions to refine its credit subsidy estimate for the program and to better monitor the program's financial performance.

In the single-family mortgage insurance area, we reported that the economic net worth of FHA's \$300 billion program has improved significantly. However, whether the program can maintain this improvement will depend on many economic and program-related factors that will affect the financial health of the program in the future. We noted that if the Congress wants the limit on the size of mortgages that can be purchased by Fannie Mae (Federal National Mortgage Association) or Freddie Mac (the Federal Home Loan Mortgage Corporation) to follow the long-term pattern of growth in average home prices, then the Congress needs to make legislative changes. We also reported on the losses incurred by HUD on properties it acquired, managed, and sold; the number of such properties; and the length of time they remained in HUD's inventory. This information should be useful to the Congress during its debate on the future of FHA and on the possibility of developing public-private partnerships for purposes such as disposing of acquired single-family housing.

Past work on RHCDS single-family direct loan programs contributed to RHCDS' decision to centralize the servicing of its direct loans. The Congressional Budget Office estimates about \$171 million in total outlay savings for fiscal years 1999 and 2000 as a result of the reduced need for local staff to service loans.

Low-Income Housing

Our work on low-income housing issues supported congressional decision-making through analyses of (1) major public and assisted housing reform proposals, (2) HUD's efforts to turn around distressed public housing, and (3) ways to improve the Federal Home Loan Bank System's Affordable Housing Program.

This year we testified before the Congress on problems with HUD's public housing and multifamily rental housing programs and on proposals to fundamentally restructure those programs. We discussed (1) the reasons why HUD's programs too often deliver high-cost, low-quality rental housing for lower-income households; (2) HUD's proposals to remedy these problems; and (3) basic policy, programmatic, and budget issues that need to be resolved before deciding on an approach to totally restructure HUD's rental assistance programs. During the congressional hearing process, we worked closely with subcommittee offices analyzing the implications of specific reform proposals.

We reported on the cost-effectiveness of HUD's proposal to replace billions of dollars of annual public housing subsidies with housing vouchers for those currently living in public housing. Our report raised a number of major policy issues concerning the cost-effectiveness of using vouchers for public housing that were not addressed by the HUD proposal. For example, our report called into question the advisability of (1) spending millions of dollars to rehabilitate certain public housing properties rather than having these costs financed through property rents and (2) substituting vouchers for public housing properties in situations where public housing is less expensive to rehabilitate and operate. This message—that property-by-property reviews should be performed to determine the most cost-effective local approach—has been incorporated into proposed legislation in both the House and the Senate.

We continued last year's efforts to focus more closely on efforts that HUD could and is taking to "turn public housing around." For example, before a Senate appropriations subcommittee we testified that linking \$1.4 billion in supplemental funding for distressed public housing developments to improvements in the public housing agencies' management would help to conserve funding and better ensure the productive use of these funds.

We also concentrated efforts on addressing problems created by about a dozen large "troubled" public housing agencies that have, over the past decade, received billions of dollars in subsidies but too often offer squalid living conditions for families that they assist. Our work with the Congress

contributed to a landmark provision in proposed housing reform legislation establishing a mechanism to dismantle the worst public housing agencies when conditions warrant. In addition, our audit work and testimonies on HUD's takeover of the Chicago Housing Authority helped the Congress understand how the problems in Chicago's public housing would be addressed. Chicago's problems will require many years to overcome. However, during the first 3 months of the HUD takeover, we found that the Department did not have a long-term plan for improving the housing agency's performance. Such a plan is essential to gaining the trust and cooperation necessary to make concrete progress. HUD is now working on a long-range plan.

Finally, our comprehensive review of the Federal Home Loan Bank System's Affordable Housing Program concluded that while the program serves a diverse group of beneficiaries and is a key resource in the development of affordable housing, opportunities exist for improving it. Specifically, the report highlighted the need to ensure that all program subsidies are passed through to the intended beneficiary and recommended that the reporting and monitoring responsibilities of all program participants be better defined and integrated, as well as better coordinated with the efforts of other housing agencies. The Federal Housing Finance Board has agreed to address our findings and recommendations.

Community Development

Our community development work examined three areas through which billions of federal dollars are spent to strengthen and rebuild communities—(1) financial and other assistance to small business, (2) community-driven comprehensive efforts to revitalize neighborhoods, and (3) assistance to aid communities and individuals devastated by natural disasters.

In the small business area, we reported on problems within the Small Business Investment Companies Program and the Specialized Small Business Investment Companies Program. These two programs aim to provide small entrepreneurial businesses with financing and management assistance as well as provide the equity and long-term debt capital needed for growth, modernization, and expansion. Our reports pointed out that SBA's delay in liquidating firms has resulted in losses totaling millions of dollars, that SBA's management of the program was deficient, and that financially healthy firms were benefiting from a special program that cost SBA millions of dollars. We recommended that SBA's Administrator correct liquidation and management problems.

We also testified twice on the problems that SBA continues to experience with its minority business development program. Among other things, contract dollars continue to be concentrated in a few firms, thus limiting the business development opportunities available to many firms. Also, firms nearing the end of their program term are still dependent on program contracts, raising doubts about the firms' probability to succeed in the commercial marketplace upon leaving the program. Our survey of 12,000 small construction firms provided, for the first time, comprehensive statistical data on the experiences of and obstacles faced by such firms in obtaining surety bonds.

Our work on comprehensive efforts to revitalize neighborhoods focused on lessons learned from community-driven local efforts that address housing, economic, and social service needs in a strategic way and on the impact of federal programs on these efforts. We found that community development experts and practitioners in the communities we studied believed that a comprehensive approach has benefited the communities and holds promise for long-term results because it provides for multiple services and makes them more accessible to community residents. Our report noted that the federal government assists distressed urban communities and their residents through a complex system involving at least 12 federal departments and agencies that administer hundreds of programs in the areas of housing, economic development, and social services. We reported that this proliferation of federal programs and the lack of coordination among agencies imposes a burden on local organizations that attempt to piece together programs to serve their communities. In related work, we found that the federal government operates 342 programs that could be considered to relate to economic development. The results of our work were used by members of the House to (1) illustrate the need to streamline federal programs and (2) support legislation that would give local governments increased regulatory flexibility.

To assist the Senate's Bipartisan Task Force on Funding Disaster Relief, we compiled a comprehensive funding history of federal disaster-related spending. This effort revealed federal obligations of nearly \$120 billion (in constant 1993 dollars) between fiscal years 1977 and 1993, including both grants and loans. The data also showed an increasing trend in federal disaster spending and in the number of presidentially declared disasters. At the task force's request, we coordinated our efforts with those of CBO and the Congressional Research Service (CRS), enabling the task force to

produce a comprehensive primer for future congressional debate on federal disaster assistance issues.

Federal Management

In January 1995, we reported on the fundamental deficiencies that led us to designate HUD as a high-risk area especially vulnerable to waste, fraud, abuse, and mismanagement. We also reported on the actions HUD had taken or initiated to correct the deficiencies and further actions that are needed.

Key Open Recommendations

Housing Finance

In a June 1995 report, we recommended to the Board of Directors of the Federal Housing Finance Board that any revised regulations for the Affordable Housing Program clearly define and integrate the monitoring and reporting responsibilities of the projects' sponsors, the members, and the Federal Home Loan Banks. Such action would help ensure that the Federal Home Loan Banks continue to meet their statutory and regulatory obligations under this program. (GAO/RCED-95-82)

Low-Income Housing

In July 1994 testimony, we said that we had found deplorable conditions in various low income tenant-based properties and recommended that the Secretary of HUD (1) promptly identify all properties with severe physical problems and offer affected tenants temporary assistance to relocate to safe and decent housing, (2) systematically notify owners of the problems, and (3) take appropriate enforcement actions against owners not bringing their properties into compliance with housing quality standards. We recommended further that HUD provide the Congress with an assessment of the resources and the legislative changes the Department needed to overcome any budgetary or legislative constraints that prevented HUD from addressing these conditions. (GAO/RCED-94-273)

In a February 1989 report, we recommended that the Congress establish one low-income rental assistance subsidy program that would provide a unified approach to delivering housing assistance, equalize the benefits to program recipients, and quiet the debate over which program is preferable. In doing so, the Congress would need to evaluate the merits and drawbacks of several features that distinguish vouchers from certificates and adopt those features that best satisfy the programs' legislative intent of providing decent, safe, and affordable rental housing. (GAO/RCED-89-20)

Lead-Based Paint Hazards

The risk of poisoning from lead-based paint continues to threaten young children living in low-income housing that was constructed before the sale of such paint was banned in 1978. Exposure to lead, even at low levels, may cause serious health, learning, and behavioral problems in children—especially those under the age of 7. We issued three reports with a number of recommendations to the Secretary of HUD to revise the regulations concerning lead-based paint. The Secretary plans to implement most of our recommendations, which, if properly executed, would protect children living in public housing from the hazards of lead-based paint. (GAO/RCED-93-38; GAO/RCED-93-138; GAO/RCED-94-137)

SBA's Minority Business
Development Program

In a September 1993 report on SBA's 8(a) business development program, we recommended that the Administrator, SBA, should direct the Associate Administrator of the Office of Minority Small Business and Capital Ownership Development to (1) implement the recommendations from our January 1992 report that related to implementing the 8(a) application-tracking system and determining the full extent of financial assistance provided to 8(a) firms; (2) complete and analyze users' requirements for the 8(a) program's management information system, document the system's design, and complete the system's implementation plan; and (3) direct SBA field offices to annually review each approved business plan, as required by the Business Opportunity Development Reform Act of 1988. Such actions would improve the 8(a) program's administration and achieve its objective of developing small businesses owned by socially and economically disadvantaged individuals. (GAO/RCED-93-145)

Disaster Assistance

Although severe disasters involve significant costs paid over a number of fiscal years, FEMA's budget submission to the Congress does not indicate the extent to which the balance of the Disaster Relief Fund at the beginning of the year will be needed to pay for the costs of disasters that have occurred in previous years. Because the Congress could use this information in its appropriations deliberations, we recommended that the Director of FEMA expand the information included in the budget proposal to show estimated future costs for disasters that occurred in previous years but for which recovery was not complete. (GAO/RCED-93-60)

We recommended that the Director of FEMA use the authority that exists under the Robert T. Stafford Disaster Relief and Emergency Assistance Act as one step in providing an aggressive federal response to catastrophies. This response should include actively advising state and

local officials of identified needs and the federal resources available to address them. (GAO/T-RCED-93-4)

In an earlier report, we recommended that the Director of FEMA request state and local emergency management agencies to incorporate recovery activities into their emergency plans and help provide appropriate training to state and local disaster management personnel. Such action is necessary because we found that when state and local governments are fully engaged in developing disaster plans and in conducting exercises, they are better able to respond to the demands of natural disasters. (GAO/RCED-91-43)

Natural Resources
Management Issue
Area (Budget
Function 300)

GAO Contact: Barry T. Hill, 202/512-9775

Impact of GAO's Work

Together, the Department of the Interior and its bureaus, USDA's Forest Service, the Army Corps of Engineers, and the National Marine Fisheries Service and other oceanic programs within the Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) are responsible for about 650 million acres, or about 30 percent, of the nation's total surface area; another 1.4 billion acres of ocean floor; and an infrastructure of buildings, roads, dams, and other facilities valued at about \$200 billion. These assets generated about \$6.7 billion in revenues in fiscal year 1994.

Our work over the last several years has shown that federal land management is at a crossroads. For example, while the number of units in the national park system continues to grow, the overall level of visitor services is deteriorating, and the dollar amount of the maintenance backlog has jumped from \$1.9 billion in 1988 to over \$4 billion today. Moreover, most park managers lack sufficient data to determine the overall condition and trends of their parks' natural resources.

Budgetary constraints will require the Congress and the administration to make difficult choices about how federal lands and natural resources are funded and managed. Among these choices are (1) finding new revenue sources to supplement or replace yearly appropriations, (2) finding ways for the agencies to operate more efficiently, (3) limiting or reducing the lands and resources to be managed or the functions and programs to be performed, or (4) reducing the level of services and standards for maintaining facilities and lands. Many of our key open recommendations are intended to help focus the debate on these difficult choices.

Key Open
Recommendations

Obtaining Fair Market Value

We have reported that fees for communication sites on federal lands are below fair market value and that the Forest Service has little assurance that it is collecting fair market value fees from ski area operators.

We recommended that USDA and Interior implement a fee system that ensures that fair market value is obtained for the use of their communications sites and that the Forest Service or the Congress develop a ski fee system that will ensure that the government receives fees based on fair market value. Both the Forest Service and Interior's Bureau of Land Management (BLM) plan to implement new communication fee systems in 1996. In addition, the Forest Service has proposed a new system that determines ski fees on the basis of site-specific appraisals. Conversely, bills introduced in both the Senate and the House in the 104th Congress would not ensure that the government receives ski fees based on fair market value. (GAO/RCED-94-248 and GAO/RCED-93-107)

Reducing Federal Water Subsidies

Water transfers, in which rights to use water are bought and sold, are seen by many resource economists as a mechanism for reallocating scarce water to new users by allowing those who place the highest economic value on the water to purchase it. At the same time, such transactions may allow Interior's Bureau of Reclamation to share in the profits, thereby reducing the costs to the government of providing the subsidized water. In a May 1994 report, we (1) identified several matters for the Congress to consider if it decides to further encourage water transfers and (2) recommended several actions that the Secretaries of the Army and the Interior could take to clarify guidance on approving transfers to more clearly outline the requirements that must be met. (GAO/RCED-94-35)

In a September 1994 report, we (1) recommended that the Bureau examine ways in which federal revenues may be increased while retaining incentives for transfers and (2) identified a matter for the Congress to consider that would allow the Bureau greater flexibility in recovering the costs of federal water projects. Interior has directed the Bureau to adopt the recommendations in both our May 1994 and September 1994 reports. The Army intends to issue guidelines on the basis of the Bureau's policies, procedures, and requirements adopted in response to the recommendations in our May 1994 report. (GAO/RCED-94-164)

As we pointed out in our May 1994 report on water transfers, another option for improving efficiency and encouraging conservation is increasing the water rates paid by federal water users. In an April 1994 report on the impact of higher irrigation rates on farmers in the Central Valley Project in California, we stated that if irrigators paid full-cost rates for water, federal revenues would be significantly increased. We also listed several factors that the Congress may wish to consider if it decides to

pursue the issue of increasing irrigation rates. The Congress has not acted on this issue to date. (GAO/RCED-94-8)

Below-Cost Timber Sales

In April 1991 testimony, we stated that the federal government was not recovering timber sale preparation and administration expenses, resulting in below-cost timber sales, and recommended that the Forest Service recover these expenses. We also made three additional recommendations for protecting the federal government's financial interests. The Chief of the Forest Service is scheduled to make his recommendations for below-cost timber sales to the Under Secretary of Agriculture early in 1996. (GAO/T-RCED-91-42)

National Park Service Employee Housing

While the Park Service has a long-standing tradition of providing housing to some of its employees, the backlog of housing repair, rehabilitation, and replacement needs, currently estimated at more than \$500 million, and a tight federal budget dictate that the Park Service examine options to deal with its housing needs. In an August 1994 report, we made recommendations that, if implemented, would (1) better define the Park Service's housing needs and identify opportunities for reducing its inventory and (2) obtain nonfederal funds to help the Park Service meet its housing needs. The Park Service has assessed its housing needs at 44 park units and plans similar assessments at other units. In addition, the Park Service is currently exploring ways to increase private sector involvement at eight units and has drafted legislation that would allow it to lease land to developers to construct employee housing. (GAO/RCED-94-284)

Managing Short-Term Concessioners

Nationwide, there are about 6,000 short-term agreements (of 5 years or less) under which concessioners provide goods and services to recreational users of federal lands. In a September 1993 report, we recommended that the Secretaries of the Interior and Agriculture require the heads of the four agencies with short-term concessioner agreements (Interior's National Park Service, Fish and Wildlife Service, and BLM and USDA's Forest Service) to develop and present to the Congress a policy to achieve greater consistency in the management of concession operations. We also recommended that the Secretary of the Interior require the Park Service to reevaluate its use of commercial-use licenses in lieu of permits used by other federal agencies to manage similar activities on their lands. Both Interior and Agriculture have deferred to the Congress, and several bills have been introduced to reform concession management in the federal land management agencies. One of the bills would provide for consistent management of concessioners across the agencies. (GAO/RCED-93-177)

Oil and Gas Leasing

The Mineral Leasing Act of 1920, as amended, limits the federal acreage that one party may control in any one state to 246,080 acres, reflecting congressional concern about the potential for monopolistic control of federal oil and gas resources. In a December 1994 report, we recommended three actions that Interior's BLM could take to better ensure that oil and gas lessees do not exceed the acreage limitation. BLM is in the process of implementing the recommendations with an anticipated completion date of late in 1996. (GAO/RCED-95-56)

The federal government receives royalties from offshore oil and gas leases on the basis of the volume and price of the oil and gas production sold and the royalty rate. Therefore, it is essential that these elements be verified and that inspections be conducted to help ensure accurate determination of oil and gas royalties. In an August 1990 report, we concluded that Interior's Minerals Management Service had been slow in verifying offshore oil and gas production and recommended that the agency move quickly to implement an ongoing production verification program. While a task force designed a functional and operable verification system and submitted a report to the agency's Director in 1992, the Service does not have a specific target date for issuing implementing regulations. (GAO/RCED-90-193)

Transportation and Telecommunications Issue Area (Budget Function 400)

GAO Contact: John H. Anderson Jr., 202/512-2834

Impact of GAO's Work

The transportation sector is a key component in improving the nation's economy; maintaining and enhancing U.S. competitiveness in the global marketplace; and serving the growing needs of businesses, industries, and the American public. To meet these goals, the world's finest transportation system faces many challenges and trade-offs. Among the challenges are reducing the enormous societal and economic costs of transportation-related fatalities, injuries, and property damage; restoring obsolete and deteriorated portions of the transportation infrastructure; relieving increasingly congested aviation, highway, and waterway systems; meeting the increasing demands for more and better public transit and rail service; using public resources more efficiently; and increasing reliance on private resources.

The telecommunications sector faces tumultuous changes over the next 4 to 5 years. The key issues center around (1) consumer access at reasonable prices in an environment where the types of firms delivering services are changing and (2) the appropriate regulatory role of government in an increasingly competitive industry.

As detailed below, our work, which has included an increasing emphasis on budget- and organization-related issues, has influenced the Congress, the Department of Transportation (DOT) and its agencies, and the Federal Communications Commission (FCC) to take many actions to improve transportation safety and the efficiency and the effectiveness of transportation and telecommunications policies and programs.

Aviation Safety

Over the next several years, the Federal Aviation Agency (FAA) faces major challenges on how to deal with the effects of a downsized workforce and a growing aviation industry within the context of continuing to maintain a high level of safety in the U.S. air transport system. In 1995, FAA also challenged itself and the aviation industry to achieve zero aviation accidents. Our recommendations have been designed to help FAA and congressional decision makers address these challenges.

In response to our recommendations, FAA has (1) begun deploying a nationwide risk-assessment system for assessing airline risk and for targeting its limited inspection resources, (2) taken steps to improve the technical training of its aircraft certification inspectors, (3) issued guidelines for overseeing the work of FAA's designated engineering representatives, (4) revised its regulations to provide incentives for pilots to obtain specialized training before flying in designated mountainous areas, (5) begun collecting detailed information on the airlines' compliance with airworthiness directives for the aging aircraft fleet, and (6) implemented a system to ensure that foreign corporations that register aircraft in the United States comply with FAA's requirements.

Air Traffic Control Modernization

FAA is at a critical crossroads in its air traffic control (ATC) modernization program—new ATC systems are being installed and automation equipment is still being acquired. At the same time, significant organizational changes are being considered. This past year, our work focused on the various options for FAA reform, including the ATC Corporation's proposals and continuing to monitor the status of FAA's acquisition of ATC systems.

In testimony on FAA's Advanced Automation System, we recommended that FAA submit a report to the Congress, before the administration proposes its fiscal year 1996 budget, that describes a comprehensive automation plan—including time frames, funding levels, and all interim and long-term actions necessary to satisfy users' needs and FAA's air traffic control and management requirements. In 1994, FAA submitted a comprehensive report to the Congress as recommended. Additionally, our analysis contributed to the congressional decision to reduce FAA's fiscal year 1995 Facilities and Equipment appropriation by \$136 million and to rescind an additional \$35 million. Finally, as we recommended, FAA developed a policy for scheduling the disbursement of Airport Improvement Program funds beyond the program's authorization period under a letter of intent.

Surface Safety

For the past 30 years, motor vehicle crashes have caused over 40,000 deaths and 3 million injuries annually. Each year over \$15 billion is spent on health care as a result of these traffic accidents. Our work in this important area contributed to the following actions: (1) the National Highway Traffic Safety Administration (NHTSA) has required that trucks, vans, and sport vehicles have all of the same major safety features as passenger cars; (2) NHTSA took various actions to ensure that imported gray market automobiles (i.e., automobiles manufactured to the standards of another country) have the same safety standards as other cars sold in

the United States; (3) the Federal Highway Administration (FHWA) improved truck accident data by helping states adopt uniform accident reporting procedures that identify truck configurations, such as longer combination vehicles; (4) Amtrak established a task force that examined comprehensive, long-term reform of Amtrak's mission and provided recommendations for congressional deliberations; and (5) Amtrak instituted new training requirements and provided this training to employees who maintain track signals and repair passenger cars.

Surface Infrastructure

In 1990, we identified the Federal Transit Administration's (FTA) grant management as a high-risk area and subsequently made numerous recommendations on how FTA could enhance its oversight and enforcement practices to better protect the billions of dollars being invested by the federal government in the nation's transit systems. Over the last few years, FTA has implemented a number of the recommendations and other initiatives, resulting in substantial improvements to its process to oversee its \$4.6 billion grant management program. As a result, we have removed FTA's high-risk designation.

In line with other recommendations, FHWA issued guidance to state and local governments on operations plans for traffic management systems and began assessing approaches for a new highway-cost-allocation study.

Competition, Economics, and Regulatory Analysis

We continued to focus our efforts in the aviation area on international issues as this is where U.S. carriers project most growth through the end of the century. We reported on the impact of code sharing and marketing alliances and noted that DOT lacked the necessary information to judge the economic and competitive impacts from approving such agreements. DOT agreed with our findings and is now improving its data collection.

In testimony before congressional committees, we highlighted Amtrak's serious financial problems and the difficult decisions on the future of passenger rail that must be made. Amtrak has adopted a strategy and business plan to stem its losses and to achieve solvency. We are currently monitoring Amtrak's progress in fulfilling its plan.

Finally, our testimony on the Interstate Commerce Commission described potential savings from alternative restructuring options for continuing activities. This information is helping the Congress as it considers this issue.

Coast Guard

Over the next few years, increasing numbers and sizes of foreign-flagged vessels visiting U.S. ports, including a new fleet of 2,600-passenger “mega” cruise ships, will strain the Coast Guard’s existing inspection workforce. Also, enforcement of the Oil Pollution Act of 1990, with comprehensive provisions covering oil spill contingency planning, requirements for double hull construction, and crew proficiency standards, represents a major commitment of Coast Guard resources that must be met in addition to the agency’s other missions. Our work has been targeted to identifying safer and more efficient ways of using the Coast Guard’s resources and fulfilling its mission. As a result of our recommendations, the Coast Guard has improved its inspections of intermodal containers carrying hazardous materials, and DOT has implemented uniform rules for the prevention of alcohol misuse for the commercial transportation industries. Additionally, in order to reduce water pollution caused by spills from pipelines, DOT acted on our recommendations and directed the Research and Special Programs Administration to establish a program to prevent spills from pipelines and document the locations of pipelines.

Telecommunications

FCC, in response to our work, adopted (1) rules giving preference to firms that are not current cellular telephone providers through the use of auctions to award more than 2,000 Personal Communications Services licenses and (2) written procedures to maintain voting records, document approval when significant changes occur, and release FCC’s decisions publicly. Furthermore, in response to our report, the cellular telephone industry established a mechanism for funding research on the safety of cellular telephones and has defined a role for federal agencies’ in the research program to enhance the credibility and usefulness of the results to federal regulators.

Key Open
Recommendations

Expectations for the National
Highway System

We recommended that FHWA develop performance expectations and measures in conjunction with the major goals of the National Highway System to ensure that progress can be assessed. This is particularly critical in areas such as pavement condition and the extent of congestion. However, DOT did not concur with this recommendation and plans no action. (GAO/T-RCED-94-136)

Highway User Fees

In a report on highway user fees, we recommended that FHWA conduct a formal cost allocation study to determine whether all highway users are

paying their fair share of federal highway costs and to ensure that FHWA and Congress have up-to-date information when making future decisions affecting federal highway user fees. We recommended that FHWA obtain appropriate input from the affected parties and utilize, to the extent possible, the data currently being developed by the Strategic Highway Research Program on the relationship between axle loads and pavement damage. FHWA concurred and has begun to work on a cost allocation study. (GAO/RCED-94-181)

Highway Quality Improvements

To help protect the nation's highway infrastructure, we recommended that FHWA work with states to develop performance standards and expectations, including specific time frames for corrective action that depend on the severity and safety impact of maintenance problems. We also recommended that FHWA issue guidance to states on factors to be considered as part of life-cycle cost analysis, such as setting priorities for projects over multiyear periods; establishing acceptable value ranges, particularly for social and other nontraditional costs like pollution, congestion, and fuel usage; and refining maintenance costs and salvage values. FHWA is reviewing the states' Interstate highway maintenance programs. At the completion of this review, FHWA plans to reassess the type of information that should be provided to the states. FHWA plans to issue a final policy statement on life-cycle cost analysis by the end of 1995. (GAO/RCED-94-198)

Track Safety Inspections

In reporting on the Federal Railroad Administration's Track Safety Inspection Program, we recommended that the Administration provide guidance to track inspectors on options available when excepted track deficiencies constitute an imminent threat of derailment or another safety hazard. Such action would strengthen the current regulations governing the excepted track provision and improve safety on excepted track. DOT agreed to issue revised guidance to its inspectors once the Federal Railroad Administration finalizes the new Track Safety Standards. It is not clear whether DOT still intends to address our recommendation in the new guidance. (GAO/RCED-94-56)

New Aviation Security Technology

To facilitate the introduction of new equipment to detect explosives, we recommended that FAA develop a plan, with industry, that provides a strategy for using new detection technology during the next decade. This plan should include important milestones and identify roles; cost estimates for the purchase, operation, and maintenance of explosive detection systems; and FAA and industry resources. FAA has begun developing a strategic plan for explosive detection technology and has contracted with

the Volpe Transportation Center to develop cost estimates. The first edition of the plan is to be published in mid-1996. (GAO/RCED-94-142)

Airport Improvement Program

In reports on the Airport Improvement Program, we recommended options for improving the targeting of Military Assistance Program funds within the national airport system and reducing the number of eligible reliever airports or further reducing the set-aside for reliever airports upon receipt of information from FAA on the need for such airports. FAA has not completed its review of the reliever airport concept. The Congress changed from 12 to 15 the number of airports the Secretary of Transportation could designate to participate in the Military Assistance Program and has limited future participation to airports with more than 20,000 hours of annual delays. Additionally, the Congress is considering whether to cut or reallocate funding for the set-aside as part of the Airport Improvement Program reauthorization. (GAO/RCED-94-209; GAO/RCED-94-226)

Global Positioning System

In May 1995, we recommended that FAA prepare a comprehensive plan for augmenting the Global Positioning System and making the transition to it and to update this plan regularly. The plan should include, among other things, the schedule and cost estimates for developing and implementing the wide and local area augmentation systems as well as information on the probability that FAA will meet these estimates. (GAO/RCED-95-26)

Information
Resources
Management -
Resources,
Community, and
Economic
Development Issue
Area (Budget
Function 990)

GAO Contact: Jack Brock, 202/512-6253

Impact of GAO's Work

The information resources management/resources, community and economic development issue area addresses IRM activities at the key agencies covered by GAO's Resources, Community, and Economic Development Division—USDA, Commerce, DOE, HUD, Interior, DOT, and EPA. These IRM activities support over \$160 billion in annual program expenditures, and they are indispensable to these agencies' ability to deliver critical government services, such as safe air travel and loan portfolio oversight valued at over \$1 trillion.

Our work has assisted the Congress and helped these agencies improve operations, save money, and address the myriad of difficulties associated with managing highly complex, mission-critical, and technologically advanced information resources. Our accomplishments include the following:

- At DOT, our work contributed to FAA's decision to cancel and redirect billion dollar components of its air traffic control modernization program. Also, our work on FAA's system for identifying and targeting airline and aircraft safety risks and inspections was instrumental in advancing this effort and better ensuring its success. In addition, we were at the forefront in identifying critical technical challenges facing the information superhighway that need to be addressed.
- Our work helped convince USDA to halt and redirect the Department's Info Share Program, a \$2.6 billion effort to modernize and reinvent USDA's farm service and rural development agencies. Other work at USDA yielded an additional \$214 million in measurable benefits by identifying unnecessary

computer purchases and opportunities to save tens of millions of dollars in telecommunications costs.

- Our testimony and reports on the National Weather Service's (NWS) \$4.5 billion modernization program has led the Commerce Department to agree to develop a system architecture that should more cost effectively guide the evolution of the modernization's many systems. Further, our work has contributed to improvements in developing and operating key weather observing systems that are vital to providing accurate and timely weather forecasts and warnings, and has produced \$12 million in measurable benefits in acquiring additional Next Generation Radars.
- At EPA, we convinced agency leadership to involve program managers in information technology investment decisions, which should help minimize poorly focused system development projects.
- At HUD, we uncovered critical root causes of HUD's long-standing IRM problems and persuaded HUD's leadership to begin implementing many of the best IRM practices underpinning the success of leading public and private sector organizations.
- In response to our work, DOE and its contractors are working to resolve software development problems with a new system to track nuclear materials worldwide and improve security of computerized sensitive data.

Key Open Recommendations

We are working with agency officials to implement our key open recommendations. These cover a broad cross section of agencies and IRM issues. For example, our report on USDA's Info Share Program, a \$2.6 billion effort to modernize and reinvent the USDA's farm service and rural development agencies, stated that agency managers were not taking the necessary steps to redesign agency business processes. Instead, the program was being used as a vehicle to buy information technology and further automate the current way of doing business. We therefore recommended that the Secretary refocus Info Share to ensure that business process reengineering was properly planned, conducted, and implemented and defer the award of planned nationwide contracts. Although USDA has taken actions to address our recommendations, some actions are not fully responsive. As a result, we are closely monitoring Info Share to ensure that sound business process reengineering principles and practices are not compromised. (GAO/AIMD-94-156)

Also at USDA, we reported that USDA's efforts to consolidate and optimize telecommunication services had not acted on all savings opportunities, and, as a result, millions of dollars were being wasted each year. We therefore recommended that the Secretary act upon these opportunities, where practical and cost-effective. USDA has not yet responded to our report. (GAO/AIMD-95-97)

Our report on the NWS' modernization program noted that NWS lacked an overall systems architecture or "blueprint" to guide the development and evolution of the modernization's many and diverse components. As a result, we recommended that a systems architecture be developed and implemented. NWS agreed with the recommendation and plans to complete the systems architecture in fiscal year 1997. We are monitoring NWS' progress on this architecture. (GAO/AIMD-94-28)

At EPA, we recommended that the Administrator advance the agency's overall ability to accomplish its cross-media mission by strengthening its development activities on key systems. EPA is in the process of making these improvements. (GAO/IMTEC-92-14)

We also recommended that EPA conform with generally accepted IRM practices for developing automated systems supporting its Office of Pesticide Programs. While EPA has taken some steps to implement this recommendation, more remains to be done. We plan to monitor EPA's progress. (GAO/AIMD-93-5)

Further, we recommended that the Administrator improve the ability of EPA's Office of Prevention, Pesticides, and Toxic Substances to collect, disseminate, and use toxic substances data by requiring the office to develop a strategic IRM plan, evaluating alternative systems architectures for the office, and selecting a target architecture to guide the development and evolution of office systems. EPA is in the process of implementing these recommendations. (GAO/AIMD-94-25)

Our report on HUD's IRM program found numerous long-standing problems. We recommended several actions to address them, such as,

- establishing strategic business and IRM planning processes and developing and maintaining up-to-date plans and a systems architecture that are clearly linked to each other;

- establishing a data management program to support integrated departmentwide systems and ensuring that the organization responsible for this program had sufficient authority to coordinate development of standards for common data; and
- eliminating weaknesses in computer security controls over automated systems and installations that store, process, transmit, or use sensitive or privacy data.

HUD is addressing these recommendations. (GAO/AIMD-94-34)

Improving Human Resource Programs

Education and Employment Issue Area (Budget Function 500)

GAO Contact: Carlotta Joyner, 202/512-7014

Impact of GAO's Work

The education and employment issue area focuses its work on the federal investment in human capital and the federal government's role in assuring basic workplace protections. The nation's ability to compete in the international marketplace and maintain its standard of living and its way of life depends on the quality of the nation's investment in educating its children and training its workers for tomorrow's jobs. The Departments of Education and Labor are the federal agencies with primary responsibility for overseeing this investment. Through programs administered by these departments, the federal government—working with state and local governments—invests about \$66 billion to promote access to quality education and to advance opportunities for profitable employment under safe and healthful living conditions.

Our work has played a prominent role in alerting the Congress to important issues and providing specific recommendations that have become the foundation for congressional action. Our work on overlapping employment and training programs brought this issue to the fore and provided a foundation for overhauling and streamlining the federal structure of employment training programs. With regard to workplace quality, our report on workplace regulations influenced proposed legislation to reform the Occupational Safety and Health Administration's (OSHA) enforcement activities. Our work on the financing of higher education identified ways in which the federal government can minimize student loan defaults and led the Congress to revise the Federal Family Education Loan Program such that lenders and guaranty agencies will share in the cost of defaulted loan claims. Our work on early childhood education programs and teacher preparation programs contributed to the development of House Budget Committee proposals to streamline these programs.

Issue area work also included a look at the lessons learned from the 1980s experience with block grants. We pointed out that states effectively handled the transition from categorical programs to block grants where they had experience administering the program and emphasized the importance of the appropriate handling of program accountability. Our

report was widely cited in the Congress and was used by major state groups such as the National Governors' Association and the National Conference of State Legislatures to plan for the possibility of new block grants on a larger scale than in the past.

Highlights of our contributions in education reform, higher education, work force skills and jobs, and workplace quality follow.

Education Reform

Our work in elementary and secondary education identified ways to improve existing federal programs to better serve the nation's children. For example, we addressed the need to better target federal education program resources to meet the needs of poor children; and we examined the inadequacy of school facilities in some school districts. In both cases, our work contributed to shaping the legislation that reauthorized the Elementary and Secondary Education Act of 1965. Our report on early childhood programs helped focus the debates on both the Goals 2000 legislation and welfare reform.

Our work on school facilities also contributed to increased federal support for education infrastructure, including technology and laboratory sciences. Recommendations from our report on student turnover led to provisions in the Improving America's Schools Act of 1994 that promote systemic state and local planning to better coordinate federally funded educational services for all eligible children, explicitly including migrant children. Our work on multiple teacher preparation programs was used in streamlining efforts to reduce the deficit. In addition, our work on the need for more comprehensive school-to-work transition strategies supported enactment of the School-to-Work Opportunities Act of 1994.

Higher Education

In our work on higher education financing we identified ways to contain government costs for postsecondary education. Our work contributed to changes in the Higher Education Act of 1965, as amended, by supporting provisions that (1) require secondary market lenders to pay a loan transfer fee when purchasing loans, (2) limit the use of minimum loan interest rate payments to secondary market lenders, and (3) revise loan origination fees for certain borrowers. Our work contributed to the Congressional decision to reduce the interest subsidy the government pays to lenders holding consolidated student loans. Finally, as a result of our work on how grants and loans affect low-income students' ability to stay in college, the Congress is re-evaluating the use of grants and loans in providing financial assistance.

Workforce Skills and Jobs

Our work on federal job training programs pointed out the overlap, duplication, and inefficiencies resulting from about \$20 billion being appropriated for 163 employment training programs spread across 15 departments. This report contributed to the bipartisan consensus that reform is needed and helped lead to the passage of a major consolidation bill in the House and expected action on a similar bill in the Senate. The focus of both these bills is to consolidate and use block grants for federal job training programs. Our recent work on the Job Corps, the nation's most intensive youth job training program, was used extensively by the Senate in its floor debate about turning the program over to the states.

Workplace Quality

Workplace quality refers to the maintenance of basic workplace protections for employees. Recent congressional efforts at reform were influenced by our report on the framework of federal workplace regulation. We noted that the employers and union representatives we interviewed generally supported the goals of workplace regulation but had serious concerns about how some agencies carry out their regulatory missions. To address these concerns, they suggested the need for agencies to adopt a more service-oriented approach to fulfill their missions in a more cooperative and cost-effective manner. In response to our work, several agencies in the Department of Labor have adopted alternative regulatory strategies and cooperative approaches to enforcing health and safety regulations. In another instance, our report on sweatshops in the U.S. garment industry showed that coordination of enforcement efforts across state and federal agencies has been poor, permitting growth of safety and health violations in the garment industry. Our work has contributed to efforts at the federal, state, and local levels to better coordinate the enforcement of labor laws in the garment industry. The Secretary of Labor has also met with some of the nation's largest retailers to discuss their role in preventing worker abuse. These retailers have committed themselves to the first ever, nationwide education and outreach campaign designed to improve garment industry compliance with labor laws. In addition, our work on restructuring the Equal Employment Opportunity Commission (EEOC) contributed to administrative changes within the EEOC that have streamlined its enforcement process. The report also contributed to the debate on legislatively revamping the enforcement of federal civil rights laws.

Key Open Recommendations

Student Financial Aid

In our report on the Department of Education's use of student financial aid data to identify inappropriately awarded loans and grants, we recommended that the Secretary of Education act to improve the accuracy and completeness of student financial aid data. In particular, we recommended that the Department continue to (1) screen data entered into the National Student Loan Data System (NSLDS) to ensure consistency in format and (2) test the accuracy and validity of data in NSLDS. We also recommended that the Secretary analyze student aid data more closely to identify patterns of noncompliance with federal requirements and take appropriate corrective actions. The Department says it is continuing to screen data entered into NSLDS. The Department has also begun to address these recommendations through plans to enhance NSLDS by (1) developing selection factors that better target schools for program reviews, (2) developing management reports to compare NSLDS data with data submitted by guaranty agencies, and (3) requiring guaranty agencies to update NSLDS with the identity of students who have made satisfactory arrangements for loan repayment. In addition, the Department plans to develop an integrated student financial assistance delivery system to replace existing discrete program-specific systems. (GAO/HEHS-95-89)

In our report on Department of Education sanctions against schools whose student loan default rates exceed statutory limitations, we recommended that the Congress grant the Secretary of Education authority to take actions to better protect the government's interest. First, we recommended that the Congress authorize the Secretary to require reimbursement for the cost of defaulted loans if a school appeals elimination of their Federal Family Education Loan Program eligibility and loses the appeal. Second, we recommended that the Congress authorize the Secretary to require schools filing an appeal to post a performance bond as a condition of filing the appeal but also give the Secretary discretion in determining under what circumstances a bond would be required of schools. In a July 1995 hearing before the Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, the Assistant Secretary for Postsecondary Education testified that the Department planned to propose amendments to the Higher Education Act of 1965, as amended, to effect the recommended actions. (GAO/HEHS-95-99)

In our report on restructuring student financial aid to reduce the drop-out rate among low-income college students, we recommended that the Congress direct the Department of Education to conduct a pilot program of frontloading federal grants at a limited number of 4-year schools. We recommended that the pilot enable an assessment of potential benefits and costs and a decision regarding the approach's broader applicability. The Congress may consider such action when it reviews the current authorizing legislation. (GAO/HEHS-95-48)

Employment Discrimination

We reported on how registered representatives fared in discrimination disputes and made several recommendations to the Securities and Exchange Commission (SEC). Specifically, we recommended that SEC direct self-regulating organizations (SRO) to (1) use existing information systems to track information about discrimination cases, (2) establish written criteria for excluding from SRO arbitrator pools industry arbitrators who have histories of disciplinary actions or regulatory infractions, (3) require all arbitrators to disclose criminal convictions on their arbitrator profiles, and (4) assess and maintain information on arbitrators' expertise and use this information when selecting arbitrators to serve on panels. We also recommended that SEC (1) establish a formal cycle for inspecting SRO arbitration programs, (2) follow up vigorously on the implementation of its recommendations, and (3) include discrimination complaints among those case files it selects to review during inspections. SEC officials indicate that they are in the process of responding to some of these recommendations. (GAO/HEHS-94-17)

Occupational Safety and Health

In our report on OSHA's policies and procedures for confirming abatement of hazards, we recommended that the Secretary of Labor direct OSHA to promulgate a regulation requiring employers to submit detailed evidence of corrective actions they have taken to abate hazards. We also recommended that the Secretary direct OSHA to revise its policies such that (1) citations to employers at construction work sites require correcting the condition, equipment, or procedure that created the hazard; and (2) abatement cannot be achieved solely by moving to another location if the cited condition, equipment, or procedure would be likely to create a hazard at the new location. In response to these recommendations, OSHA officials say they are currently conducting an extensive review of the agency's enforcement policies and procedures, including an assessment of its abatement inspection and data collection procedures. OSHA officials have proposed regulations on abatement verification that will require employers to certify to OSHA that the abatement of worksite hazards cited during an inspection have been completed. OSHA officials report that

further actions on these recommendations will be guided by congressional concern for creating a more cooperative working environment and joint enforcement efforts with OSHA, employers, and employees. (GAO/HRD-91-35)

In our report assessing the federal-state approach for enforcing OSHA's policies, we recommended that OSHA carry out a number of activities to improve its oversight of state programs, such as (1) emphasizing measures of program outcome and evaluations, (2) revising the state program-monitoring and evaluation approach, and (3) obtaining worksite-specific injury and illness data from employers. OSHA has completed action on revising the state program-monitoring and evaluation approach by requiring states, in March 1994, to conduct internal audits and establishing more effective procedures to obtain state corrective action on significant program issues. OSHA also implemented, in March 1995, new activity measures incorporating absolute criteria and national goals where appropriate. OSHA is still in the process of developing additional ways to measure its effectiveness through outcome measures by seeking performance agreements through pilot efforts with interested states. These pilot efforts are to be completed by 1996. (GAO/HEHS-94-10)

EEOC's Expanding Workload

To address increases in EEOC's workload, we recommended that the Congress convene a commission of experts to develop legislative and administrative procedures that would enable EEOC to better carry out its mission within the context of an overall federal strategy for enforcing federal employment nondiscrimination laws. Congressional committees responsible for EEOC are expected to examine EEOC's workload problems and potential strategies for overcoming those problems sometime in 1996. (GAO/HEHS-94-32)

Health Care Delivery and Quality Issue Area (Budget Function 550)

GAO Contact: David P. Baine, 202/512-7201

Impact of GAO's Work

Health care that is financed or provided directly by the federal government affects millions of people and costs billions of dollars. DOD and VA operate two of the largest, centrally managed health care systems in the world, spending about \$30 billion annually through some 500 facilities and a network of private providers. In addition, the Department of Health and Human Services' (HHS) Health Care Financing Administration (HCFA) administers the multibillion-dollar Medicare and Medicaid programs which finance the health care provided to the nation's elderly, disabled, and economically disadvantaged. VA also spends about \$18 billion annually in compensation for disabilities and other nonhealth benefits.

Rising health care costs and substantial budget deficits have prompted major congressional concerns about whether these agencies are delivering quality health care and other benefits to their beneficiaries as efficiently and cost-effectively as possible. The downsizing of military forces and the potential transfer of beneficiaries from DOD systems to VA systems has also prompted a concern about the structure of DOD and VA health delivery and VA's benefits systems.

Our objectives in this issue area are to (1) help ensure that VA and DOD health care systems and VA benefits programs are operating effectively and efficiently, (2) identify and assess opportunities for restructuring VA and DOD health care delivery and VA benefits systems to better accomplish their missions, (3) evaluate DOD's experience in implementing a large managed health care system, and (4) improve the quality of health care processes in DOD, VA, Medicare/Medicaid, and Public Health Service programs.

DOD Programs

In fiscal year 1995, we continued to focus on issues related to the reform and restructuring of the military health care system. We concentrated on DOD's implementation of TRICARE, its nationwide managed health care program, and the implications of that new system for beneficiary access to care, health care contracting, and cost containment. DOD is implementing several of our past recommendations thus making the contracting process more efficient and fair and the benefit package more uniform across beneficiary categories. In addition, the new benefit structure contains an enrollment premium for some beneficiaries, a cost-control measure we have recommended in the past. Despite these improvements, we continue

to be concerned about the lengthy contracting process and many contract disputes that have arisen during the implementation of TRICARE, about remaining inequities in the benefit structure and about the program's ultimate potential to control costs to the degree projected by DOD.

For the new Congress, we issued a report summarizing our work in the area of military health care restructuring which described the past problems in the system and DOD's efforts to improve its program. It also set out the issues that will be important to the future of DOD health care and our work in that area. The report was commended by congressional staff and DOD officials as a valuable primer on the military health care system.

In addition to DOD's managed care efforts, we reviewed DOD's resource sharing activities with VA medical facilities and overseas medical care for military beneficiaries. DOD has implemented our recommendation to formalize guidance to its medical facilities on VA sharing, which will spur the initiation of agreements that produce government cost savings for both DOD and VA health programs. In our review of overseas medical care we found that access to military medical facilities for many remaining beneficiaries had decreased due to military downsizing in Europe. During the course of our review, DOD implemented several actions to alleviate the concerns of most beneficiaries.

VA Health Care Programs

We are continuing to assess VA's efforts to restructure its health care system, including eligibility for VA health care. As part of this effort, we testified about challenges facing the VA health care system, such as declining inpatient workload, and about a framework for evaluating efforts to redefine eligibility for VA health care. In the testimonies and related reports, we suggested options for restructuring the VA health care system, including consolidating hospital services, retargeting VA resources toward the special care needs of veterans, expanding care for nonveterans, recovering VA costs for providing nursing home care, and expanding the use of private nursing homes.

With respect to eligibility reform, we pointed out that all of the eligibility reform proposals would likely increase workload and create pressures on the Congress to increase VA's health care appropriation. The testimonies will be expanded and issued as part of a series of reports summarizing the major issues facing the VA health care system.

As part of our examination of the efficiency and cost-effectiveness of VA approaches, we worked closely with the Congress in assessing the

potential effects of the Congressional Budget Resolution on VA health care. We noted that VA had overestimated the potential effects of a budget freeze in terms of the number of facilities that would have to be closed and the workload and staffing reductions that would occur. We also provided detailed information on planned construction projects that was instrumental in sustaining efforts to limit VA health care construction.

Our work on the Albuquerque Medical Center's pricing practices for lithotripsy services provided to nonveterans also identified significant opportunities for more cost-effective use of resources. We found significant weaknesses in VA pricing, which resulted in the center's not recovering the full cost of services provided. In response to our recommendations, VA has directed the Albuquerque center to recalculate the price of services and has issued guidance to all centers on the appropriate methods for pricing specialized medical services in order to fully recover costs.

VA Nonhealth Benefits Programs

Our work on VA's claims and appeals processing has focused attention on key problems, and our recommendations are critical to the success of ongoing improvement efforts. We reported that although VA had undertaken many actions designed to "reinvent" the claims process, VA had not put into place an evaluation system adequate to assess the impact of its initiatives. VA had little information about what regional offices were doing, what success they were having, or what approaches had the potential for the most improvement. Headquarters also lacked an effective system for disseminating information about regional experiences—both successful and unsuccessful—so that regions could learn from each other. In an organization where regional offices are given substantial latitude, headquarters will be hard pressed to ensure improvements over time without meaningful information to interpret regional office outcome data.

We also reported that although changes were under way in appeals processing, problems were likely to continue. Several VA organizations are involved in appeals processing, and we found that they were not working together effectively in processing appeals. For example, members of the Board of Veterans' Appeals were interpreting VA's legal responsibilities differently than officials of the Veterans Benefits Administration (VBA), which is responsible for initial processing of claims and appeals. Without a clear, agencywide interpretation of VA's responsibilities, the Board will continue to reverse regional decisions or return cases to the regions for reconsideration, increasing workloads throughout VA. Additionally, lack of an agencywide interpretation of responsibilities prevents VA from

determining whether it has sufficient resources to meet those responsibilities or whether some new solutions may be needed. The nature of the problems and of their possible solutions suggests one way to ensure intraagency problems are identified and resolved is to appoint a focal point at the Department level.

In response to a congressional mandate, we provided information on alternative approaches to providing benefits to survivors of veterans who had been receiving disability compensation. Our analysis showed that most of the alternatives would dramatically reduce benefits to all recipients or substantially increase federal outlays. However, one alternative—basing benefits on the level of the veteran's basic disability compensation—had more merit. It would, without increasing program costs, increase benefits for about two-thirds of the recipients while decreasing them for about one-third. This alternative would also ensure that, when veterans die, VA support to their spouses would change proportionately. Currently, support to spouses of the most severely disabled is reduced substantially, compared with veteran's disability compensation, while support to the spouses of the least disabled may increase as much as ninefold over the veteran's compensation amount.

Though limited in scope, our survey of 125 veterans who had expressed concerns about their health after they returned from the Persian Gulf helped ensure improvements in VA and DOD outreach programs. Many of those we surveyed were unaware of services available to Persian Gulf veterans despite a variety of efforts by DOD and VA to publicize them. As a result of issues we raised, both VA and DOD plan to increase their outreach efforts. VA will send information to more veterans, and DOD plans to develop information to send directly to reserve units, rather than rely on public communication channels as it has done in the past.

On the basis of our work documenting hundreds of millions of dollars in compensation and pension overpayments to veterans and their survivors, VA agreed to make changes which, if implemented, have potential dollar savings of over \$50 million annually. The specific changes VA makes will, as we recommended, represent a shift in focus from detecting overpayments after they occur and then trying to collect them to preventing the overpayments.

Our work also made a significant contribution to congressional consideration of whether to revise legislation so that military retirees could receive retirement pay and VA disability compensation pay

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concurrently. Our analysis showed that the change, if implemented, would add billions of dollars to federal expenditures.

Our work on the quality of care provided to patients in VA medical centers led VA to agree to make some changes that will benefit patients in all medical centers and to specific actions, already accomplished, to improve care in one medical center. Our report on VA's physician peer review process showed that VA medical centers are not fully (1) documenting the actions, if any, taken against physicians who have been identified as providing questionable care and (2) reporting physicians involved in malpractice cases and other adverse actions to the National Practitioner Data Bank as required. We recommended corrective actions, and VA is now considering how best to address them. Our work on needles and other pointed-object injuries in VA medical centers indicated that the number of injuries may be understated. Further, we found that VA's efforts to acquire safer needles as well as other pointed instruments or devices needed improvement. We made several recommendations to correct these problems, and VA is implementing them. Correspondence sent to the Medical Center Director in Brockton, Massachusetts, discusses the center's detoxification and rehabilitation services and the actions they took, during our review, to improve them. The report was distributed to every substance abuse program director in VA, and it was used extensively by program personnel as an educational tool.

In addition to our work in VA, we completed a review of the Indian Health Service's (IHS) credentialing process for temporary physicians and testified on enhancing health care quality assurance for Medicare beneficiaries. In the IHS report, we recommended that IHS take several actions to help ensure that physicians with adverse actions taken against their state license(s) are identified before they are allowed to treat patients in IHS facilities. IHS immediately implemented each of these recommendations.

In other testimony, we described what HCFA is doing and plans to do, as a prudent purchaser, to ensure that Medicare providers furnish quality care in both fee-for-service and managed care delivery systems. We concluded that the enhancements HCFA is making are consistent with the direction in which the private sector is moving and with the consensus of the health care experts we had interviewed. But we described HCFA as facing significant challenges, especially in light of HCFA's past problems in enforcing its quality assurance regulations.

Key Open Recommendations

DOD

Because of problems remaining in DOD's TRICARE procurement, we recommended that DOD weigh alternative approaches for the next procurement round, determine whether solicitation requirements can be simplified, and establish general qualification requirements for individuals who evaluate the contract bids. We also recommended that DOD not reduce the scheduled transition period (from award date to health care delivery) even if there have been delays in awarding contracts. (GAO/HEHS-95-142)

VA

VA has a goal of providing nursing home care to 16 percent of veterans needing such care, yet it recovers, through veteran cost sharing, less than one-tenth of one percent of its approximately \$1.5 billion in annual costs for providing this care. We recommended that the Congress consider authorizing VA to (1) adopt the copayment practices used by state veterans homes (which recover from 4 to 43 percent of their operating costs through veteran copayments) and (2) establish an estate recovery program patterned after those operated by increasing numbers of state Medicaid programs. (GAO/HRD-92-96 and GAO/HRD-93-68)

In light of current efforts to reduce the budget deficit while improving health services, we recommended that VA, in concert with veterans service organizations and other federal and state agencies with jurisdiction over health benefits programs, (1) identify and evaluate options to better target VA resources to meet the health care needs of veterans and (2) develop legislative proposals to restructure the veterans health benefits program. (GAO/HEHS-95-39)

VA has created networks to plan and coordinate the provision of medical services among nearby medical centers. In December 1994, we reported that VA had not taken advantage of the opportunities in the Chesapeake Network to reexamine its construction planning to better coordinate new projects or to ensure that they help meet the needs of veterans across the entire Network. We recommended that, before requesting funding for any future construction projects in a network, VA require completion of a plan for meeting the future medical care needs of veterans in that network area. Such a plan should include networkwide assessments of need, assessment of construction alternatives, and priorities among the proposed construction projects. (GAO/HEHS-95-6)

VA has developed plans to build a 470-bed hospital and a 120-bed nursing home in Brevard County, Florida, and to convert the former Orlando Naval Hospital into a nursing home and outpatient clinic. On the basis of our analysis of how prudent and economical these actions would be, we recommended that the Congress not approve VA's request for funds to construct a medical center in Brevard County, Florida, and instead direct VA to develop lower cost alternatives to meet service delivery goals. (GAO/HEHS-95-192)

Although VA agreed with our recommendations about focusing on preventing overpayments in compensation and benefits claims, it has not yet taken action to implement them. (GAO/HEHS-95-88)

We recommended that VA revise the criteria its medical centers use to report VA practitioners involved in adverse actions to the National Practitioner Data Bank so that the criteria are more consistent with those used in the private sector. (GAO/HEHS-95-121)

National and Public Health Issue Areas (Budget Functions 550 and 570)

GAO Contact: Sarah F. Jaggar, 202/512-7119

Impact of GAO's Work

As health care financier and insurer, the federal government serves 38 million elderly and disabled under Medicare, over 37 million poor under Medicaid, and 9 million active and retired federal employees and their families under the Federal Employees Health Benefits Program. The government's primary programs for financing health care—Medicare and Medicaid—will cost an estimated \$286 billion in fiscal year 1996 with an additional \$70 billion in state and local funds expected for Medicaid.

Our primary objective in reviewing these programs is to find ways to reduce costs without adversely affecting beneficiary access to quality care. Other important objectives are to (1) assess processes used to control and identify fraud, abuse, and mismanagement in the programs; (2) evaluate new payment approaches to curb Medicare spending growth; and (3) identify opportunities for improving health care while ensuring accountability for performance.

Throughout the 1980s, the Congress looked to Medicare for deficit reduction opportunities, and billions of dollars in monetary savings were achieved. Medicaid became a means of expanding health care services for those too poor to obtain them elsewhere, particularly pregnant women and children. But the 1990s are presenting new challenges to these programs and health care in general. Health care costs have skyrocketed, and the nation's uninsured and underinsured populations continue to grow. New approaches for delivering health care services to millions of Americans are being tried. Our work continues to support many of the Medicare and Medicaid program initiatives and legislative changes undertaken or being considered by the Congress.

Waste and Abuse

We have issued several reports discussing improvements needed to curb inappropriate Medicare payments. One study found widespread examples of overcharges to Medicare for therapy services delivered to nursing home patients. Extraordinary markups on therapy services have resulted from providers exploiting regulatory ambiguity and weaknesses in Medicare's payment rules. We recommended that the HCFA Administrator (1) set explicit limits to ensure that Medicare pays no more for therapy services

than would any prudent purchaser and (2) strengthen certification requirements to better ensure that those entities billing Medicare are accountable for the services provided to beneficiaries. (GAO/HEHS-95-23)

We found similar problems affecting a wider range of Medicare services and supplies. Medicare often pays more than the current market price for medical services, resulting in potentially billions of dollars of unnecessary payments. Consequently, we suggested that the Congress (1) enact legislation to allow Medicare to participate more fully in the competitive marketplace—for example, by setting maximum prices based on market surveys; and (2) consider options for granting relief for funding declines in Medicare’s anti-fraud-and-abuse activities. (GAO/HEHS-95-210)

Monetary Benefits

We analyzed 1.3 million imaging services in Florida and determined that physicians with a financial interest in imaging facilities (a practice known as “self-referral”) ordered more, and more costly, imaging services for their patients than did other physicians. In response to our study and those of other researchers, the Congress included provisions in the Omnibus Budget Reconciliation Act of 1993 to extend the ban on Medicare self-referrals, which previously included only clinical laboratory services, to Medicaid and to 10 other health services, including diagnostic imaging. CBO estimated that beginning in fiscal year 1995 the ban on self-referral will save Medicare \$350 million and Medicaid \$37 million over 4 years. Although the 1993 act’s provisions became effective on January 1, 1995, HCFA has not yet finalized regulations implementing the legislation. Our report summarized the results of our two studies on physician referrals for imaging services and recommended that HCFA develop procedures and policy guidance for Medicare contractors to ensure compliance with the self-referral ban and to identify overutilization of imaging services. (GAO/HEHS-95-2)

In May 1994, we recommended that the Congress delay implementation of the Medicare/Medicaid data bank until its potential cost-effectiveness and other benefits to Medicare and Medicaid programs can be clearly demonstrated. The Congress has delayed implementation until October 1996, but we testified this year that further delay is warranted to save up to \$30 million a year in Medicare administrative costs and prevent unnecessary administrative burden on the private sector. (GAO/HEHS-94-147)

Financial and Management Matters

Our work in the Medicaid area focused on issues affecting the federal government’s financial liability for the program. States are seeking to cut their own costs by obtaining waivers from federal Medicaid rules that can

limit the use of managed care. We have two major concerns about granting such waivers. First, our study of several states' approved waivers suggests that under certain conditions, the federal share of Medicaid outlays could grow beyond what it would have without the waivers for the following reasons: (1) the administration is allowing states to apply the federal share of Medicaid savings from managed care to finance coverage of additional populations; (2) the administration's method for determining budget neutrality may allow states access to more federal funding than they would have received without the waiver; and (3) the Congress may find it difficult to scale back the waiver demonstrations if they prove more costly than forecast. Second, because federal restrictions on the use of managed care reflect concerns for quality, the lifting of these restrictions under the waiver authority could undermine the government's ability to protect against the potential for managed care organizations to earn profits by underserving beneficiaries. Our work suggests that the process of granting waivers may merit greater congressional scrutiny and that increased oversight of managed care systems is required. (GAO/HEHS-95-122 and GAO/T-HEHS-95-129)

We also examined Medicaid's matching formula, which calculates for each state's Medicaid program the respective shares of federal and state funding. We found that the formula, with its reliance on per capita income as a measure of state wealth, has not significantly reduced wide differences in states' Medicaid programs or the tax burdens to support them. Large disparities persist in coverage of population groups and types of services as well as in the burdens states' taxpayers bear in financing state programs. Our work suggests that modifying the formula—to include poverty rates, total taxable resources, geographic adjustors of health care cost differences, and a reduced minimum federal match—could enhance the ability of federal payments to narrow program disparities. (GAO/T-HEHS-95-226)

Other reports issued during the year addressed (1) the need to encourage primary care training through medical education curriculum and financing strategies, (2) access to services and funding formulas under the Ryan White CARE Act, (3) prescription drug prices, and the fact that the elderly still receive potentially harmful drugs, and (4) insurers' compliance with federal minimum loss ratio standards from 1988 to 1993.

Key Open Recommendations

Health Care Shortage Areas

In fiscal year 1994 the federal government spent about \$1 billion on programs to alleviate health care access problems in rural areas and inner-city neighborhoods. HHS uses two main systems for identifying such locations—the Health Professional Shortage Area and the Medically Underserved Area designations. We reported that these designation systems do not effectively identify areas with primary care shortages or help target federal resources to benefit those who are underserved. To assist underserved populations in accessing federal program resources most appropriate for their needs, and to enable HHS to target its resources more specifically, we recommended that the Congress remove legislative requirements for shortage designations as a condition of participation in federal programs. We recommended that the Congress direct HHS to incorporate the necessary screening requirements into the conditions of participation for each program.

We also questioned the need for the Medicare Incentive Payment program, established in 1987, which provides a 10-percent increase in Medicare payments to providers serving beneficiaries in underserved areas. Our report disclosed that the program's extra payments of about \$100 million in 1994 were not targeted only to areas where Medicare beneficiaries lack access to physician services. Accordingly, we recommended that the Congress suspend the program until it could be better targeted to improving access to primary care for Medicare beneficiaries.

(GAO/HEHS-95-200)

Excessive Payments for Medical Supplies

HCFA has acted to prevent Medicare suppliers from shopping for Medicare contractors with the weakest controls and the highest payment rates by consolidating durable medical equipment and medical supply claims processing at four regional carriers. However, unwarranted Medicare expenditures persist. Some contractors have inadequate internal controls to identify suspicious medical supply claims before payment and lack of competitive pricing for reimbursement. As a result, hundreds of millions of dollars are lost. Medicare payment rates for surgical dressings are high compared with wholesale and many retail prices. For example, Medicare pays \$2.32 for a pad of gauze that is available at wholesale for 19 cents and that another government agency purchases for 4 cents. HCFA needs the legislative authority to set payments at more favorable rates. We also recommended that HCFA require that bills submitted to intermediaries itemize supplies. (GAO/HEHS-95-171)

Collections From Other Insurers

Some beneficiaries have private health insurance that should pay their claims ahead of Medicare. Our work showed that, as a result of a recent court decision that invalidated Medicare collection procedures, Medicare could lose hundreds of millions of dollars a year in recoveries from insurers. In our testimony before authorizing committees, we pointed out that legislation is needed to strengthen Medicare's ability to collect from insurers. (GAO/HEHS-94-147, GAO/T-HEHS-95-92, and GAO/HEHS-95-101R)

Health Profession Education

Over the past decade, the supply of nearly all health professionals has increased faster than the population at large. For most health professions, however, data are not available to demonstrate whether this increased supply has translated into more access to care in rural and underserved areas. Health profession education programs are funded under titles VII and VIII of the Public Health Service Act. The effectiveness of these programs will remain difficult to measure as long as they are authorized to support a broad range of health care objectives without common outcome measures, goals, and reporting requirements. The Congress should establish, or direct the Secretary of HHS to establish more specific goals, outcome measures, and funding criteria. (GAO/HEHS-94-164)

Medicare HMO Oversight

Although HCFA has instituted several promising improvements, its process for monitoring and enforcing Medicare health maintenance organization (HMO) performance standards continues to suffer because its quality assurance reviews are not comprehensive, enforcement actions are weak, and the appeal process is slow. We recommended that HHS develop more consumer-oriented oversight of the Medicare HMO program, including (1) routinely publishing comparative data on HMOs' performance and on known deficiencies and (2) assigning sufficient, trained staff to monitor quality assurance to verify the effectiveness of HMOs' practices. (GAO/HEHS-95-155)

Excessive Medicare Payments for Costly Technology

We recommended that HCFA (1) survey the technical component costs incurred by facilities providing radiology services and revise the fee schedule to more accurately reflect the costs incurred and (2) periodically adjust technical component payments to reflect changing costs and annually review payments for procedures using high-cost technologies. Medicare would save a significant amount of money and, even though costs per scan would decrease, providers would still realize profits, because there would be fewer machines and utilization rates would rise. (GAO/HRD-92-59)

Special Payments to Teaching
Hospitals

We reported that the extra payments to Medicare teaching hospitals were too high and recommended that the Congress reduce the percentage of add-on payments that teaching hospitals receive. About \$1 billion could be saved annually. (GAO/HRD-89-33)

Health Insurance for the
Elderly

One-third of retirees get supplemental insurance from their former employers. If a Medicare beneficiary's plan is subsequently modified or discontinued by the employer and the person desires to obtain a different supplemental policy, the beneficiary will not be eligible for the 6-month open enrollment period provided for persons who are newly enrolled in Medicare part B. Since obtaining alternative Medigap coverage may not be possible, we recommended Congress amend the law to provide a mechanism for retirees to obtain Medigap insurance when these circumstances occur. (GAO/HEHS-94-185)

Income Security Issue Area (Budget Functions 600, 650, and 700)

GAO Contact: Jane L. Ross, 202/512-7215

Impact of GAO's Work

Income security programs operating through the Social Security Administration (SSA), HHS, and the Department of Labor account for nearly 40 percent of all federal spending. Millions of Americans rely on programs like Social Security, Disability Insurance (DI), Supplemental Security Income (SSI), Aid to Families With Dependent Children (AFDC), and various block grants for financial support and services, such as child care. In addition, Americans are dependent on the Department of Labor to oversee private pension plans, an important source of income for millions of retired workers.

Our work provided information and recommendations directed at (1) ensuring that public assistance program funds are spent efficiently and protected from fraud and abuse, (2) improving SSA's administrative efficiency and service to the public, (3) evaluating Social Security, state and local government, and private retirement benefits, (4) redesigning the nation's disability programs to provide disabled people with greater opportunities to work, (5) monitoring federal and state efforts to move welfare recipients from welfare to work and to reduce dependence on welfare; and (6) assessing government efforts to preserve families and protect vulnerable children.

Our work has contributed significantly to legislative and executive actions that will result in financial savings as well as improvements in program efficiency and cost effectiveness. Examples follow.

With regard to disability programs, we pointed out the need to increase continuing disability reviews (CDR) in the SSI program. As a result, in August 1994 the Congress mandated that SSA conduct at least 100,000 SSI CDRs in each of fiscal years 1996 through 1998. This increase in CDRs should result in cost reductions of \$382 million over those years.

We examined the practice of providing drug addicts and alcoholics with SSI and DI benefits and found that payments to these recipients warranted greater control. Based in part on our recommendations, the Congress passed legislation in August 1994 that expanded the treatment and

representative payee requirements for certain DI beneficiaries and required that SSA (1) give preference to organizational payees for addicts and (2) study the feasibility and cost of mandating payees for all addicts receiving DI or SSI benefits.

Our work on the Pension Benefit Guaranty Corporations's (PBGC) deficit and pension plan funding problems led to a new law that should generate revenues of \$963 million over the next 5 years, eliminate PBGC's deficit within 10 years, and reduce plan underfunding by two-thirds in the next 15 years.

We addressed the need for reform of federal disability programs, thus contributing to increased congressional oversight. Proposed legislation targets benefits toward children with more severe impairments by improving the eligibility process for children on SSI.

Finally, we contributed to the congressional debate on welfare reform by recommending steps that HHS could take to strengthen child support enforcement and by identifying improvements needed in the training program designed to help move welfare recipients into the workforce.

Key Open Recommendations

Child Support Enforcement

In June 1992, we reported that states had done little to help defray the costs of providing child support enforcement services to clients who did not receive AFDC benefits. With the broad discretion available to them, most states have implemented minimal fee policies. In 1990, about 3.5 percent of the \$644 million in administrative costs for non-AFDC clients was recovered by the states through fees. We recommended that the Congress amend title IV-D of the Social Security Act to require states to recover more of these costs. The Congress has not enacted legislation related to this recommendation. (GAO/HRD-92-91)

Retiree Benefits

We evaluated the readability of forms used by retirees who had chosen not to select survivor benefits for their spouses. In December 1989 and December 1991, we recommended that the Internal Revenue Service (IRS) develop model language to be used by pension plans to clarify the implications of options available to retirees and their spouses. Once implemented, this recommendation could lead to an increase in the number of elderly widowed spouses receiving income from the private

pension system. In response to our recommendations, IRS solicited comments on possible model language and revisions to the requirements. The comments received raised a number of concerns and IRS concluded that this project should be incorporated into a broader IRS initiative to simplify and clarify notice requirements and related issues in the pension area. The goal of this effort is to improve communications to participants and their spouses while reducing the overall burden on them and employers. In addition, IRS has issued proposed and temporary regulations providing significantly greater flexibility in the timing of notice requirements. (GAO/HRD-90-20 and GAO/HRD-92-31)

Social Security

In July 1993, we reported that SSA had not met the legal requirements for conducting CDRS, which ensure that people receiving disability benefits are still eligible for those benefits. We found there were significant operational problems because of unprecedented increases in initial claims for social security benefits. To process these claims, SSA had shifted resources away from conducting CDRS. In fact, SSA had conducted only about half of the required CDRS, resulting in the payment of over a billion dollars to beneficiaries who had improved enough to return to work. We recommended that the Commissioner of Social Security continue to examine ways to increase the number of CDRS. While SSA has increased the number of CDRS, it has not increased them to a level that would fully respond to our recommendation. SSA officials are, however, seeking legislation which would provide special funding for CDRS. (GAO/HRD-93-109)

In November 1993, we reported that over the last several years, SSA's disability programs had experienced unprecedented growth in the number of claims filed, resulting in large numbers of pending claims and high claim-processing times. Although SSA undertook numerous short-term initiatives to reduce the backlog, these initiatives resulted in a relatively small reduction in the number of pending claims and in processing times. We recommended that the Secretary of Health and Human Services develop plans to reduce the backlog of SSA disability benefit claims and ensure the performance of CDRS. SSA has initiated action on both of these recommendations. (GAO/HRD-94-11)

In May 1994, we estimated that about 250,000 drug addicts and alcoholics were receiving disability payments under SSA's DI and SSI programs at an annual cost of about \$1.4 billion. We also found that while certain addicts receiving SSI benefits (about 80,000) were required by law to obtain treatment and have representative payees as a condition of receiving benefits, many other addicts were receiving SSI benefits without meeting

such conditions. Similarly, none of the addicts receiving DI benefits were required by law to attend treatment or have representative payees. We made a number of recommendations to the Congress and SSA to strengthen controls over these payments. The Congress enacted legislation in August 1994 that fully addressed our recommendations. SSA has initiated actions that respond to our recommendations. (GAO/HEHS-94-128)

In June 1994, we also reported that SSA was mandated by law to periodically review the continued eligibility of DI beneficiaries. However, because of the lack of funding, SSA has not fully carried out this mandate, and many ineligible beneficiaries continue to receive benefits at a significant cost to the DI trust fund. For example, according to SSA, because it did not perform all required CDRs during fiscal years 1990 through 1993, the trust fund will incur extra costs of \$1.4 billion through fiscal year 1997. The effects of funding constraints have been exacerbated because disability claims have significantly increased in the 1990s. We made several recommendations to enhance the review process. SSA is taking actions to implement our recommendations. (GAO/HEHS-94-118)

In March 1995, we reported that the number of children receiving SSI benefits had nearly tripled over the last 5 years from 300,000 to almost 900,000 and that benefit payments exceeded \$4 billion annually. We found that changes in regulations governing childhood eligibility for SSI had had a significant impact on the growth and composition of childhood disability rolls. In particular, awards had been made to more than 200,000 children who did not meet SSA's listing of impairments but qualified for benefits based on the less restrictive individualized functional assessment process mandated by the Supreme Court in Sullivan v. Zebley. These awards accounted for about \$1 billion a year in benefit payments. Given the widespread concern about the growth in the SSI program for children and in light of our findings about the subjective nature of the process, the Congress should clarify eligibility determinations for children with disabilities. As of December 1995, legislation is pending in both the House and the Senate to eliminate individualized functional assessments as criteria for determining children's eligibility for disability benefits. (GAO/HEHS-95-66)

In October 1993, we reported that while SSA had made progress in solving its management problems, opportunities existed for SSA to continue to improve. We made several recommendations, among them that SSA complete the implementation of a strategic management process to guide planning, implementation, and evaluation of long-term strategic initiatives.

Further, to gain better managerial and technical control over SSA computer modernization efforts, SSA should take the actions needed to fully integrate SSA databases. Although SSA is revising its strategic plan, and a tracking and monitoring system is being developed to monitor the implementation of SSA's strategic initiatives, SSA has not implemented an integrated client database. (GAO/HRD-94-22)

Welfare Benefits

In June 1995, we reported that increasing states' recovery efforts and extending effective federal recovery provisions to one or more programs could help recover hundreds of millions of dollars in benefit overpayments in the AFDC, Food Stamp, and Medicaid programs. We recommended that the Congress amend the Food Stamp Act of 1977 to authorize states to offset current recipients' benefits, without their consent, to recover overpayments caused by agency error. Such a provision is included in the Senate's welfare reform bill, which, as of December 1995, is being debated by the Congress. We also recommended that the Congress extend the authority for states to intercept federal income tax refunds to include the recovery of AFDC and Medicaid overpayments. Again, the Senate's welfare reform bill has been amended to allow states this authority to recover outstanding AFDC overpayments. (GAO/HEHS-95-111)

Information
Resources
Management - Health,
Education, and
Human Services
Division Issue Area
(Budget Function 990)

GAO Contact: Patricia Taylor, 202/512-6252

Impact of GAO's Work

This issue area focuses on information systems of federally funded health and human services programs. These programs, which are administered by federal, state, and local government agencies, touch the lives of nearly every U.S. citizen, providing benefits in such areas as medical benefits and assistance, aid to families and children, social security, veterans benefits, education, and pension and unemployment insurance. Over 100 million benefit payments are made nationally to recipients each month. Human resource programs will significantly increase federal spending through the end of the century, accounting for well over 65 percent of the \$2 trillion in federal outlays.

Automated systems are critical to delivering benefits to the public. Automated systems are essential if government, at all levels, is to effectively and efficiently manage these programs. Based on published GAO reports and estimates, systems are expected to cost tens of billions of dollars through the end of the century.

Our assignments focus on the steps that the federal and state governments need to take to ensure that the current systems are modified and future systems are developed to adequately support health, education, and human services programs and become an integral part of much broader management strategies to improve public service and reengineer—rather than just automate—inefficient paper-burdened operations. As such, our work complements the Congress's initiatives to streamline government to be more efficient and reform our nation's health, welfare, and social security systems.

We see vast opportunities in both federal and state governments for improving information resources—hardware, software, data, and people—resulting in billions of dollars in savings. Because the federal government has not placed much emphasis on developing effective

mechanisms to detect fraud and abuse, we also see vast opportunities to save millions of dollars by putting in effective antifraud mechanisms. We have issued reports covering federal health care program systems at DOD, VA, HHS; national health care systems; welfare programs systems at the federal and state levels; and earned benefits programs systems at SSA, VBA, and PBGC.

Key Open Recommendations

HHS

In June 1994, we reported on HHS actions to implement national and state systems to help manage child welfare services and made several recommendations to the department to help it work with the states in developing the new systems. These recommendations included (1) determining the functional capabilities of a comprehensive statewide automated child welfare information system and (2) working with states, vendors, and information systems experts to provide a model of that system to the states to aid their system development efforts. HHS has issued functional requirements for both the national and state systems, and we will continue to monitor its ongoing development of the model system. (GAO/AIMD-94-37)

Also, in June 1994, we reported on the automated systems of HHS' Job Opportunities and Basic Skills Training Program and found that these systems focused on providing information for reporting purposes, not on the program's employment objectives. Our recommendations included that HHS work with appropriate state agencies to determine how technology could best be used to achieve the overall objectives of the program and incorporate these features into the system guidance for use by the states. HHS has convened a federal/state work group to help design a prototype case management and a self-reporting system that focuses on helping the participant become employed and self-sufficient. We will continue to monitor HHS progress in developing this prototype. (GAO/AIMD-94-44)

HCFA

In August 1994, we reported that pharmacies' use of automated prospective drug utilization review systems to review Medicaid prescriptions before they are filled could (1) significantly improve patient safety by helping to prevent adverse medical reactions due to inappropriate drug therapy and (2) potentially save the Medicaid program hundreds of millions of dollars annually in unnecessary drug and hospitalization costs. States are not required to use these systems, and

about a third of them believed the systems were too costly to acquire and operate and may not provide tangible benefits. HCFA shares our view on the value of automated prospective drug utilization review systems and is taking steps to gather information on their costs and benefits to share with the states. We are also continuing work to better quantify the potential benefits of these systems. (GAO/AIMD-94-130)

During 1994, we reported on HCFA's Medicare Transaction System and found that HCFA's top management had not been involved in the planning, the acquisition, and the management of the project; IRM officials had not participated in the project; and that, because of the problems found, the agency needed to keep congressional appropriations and oversight committees apprised of the project's progress, problems, milestones, and costs as the system was developed and deployed. HCFA has agreed to implement our recommendations. During 1995, we will report on the progress that has been made. (GAO/HEHS/AIMD-94-79)

In May 1995, we reported that, based on a test in which four commercial firms reprocessed samples of over 200,000 paid Medicare claims, commercial systems to detect code manipulation, one type of billing abuse, could have reduced Medicare government and beneficiary costs by an estimated \$640 million in 1994. We recommended that the Secretary of HHS direct the Administrator of HCFA, to require Medicare contractors to use a commercial system to detect code manipulation when processing Medicare claims for physician services and supplies. (GAO/AIMD-95-135)

HCFA agreed to evaluate commercial systems to determine whether they are appropriate for the Medicare program. However, in October 1995, we issued a letter expressing concerns about HCFA's approach. Based on our review of the methodology, we reported HCFA's approach to analyzing the benefits of commercial technology has two serious shortcomings that will tend to understate cost reductions. First, HCFA is limiting its evaluation to determining whether Medicare contractors complied with existing, less comprehensive Medicare payment controls. This approach will tend to understate the potential reductions because the conclusions and estimates included in our report were predicated on HCFA's implementing both the stronger controls and improved technology embodied in commercial systems. Second, HCFA's approach postpones analysis of other monetary benefits that were identified by commercial firms but not included in our cost reduction estimate and other benefits that, while not easily measurable, are real. These include tracking patterns of billing abuse over time and regular and timely system updates. We have been meeting with

HCFA officials to address these issues and the opportunity to use commercial technology. (GAO/AIMD-95-234R)

Public Health Service

In 1991 we reviewed how the Public Health Service's Agency for Health Care Policy and Research (AHCPR) had explored ways in which automated medical records could be used. We found that AHCPR needed to further explore ways to use automated medical records to provide data for outcomes research. AHCPR has completed two studies and has a third study underway. It has also joined with the National Library of Medicine to provide grants to develop test beds for developing common medical terminology. However, according to an AHCPR official, more work needs to be done before automated medical records can be used to more effectively and efficiently provide data for outcomes research. (GAO/IMTEC-91-5)

DOD

In July 1994, we reported on the tools and the methodology DOD used to manage the performance of its Composite Health Care System (CHCS). We reported that, to provide the performance management that was warranted in a state-of-the-art system, such as CHCS, tools must be obtained that could measure response times and resource utilization, determine the causes of problems, project workload and system configuration changes, and reliably measure system reserve capacity. Since our report, DOD has obtained performance measurement and analysis tools for the two operating systems under which CHCS runs and has modified its approach to managing the system's performance by (1) updating its performance management plan, (2) enhancing its system sizing algorithms, and (3) developing performance simulation models for each CHCS hardware configuration. (GAO/AIMD-94-61)

VA

Since 1991, VBA's modernization project has received continued scrutiny by us as well as the OMB and GSA. In 1995, VBA took positive steps to direct its modernization toward fulfilling our recommendations. In September, 1995 VBA began an effort to analyze current business processes and set measurable goals for improved service to veterans. VBA is in the early stages in these efforts. (GAO/IMTEC-93-6)

SSA

In 1994, we reported that SSA had requested over \$1 billion for its intelligent workstation/local area network initiative, but that this initiative was not driven by plans that identify how and where SSA can best use technology to adequately handle increasing workloads and improve service to the public. We recommended that SSA (1) accelerate its planning and business process reengineering efforts and (2) estimate and annually report the total cost and benefits of process and system changes. In

response, SSA initiated several actions. First, it has developed a general business plan which outlines how SSA will meet its growing workload and improved service delivery goals. Second, SSA initiated a large-scale reengineering of its inefficient disability determination process. SSA has identified and is beginning to implement a new disability process which is to be completed in 2001. Third, SSA plans to conduct a set of pilot studies at selected SSA and state disability processing offices to assess the ability of its new information system to support the new disability process. Further, SSA is developing information on the costs and benefits of the intelligent work station/local area network as part of its planning for the fiscal year 1997 budget process. We plan to continue to monitor SSA's efforts. (GAO/AIMD-94-143)

PBGC

In 1992, we reported that PBGC must give priority attention to developing and operating its premium accounting system, especially in regard to hiring management and technical support staff. PBGC dedicated a senior manager to oversee the development of the new system and hired a contractor to perform day-to-day operations of the system when it becomes operational. PBGC expects to implement the premium accounting system in October 1995. We plan to monitor the implementation and effectiveness of the premium accounting system. (GAO/IMTEC-92-74)

Improving Justice and General Government Programs

Administration of Justice Issue Area (Budget Function 750)

GAO Contact: Norman Rabkin, 202/512-8777

Impact of GAO's Work

The administration of justice issue area covers a wide range of federal activities, including (1) civil and criminal law enforcement in such areas as money laundering, debt collection, and firearms licensing; (2) litigative and judicial activities, such as the cost of providing court-appointed attorneys and juvenile justice processes; (3) correctional activities; (4) immigration control; and (5) Customs revenue collection and enforcement.

Civil and Criminal Law Enforcement

The Department of Justice (DOJ) is the government's debt collector of last resort. In the 1980s, the Attorney General was authorized to initiate a pilot program whereby at least 4 private counsel firms would be hired in up to 15 jurisdictions to augment the resources of local U.S. Attorneys Offices in litigating and collecting nontax delinquent civil debts. In 1986, we were mandated by P.L. 99-578 to evaluate these pilot programs. The second of our reports evaluating the program was issued this year. We found that private counsel firms in the pilot were cost effective, collecting \$9.2 million at a cost of \$2.4 million. Further, private counsel firms worked cases and collected debt that the U.S. Attorneys Offices might not have addressed because of their workloads. Because the civil debt collection workload fluctuated and the U.S. Attorneys Offices had heavy workloads, contracting for some of this work seemed to be a reasonable approach. We suggested that the Congress consider allowing the Attorney General to contract with private counsel firms on an as-needed basis in all jurisdictions, not just those in the pilot. The information we provided was used in the congressional consideration of the expansion of the program. However, the Congress has not yet made its final decision on these matters.

In relation to money laundering, we have affirmed that actions under way by Treasury are needed to improve suspicious transaction reporting and facilitate the use of the information by federal and state law enforcement personnel are needed. We noted, however, that IRS does not have agencywide policies or procedures for managing suspicious transaction reports. IRS indicated that it was moving toward national guidelines to ensure consistency in the evaluation and processing of these reports while maintaining maximum flexibility in the use of its Criminal Investigation Division resources.

Litigative and Judicial

In response to a congressional mandate, we issued a series of reports this year related to juvenile justice issues. Two of these reports dealt with critical issues in relation to the treatment of juveniles in judicial systems that are striving to ensure juveniles' rights while stemming the rise of juvenile crime. Our report on juveniles processed in criminal courts, rather than juvenile courts, provided comprehensive data on both incidence rates and case outcomes. In relation to representation of juveniles in juvenile court, we reported that representation rates varied widely across the states we reviewed and also in relation to offense categories. Both of these reports are likely to be useful in the debate about the future role of the Office of Juvenile Justice and Delinquency Prevention during its reauthorization hearings.

Our recent work related to court-appointed attorneys showed that the cost for the Administrative Office of the United States Courts' (AOUSC) Defender Services program doubled from fiscal years 1990 to 1993. Further, the costs of the Death Penalty Resource Centers tripled during that period. AOUSC cited a variety of reasons for the escalating costs of Defenders Services, including more multiple-defendant cases, more defendants applying for and receiving services, and more complex cases because of changes in federal sentencing guidelines and the institution of mandatory minimum statutes, which result in more work for attorneys on each case. However, data were not available to determine the impact of these and other factors on the overall increase in costs. AOUSC indicated that our findings will assist the Judiciary in its ongoing efforts to increase the type, quality, and consistency of data being collected in relation to Defenders Services. In response to our work, AOUSC has initiated a number of specific efforts to improve data collection and analysis and to Defender Service' contain costs.

Customs Revenue and
Enforcement

The U.S. Customs Service uses unit prices of imports as entered by filers (importers or brokers) in its Automated Commercial System (ACS) to screen transactions for errors and to look for signs of illegal activity. The data also form the foundation for some trade statistics. Our study found errors in 45 of the 80 transactions we examined. The errors in our sample were caused by misclassification of the product (for example, classifying spare parts for a facsimile machine as a facsimile machine itself) or entering the correct commodity but the wrong quantity or total value. To improve the accuracy of the data entered by ACS filers, we recommended that the Commissioner of Customs determine the feasibility of adding narrower unit value ranges to ACS that would allow filers to identify and correct more errors at the point of data entry. Customs agreed with our

recommendation and, in its ongoing redesign of ACS, is adding narrower unit value ranges.

Key Open Recommendations

Civil and Criminal Law Enforcement

In a 1991 report on DOJ's and Customs' asset forfeiture programs, we recommended consolidating the management and disposition of all noncash seized properties. We estimated that program administration costs could be reduced 11 percent by such a consolidation, and could also reduce contractor costs because of economies of scale. In our 1995 Asset Forfeiture Programs High Risk report, we noted that the Marshals Service and Customs had completed a 1-year small scale pilot consolidation project whereby the Marshals Service managed and disposed of Customs' real property and Customs managed and disposed of vessels for the Marshals Service at four districts. However, no cost analysis or evaluation of the effectiveness of the project was done, and there are currently no plans for consolidation of asset management and disposition functions. We still believe that consolidation of the asset management and disposition functions makes sense. (GAO/HR-95-7)

Our report on DOJ and AOUSC's efforts to centralize criminal debt accounting and reporting with the National Fine Center identified critical challenges that need to be addressed before almost \$5 billion in existing criminal debt can be centralized for efficient collection. Specifically, we emphasized that AOUSC needs to determine how it intends to increase user access to National Fine Center account information and improve management reporting. We recommended that the Director of AOUSC work with DOJ to finalize a reconciliation strategy to include time frames and resources for reconciling existing criminal debt accounts at judicial districts and entering the reconciled information into the National Fine Center system. We also recommended that the Director of AOUSC and the Director of DOJ's Executive Office of United States Attorneys work together to develop and implement a methodology for determining the collectibility of all criminal debt. (GAO/AIMD-95-76 and GAO/T-AIMD-95-215)

Customs Management

In our 1992 report on management of the Customs Service, we reported that Customs had major weaknesses in (1) mission planning; (2) financial, information, and human resource management; and (3) its organizational structure. In our 1995 follow-up report, we noted that Customs has an assortment of plans and a broad reorganization under way that are

intended to correct identified management weaknesses. However, many of these efforts are in the early stages of development and will require continuing support from Customs' top and mid-level management to ensure that they are properly implemented. (GAO/GGD-95-73)

Immigration Control

We reported that the Immigration and Naturalization Service's (INS) Law Enforcement Support Center pilot program is limited in its ability to provide participating local law enforcement agencies with the information that would identify as aliens individuals they arrest for aggravated felonies. INS' name-based alien information systems inherently limit the capability to conclusively identify aliens. Until INS successfully implements a system that identifies individuals based on biometric information, such as a fingerprint, Law Enforcement Support Center's identification capability will continue to be limited. We also reported serious problems with the quality of the criminal alien data in two INS databases. We recommended that the Attorney General direct the Commissioner of INS to take several actions before deciding whether to expand the pilot program nationwide. These actions include assessing whether the information generated by Law Enforcement Support Center's electronic searches justifies the expense and level of resources required to expand and maintain a nationwide system, and whether any other alternative would be more effective and efficient. We also recommended that the Attorney General direct the INS Commissioner to develop procedures that would ensure the reliability of the two data bases in which we found reliability problems. (GAO/AIMD-95-147)

Federal Management and Workforce Issue Area (Budget Function 800)

GAO Contact: L. Nye Stevens, 202/512-8676

Impact of GAO's Work

The Federal Management and Workforce issue area is GAO's central focal point for a wide and growing range of critical issues on federal management, civil service, and government information policy. Our responsibilities range from reviewing the National Performance Review (NPR), the Government Performance and Results Act (GPRA), regulatory reform, reorganizing and downsizing the federal establishment, and reexamining the civil service and its multibillion dollar federal pay and benefit systems, to an examination of the Consumer Price Index, reform of the decennial census, and improvements in the publication and distribution of federal documents. Many of these issues have come to the forefront of both congressional and administration agendas.

National Performance Review (NPR)

In December 1994, we reported that at least some action had been taken to implement 93 percent of NPR's September 1993 recommendations, although only 4 percent of the recommendations had been fully implemented. We also said NPR needed to sharpen its focus and bind the recommendations into a more coherent framework that could permit the government reform effort to take root and flourish. We testified in May 1995 that, although the focus of the reform effort had shifted from how government operates to what government should do, our observations were still relevant—the need for the Congress and the administration to work together, the need for sustained leadership and attention to agencies' capacities, and the need to move to a results-oriented framework. We are also collecting information on each of the nearly 200 reinvention labs throughout the government in order to determine their focus and how they operate.

Government Performance and Results Act (GPRA)

We continued to provide the Congress and agencies with critical information and perspective to ensure the successful implementation of GPRA, which made performance measurement the touchstone of government operations. For example, we issued widely-used reports on the lessons that federal agencies can learn from the experiences of leading states and foreign governments in implementing GPRA and related management reforms. We also reported on how leading public and private organizations set ambitious goals to improve performance. We further

contributed to congressional oversight through two congressional testimonies on the status of federal performance measurement and GPRA implementation efforts. Finally, as required by GPRA, we continued to support the Office of Personnel Management's (OPM) GPRA training program.

Regulatory Reform

We have also continued to develop a body of work on regulatory issues. In one study being conducted for several Members of Congress, we are attempting to describe the regulatory burden on individual businesses from all federal agencies, focusing on those regulations the businesses believe to be most burdensome. We also testified in March 1995 on agencies' compliance with the Regulatory Flexibility Act, which was designed to reduce federal agencies' regulatory burden on small businesses and small governments. SBA and OMB took some steps we recommended to improve administration of the act. In July 1995, we testified on how the Congress could assess the administration's regulatory reform initiatives. We suggested that the Congress focus its efforts on the administration's underlying goals—a reduced burden and a focus on outcomes—rather than analyzing each initiative. However, we also noted that measurement of the regulatory burden and a clear statement of regulatory intent are difficult to accomplish.

Reorganization and Downsizing

At the request of the Congress, we examined issues related to reorganizing the federal government and identified a series of key principles that should be considered with any reorganization. We testified before the Congress on the legislative framework that it has enacted to improve federal management and the critical next steps that need to be taken to successfully implement that framework. We also issued a report on a recent proposal to create additional government corporations. We testified twice on proposals to abolish the Department of Commerce and move its essential functions elsewhere in the federal government.

As the largest workforce downsizing since World War II loomed over the federal establishment, we contributed to congressional decisionmaking by analyzing key aspects of the downsizing process. Our report on the downsizing strategies followed by major nonfederal employers provided a set of lessons learned that could be used to help guide federal agencies through their own staff reductions. Following this report, we commented in three separate testimonies on the administration's management of the workforce reductions, the degree to which the President's fiscal year 1996 budget complied with the downsizing targets set in the Federal Workforce Restructuring Act of 1994, and the ways in which federal agencies had

implemented the buyout authority. This body of work provided congressional decisionmakers with critical analysis concerning the progress of this historic downsizing effort.

At the request of the Congress, we examined how major American cities have responded to financial crises by downsizing their operations. The result of that work was used by the Congress as critical information to create the District of Columbia Financial Responsibility and Management Assistance Authority.

The debate on what functions to privatize and how to privatize them became an important issue this year, to which we contributed with two testimonies on OPM's proposal to privatize its investigations unit. Our testimony contributed to congressional direction requiring OPM to provide additional analysis of their proposal and mandating that we evaluate the results of that analysis. We also testified on the privatization efforts of leading cities and states and their implications for the District of Columbia.

Reexamining the Civil Service

Against the backdrop of insistent calls for civil service reform, in April 1995 we convened a symposium of human resources management (HRM) practitioners and experts from leading private sector organizations, state and local governments, academia, and the governments of other nations. The theme of the symposium was "Transforming the Civil Service: Building the Workforce of the Future." The symposium identified some of the most successful cutting edge HRM strategies and discussed their implications for and applicability to the civil service. This work will provide a foundation for our assistance to the Congress in its examination of civil service reform in the coming year.

We also addressed issues relating to a wide range of other federal employment laws and practices during the year. For example, the change of leadership in the House and Senate contributed to a number of requests for analysis of the use of the Ramspeck Act to provide appointments in the executive branch for congressional employees. Our work in this area resulted in two testimonies that were useful to the congressional debate on whether to repeal the Ramspeck Act. In the area of equal employment opportunity, we issued a report on the progress of federal agencies in improving representation of women and minorities in their workforces, pointing out shortcomings in the analysis required to address barriers to full representation.

Our work on sexual harassment issues at IHS and NIH contributed to changes in how IHS reports incidents of sexual harassment and the promise of action by NIH to improve its processing of sexual harassment cases. In the area of government ethics, the Judicial Conference of the United States took action on our recommendations for improving the timeliness and effectiveness of the judicial branch's financial disclosure program. Finally, in part in response to concerns we expressed in reports, testimony, and briefings of congressional staff, at the beginning of the fiscal year, the Congress enacted the Federal Employees Family Friendly Leave Act of 1994. This law incorporated our suggestions for bringing the federal government closer to leading private sector organizations by becoming a more "family friendly" employer in its rules governing sick leave.

Federal Statistical and
Information Policy

We continue to provide the Congress with information and assessments of the Census Bureau's progress in planning the 2000 Census. Over the last 2 years, much of our work on the decennial census was focused on the Bureau's preparations for the 1995 Test Census.

We continued our efforts to contribute to improvements in the quality, reliability, timeliness, and usefulness of the nation's leading economic statistics. For example, we issued reports on how measurement problems with national economic statistics can affect budget and economic policy-making and efforts to improve the quality of those statistics. More directly, we reported on issues associated with adjusting for geographic cost-of-living differences when measuring the amount of poverty. Finally, we reported on the degree to which federal statistical agencies are adhering to accepted guidelines for the organization and operations of statistical agencies and coordinating their budgets to ensure the best use of scarce resources.

Key Open
Recommendations

We have made a number of recommendations to improve the federal civil service system, government statistics, and agency management practices. Further action or monitoring is needed in the following areas.

Census Reform

We reported in 1992 that the basic design of the decennial census had exhausted its potential for counting the population accurately and cost-effectively. The key to a successful reform effort is vigorous congressional oversight. The Census Bureau has proposed changes consistent with our recommendations—for example, sampling instead of 100-percent follow-up for citizens not responding to the mailed

questionnaires—but there are still critical decisions, with cost-savings consequences of more than \$1 billion, to be made that depend on congressional agreement. (GAO/GGD-92-94)

Personnel Management Evaluations

In a December 1992 report on oversight of the personnel system, we recommended that OPM strengthen personnel management evaluation (PME) programs in agencies by issuing regulations requiring agencies to establish and implement PME programs and follow OPM standards; publishing program and operational PME standards; and providing guidance to agencies on the relationships that should exist among agency PME programs, personnel programs, and internal control programs required under the Federal Managers' Financial Integrity Act. Although OPM previously has said it was unconvinced that regulation in this area would accomplish the desired results, it recently said it does not discount the possibility of issuing regulations, although it continues to believe efforts to regulate would be problematic. Our report also recommended that, if OPM maintains that regulations are unnecessary, the Congress should consider whether it wants to legislate in this area. (GAO/GGD-93-24)

Measuring Costs of Service Contractors

Our March 1994 report on measuring the cost of service contractors versus federal employees recommended that the Congress explore with OMB the best way to reconcile the objective of downsizing the government with the objective of providing agencies flexibility to accomplish their work in the most cost-effective manner. The Congress has held hearings on the issue and plans further work. (GAO/GGD-94-95)

Sunday Premium Pay

Our May 1995 report on the payment of Sunday premium pay found that employees who take leave when they are scheduled to work on Sunday receive millions of dollars in Sunday premium pay. We recommended that the Congress consider requiring that employees actually work on Sunday to receive Sunday premium pay. (GAO/GGD-95-144)

Continuation of Pay

In a June 1995 report we recommended that the Congress amend the Federal Employees' Compensation Act to preclude employees from receiving double recoveries and help reduce the government's costs of employees' work-related injuries caused by third parties. We recommended that the Congress expressly provide for refunds of amounts paid by agencies as "continuation of pay" when employees receive recoveries from third parties, and that certain amounts refunded by third parties be credited to injured employees' agencies. (GAO/GGD-95-135)

Federal Hiring

Our June 1995 report on reconciling managerial hiring flexibility with the legal requirement of providing preference for veterans recommended that OPM, under its demonstration project authority, actively recruit agencies to carry out projects to test improved methods of implementing veterans' preference. On the basis of evaluations of these demonstration projects, OPM, in conjunction with affected parties such as veterans' groups and labor unions, may then be in a position to propose statutory changes to the hiring process. (GAO/GGD-95-102)

Sexual Harassment and
Discrimination

In a September 1995 report on the handling of sexual harassment and sex discrimination matters at NIH, we recommended that the Secretary of HHS and the Director of NIH take steps to decrease the time it takes to process and resolve sexual harassment and sex discrimination complaints at NIH. We also recommended that the Director of NIH take additional steps to provide guidance for and monitoring of the agency's Equal Employment Opportunity program. (GAO/GGD-95-192)

Vehicle Fleet Management

We reported in December 1994 that the federal government's vehicle fleet, with more than 375,000 cars and light trucks, could be managed more effectively if cost comparisons were made and certain private sector practices considered. OMB has not yet taken action on our recommendations because it is still awaiting the results of the GSA's review of its lines of business. (GAO/GGD-95-18)

Financial Institutions and Markets Issue Area (Budget Function 800)

GAO Contact: James L. Bothwell, 202/512-8678

Impact of GAO's Work

Financial institutions and markets continue to change at a rapid rate. Banks and thrifts, which used to be clearly distinct institutions, perform increasingly similar functions. In an attempt to increase profits and maintain a customer base, banks are increasingly taking on new lines of business—such as mutual funds and securities underwriting—that make them look more like securities firms. The products offered by banks, securities firms, and insurance companies look more and more similar. As markets become more global, foreign and domestic institutions perform similar functions and interact with savers and investors in similar ways. Our work delves into the implications of these changes for the industry, its customers, and its regulators. We examine these and related issues to provide information, analyses, and recommendations to the Congress and regulators on change, reform, regulation, and oversight of the financial services industry. We analyze: (1) various emerging issues and segments of the financial services sector, and gaps in regulatory coverage; (2) regulatory practices to see if they work as intended; and (3) the continued appropriateness of federal policies governing financial institutions and markets.

Our work has improved the operation of the financial system as a whole and individual components of it. Our primary mission—work on safety and soundness issues—helps protect the taxpayer from the need to rescue one or more financial institutions or sectors. Our work also has an investor/customer focus to help ensure that financial-services-industry customers get what they pay for. Our work on agency operations led to improvements in their effectiveness.

Our work on the over-the-counter derivatives market has provided the framework for debating the complex issue. Our report suggested that linkages among major U.S. dealers, especially bank dealers, represented a potential threat to the financial system if one or more major dealers were to fail or withdraw from the market. The report also identified major gaps in the regulatory structure.

Our work identified failed regulatory practices. Our report on insider lending cited Federal Deposit Insurance Corporation (FDIC) evidence of substantial insider problems at failed banks, along with indications of similar problems in open and healthy banks. These problems appear to be related to management breakdowns and inadequate oversight by boards of directors. Even when examiners discovered insider problems, they often did not adequately communicate these findings to management and boards. The FDIC sent our report's executive summary to all its examiners with instructions to implement our recommendations in their next examinations.

Our work identified the need for major reform. Our report on the Federal Home Loan Bank System recommended reforming the System. We expressed concerns about its capital structure and the mixture of voluntary and mandatory members. We also expressed substantial concern whether the Federal Housing Finance Board could act as an arm's-length regulator, and recommended a single regulator for all three housing-related government-sponsored enterprises (GSE). This report is forming the basis for a legislative proposal that will be submitted to the Congress.

These reports have strengthened necessary regulation of financial services industries and produced a stronger financial system and a strengthened regulatory structure to protect the public.

Key Open Recommendations

Financial Institution Reforms

In our report on credit unions, we recommended some 50 regulatory and legislative actions to ensure the future soundness of the industry, including changes to (1) maintain safe and sound insurance operations, (2) upgrade the regulation and supervision of credit unions, and (3) clarify the "common bond" characteristic distinguishing credit unions from banks and thrifts. Our 1994 testimony on Corporate Credit Unions noted eight key recommendations in our 1991 report that had not been adequately addressed by the National Credit Union Administration. The National Credit Union Administration has issued regulations to address many of the recommendations and is currently exploring solutions to others; the Congress, however, has not yet acted. (GAO/GGD-91-85, GAO/GGD-95-15)

Our report on the Federal Home Loan Bank System recommended reforming its capital structure, its mixture of voluntary and mandatory members, and potential cost-saving reforms, as well as recommending a single regulator for all three housing-related GSEs. The administration and the Congress are working on a legislative plan to address our recommendations. (GAO/GGD-94-38)

Our report on the Farm Credit System's ability to repay federal assistance found that the System was now in a financial position to permit the Congress to eliminate several accounting and regulatory exemptions currently used by the System. We made recommendations in this vein to the Congress and the regulators that would improve the System's financial disclosure statements. We also recommended that the System repay start-up advances made to the insurance fund. (GAO/GGD-94-39)

Our report on insider lending noted substantial insider problems at failed banks, along with indications of similar problems in open and healthy banks. We recommended bank examiners analyze information, such as call reports, insurance policies, loans to insiders and other bank specific data to determine whether insider lending is harming the bank. The bank regulators are in the process of implementing our recommendations. (GAO/GGD-94-88)

Our report on bank and thrift alternatives to real estate appraisals recommended that regulators establish minimum qualifications and standards of independence for individuals performing alternatives to real estate appraisals. We also recommended that content standards be established for these alternative evaluations. An interagency group is working to address our recommendations. (GAO/GGD-94-144)

Securities

Our report on investment advisers showed that regulatory oversight of advisers was very weak. We recommended that the Congress clarify its regulatory intent for the investment advisers program by either strengthening it to meet some minimal standard or repealing requirements for federal regulation of advisers. Legislation to strengthen the program has been introduced during past sessions of the Congress. (GAO/GGD-90-83 and GAO/T-GGD-92-46)

Our testimony on market fragmentation recommended that SEC periodically monitor the effects of such fragmentation. SEC is considering this recommendation. (GAO/T-GGD-93-35)

Our over-the-counter derivatives market report identified the actions needed to ensure that this rapidly growing segment of the financial market does not become a source of systemic risk. We made several recommendations calling for congressional action to address the weaknesses and gaps we identified that are impeding the regulatory process. Additionally, we made several recommendations to the regulators involved with regulating the over-the-counter derivatives market that address the weaknesses and gaps within their control. Regulators have not yet implemented our recommendations. (GAO/GGD-94-133)

Government Business Operations Issue Area (Budget Function 800)

GAO Contact: William Gadsby, 202/512-8387

Impact of GAO's Work

Our work focuses on three of the government's largest business entities: GSA, the Resolution Trust Corporation (RTC), and the U.S. Postal Service. Their combined annual operating budget is about \$60 billion, and their activities have far-reaching implications for federal agencies and the general public. Through them, the federal government owns or controls assets worth hundreds of billions of dollars and provides goods and services to federal agencies that directly affect mission accomplishment. We also review operations of other entities, such as the Smithsonian Institution, the Library of Congress, and the National Archives.

Given high congressional interest in RTC's final year, we have continued to emphasize (1) asset management and disposition in liquidating failed savings and loan institutions, and (2) the transition of RTC's activities and assets to FDIC in December 1995. All our recommendations have been closed: RTC implemented 112 of 122, or 92 percent, of those we have made since its inception. Results have included better program operations, stronger management and financial internal controls, lower contracting costs, and greater asset sales proceeds. In addition, excess funds held by property managers and subsidiaries of failed thrifts are now in interest-bearing accounts. During the past 5 fiscal years, these program management corrective actions have yielded RTC about \$400 million. This year we testified on transition planning efforts and transition issues needing resolution in order to transfer RTC activities and assets to FDIC.

In response to our recommendations, those of NPR, and the President's recent initiative to reduce the size and costs of government, GSA accelerated and broadened its reforms and identified ways to save money in support-services areas. GSA committed to (1) continue streamlining its functions; (2) establish an agencywide Office of Policy, Planning, and Leadership to better carry out governmentwide policy and oversight; and (3) identify the most cost-effective method of ownership, management, and operations for its mission-support responsibilities or business lines. GSA has developed and is now using a federal operations review model to analyze its 16 major business lines, and is considering options, including privatization and outsourcing. At the request of several congressional committees, we are monitoring GSA's reinvention efforts and assessing the reasonableness and validity of GSA's methodology, assumptions, and

benchmarking cost comparisons with private industry for its 16 federal operations review model business line analyses.

Key efforts at the U.S. Postal Service have focused on persistent problems as well as fundamental issues concerning its future. These problems include poor labor-management relations, low employee morale, general employee dissatisfaction with working conditions, and a culture of autocratic management resulting in substandard mail delivery and customer satisfaction scores and \$200 million spent on processing employee grievances. To survive, the Service will have to transform its culture to solve these enduring problems while creatively responding to new challenges in revenue protection, automation, and competition. In reports and testimony, we have underscored the major issues facing the Service: (1) how competition will affect Postal revenue, costs, and rates, as well as the federal government's role in mail delivery; (2) the private sector's ability to take responsibility for delivering domestic mail; and (3) how such a change would affect the nation and the economy.

We continued to handle a wide range of congressional requests concerning many different agencies and issues. For example, we prepared two testimonies on our earlier work for the House and Senate Banking Committees concerning possible savings from reintroducing the dollar coin, and one testimony on the costs of the First Lady's Health Care Task Force. Our work also resulted in (1) improved internal controls of employee travel at the Commission on Civil Rights, and (2) the disclosure of bid protest settlements to make the federal procurement process more visible and accountable.

Key Open Recommendations

General Services Administration

The Congress has supplemented Federal Buildings Fund revenues and eliminated most restrictions on rent payments to GSA by federal agencies. GSA used these funds to construct several new federal buildings/courthouses and is developing a 5-year capital plan to guide decisions and lead in showing the benefits of capital budgeting. However, funding limitations, federal budget constraints, scorekeeping rules, and other factors still impede sound federal housing and asset management decisions. (GAO/GGD-90-11)

GSA is addressing our recommendations as part of its ongoing reinvention efforts. It is working internally, with federal agencies, and the commercial real estate community to explore new ways of handling leasing. It has already acted to simplify and streamline its leasing and pilot alternative options. As part of its reinvention efforts, GSA is considering privatization and outsourcing. GSA expects to complete its analysis and propose reforms early in fiscal year 1996. (GAO/GGD-95-48)

U.S. Postal Service

The Postal Service, unions, and management associations should develop a long-term agreement (at least 10 years) to change the workplace climate in processing and delivery. The agreement should provide incentives to encourage teamwork and make employees more responsible and accountable for work results.

The parties should test these new approaches at pilot sites and evaluate their effect on employee and customer satisfaction. The agreement should provide for the following principles and values:

- structure the work to give employees greater responsibility and accountability for results by clearly defining the composition and structure of work teams and the measurements of team success;
- provide incentives to encourage all employees to share in the tasks necessary for success and that allow work units and employees to be recognized and rewarded mainly for corporate and unit performance;
- train employees and hold them accountable for working as members of work teams, focusing on customer service and joint participation in continually improving unit operations;
- select and train supervisors to be facilitator/counselors who will have the skills, experience, and interest to treat employees respectfully, motivate them, recognize and reward them for good work, promote teamwork, and deal effectively with poor performers; and finally,
- counsel, train, and, if necessary, remove supervisors and employees who show a lack of commitment to work-unit goals, values, and principles.
(GAO/GGD-94-201A and B)

If the Congress wants the Postal Service to keep or gain business customers in parcel post and Express Mail, it should consider reexamining the provisions of section 403(c) of the Postal Reorganization Act. The

Congress should determine if volume discounting by the Postal Service, in which all customers would be given the same volume discounts, would in fact result in undue or unreasonable discrimination among mailers and undue or unreasonable preference to a mailer, since private carriers commonly use this pricing strategy.

The Congress should reexamine the act's rate-making criteria and consider amending the criteria to state that (1) in allocating institutional costs, demand factors, including elasticities of demand, are to be weighted to take into account the need to maintain the long-term viability of the Postal Service as a nationwide full-service provider of postal services; and (2) such use of demand factors will not be inconsistent with the rate criterion requiring the establishment of an equitable rate schedule as long as each mail class recovers the direct and indirect costs attributable to that service and contributes to institutional costs. (GAO-GGD-92-49)

Treasury Issues

Our 1993 report on the dollar coin recommended that the Congress eliminate the paper dollar and replace it with a well-designed coin. (GAO-GGD-93-56)

Tax Policy and
Administration Issue
Area (Budget
Function 800)

GAO Contact: Lynda Willis, 202/512-5407

Impact of GAO's Work

For 1995, the federal treasury will realize over \$2.3 billion in increased tax revenues as a result of statutory and administrative changes consistent with our recent reports. About \$900 million of the increase relates to statutory changes curtailing the use of section 936 tax credits—credits that we had identified as benefiting certain industries. Also, about \$800 million relates to statutory changes for collecting diesel fuel excise taxes earlier in the distribution system, about \$500 million to changes in the amortization of certain intangible assets, and about \$100 million to increased compliance stemming from newly required information returns on forgiven debts. In addition, as we recommended, IRS revised its 10 service centers' procedures for handling large tax payments. Tests at 1 of its 10 service centers resulted in additional interest earnings of \$.6 million.

These increased tax revenues represent only one aspect of the impact of our work. As a result of actions taken on our recommendations, the nation's tax collection system is operating in a more efficient and effective manner. For example, in response to our recommendations, IRS is taking steps to improve its delinquent-debt collection program. Chief among these steps is an early intervention program whereby certain delinquent taxpayers will receive fewer written notices; instead, they will be contacted by telephone much earlier in the collection process. Moreover, in response to our recommendations concerning opportunities presented by the planned introduction of new technologies, IRS continues to rethink the way it does business. As part of that rethinking, IRS has announced the closing of 3 regional offices and the consolidation of many of its district offices. In related matters, we briefed key congressional committees on the uncertainty of deliverables in IRS' planned multiyear multibillion-dollar computer modernization program. These briefings helped prompt short-term budget savings (\$340 million in reduced modernization funding for fiscal year 1995 and an additional \$300 million in proposed reductions for fiscal year 1996) and, for the long-term, changes in IRS' modernization planning that should assure more effective use of systems development funding.

Concomitantly, our work has had a taxpayer focus, i.e., ensuring the tax system is responsive, fair, and not overly intrusive or burdensome. For example, in response to our recommendations, IRS has (1) started outreach efforts to help identify what individual taxpayers find most confusing, and what IRS can best do about it; (2) clarified its instructions on real estate deductions; (3) developed guidelines to help its staff make uniform determinations regarding individuals' ability to pay delinquent taxes; and (4) expanded taxpayer access by extending telephone service hours beyond the 8-hour workday and 5-day work week.

Also, as a result of our work, better information should be available to support deliberations on future tax policy and administration changes. Our report on international transfer pricing showed the difficulties IRS has had in administering section 482 of the Internal Revenue Code and the continuing pattern of nonpayment of corporate taxes. In each year from 1987 through 1991, over 70 percent of foreign-controlled corporations and about 60 percent of U.S.-controlled corporations paid no federal income tax. In a companion report, we described one state's approach to dealing with the taxation of multinational enterprises and the kinds of issues that would have to be considered before adopting a similar system at the federal level. In another report, we described the workings of the corporate alternative minimum tax and its impact on corporate tax liability. Also during the year, we testified at 14 congressional hearings, discussing ways to deal with such seemingly intractable tax administration issues as simplifying the definitions of employee and independent contractor, minimizing noncompliance as a feature of tax reform, reducing the size of IRS' accounts receivable, and improving the administrability of the Earned Income Tax Credit.

Key Open Recommendations

Compliance

Sole proprietors, who account for about 13 percent of individual taxpayers, are responsible for about 40 percent of the taxable income earned by individuals but not reported for tax purposes. Much of this noncompliance is attributable to sole proprietors who operate as independent contractors, e.g., self-employed individuals who provide services to others. Given the persistently high levels of noncompliance over the years, we have recommended that IRS adopt a more comprehensive and coordinated compliance program. We also recommended that the Congress consider compliance-enhancing

legislation, i.e., extending withholding and information reporting requirements to cover independent contractors. (GAO/GGD-94-175 and GAO/GGD-92-108)

Annually, about two-thirds of all additional tax assessments recommended as a result of IRS audits are attributable to the nation's 1,700 largest corporations. Although audits of these large corporations consume about 20 percent of IRS' examination resources, IRS neither tracks actual collections from these audits nor the compliance rates of these corporations. Given that our analysis indicated that only about \$1 of every \$5 of recommended tax assessments is actually collected from these large corporations, we recommended a number of steps to help IRS ensure it meets its mission of collecting the proper amount of tax at the least cost: (1) IRS should increase revenue agent knowledge of the specific industries they audit; (2) IRS should begin tracking collection rates as a common performance measure across the agency; and (3) IRS should analyze recurring tax disputes and propose legislative changes for minimizing such recurrence. (GAO/GGD-94-70)

Treasury and DOJ estimates of federal motor fuel excise tax evasion have ranged from about \$250 million to \$1 billion a year. In our May 1992 report, we found that, by moving the excise tax collection point to reduce the number of liable firms, the potential for tax evasion could be reduced. In 1993, such a statutory change was made for diesel fuel but not for gasoline. (GAO/GGD-92-67)

Through negative withholding, low-paid wage earners may receive a proration of the Earned Income Tax Credit during the tax year. Such an advance payment of the tax credit presents a potential compliance problem because the credit is paid before IRS can ensure that the wage earners are eligible. Ensuring compliance becomes more problematic if the affected wage earners do not report the advance payment on their tax returns or do not file tax returns. We recommended ways for dealing with these situations. (GAO/GGD-92-26)

Tax Systems Modernization

Available compliance data indicate that overstated deductions by small businesses are a significant noncompliance area—about \$40 billion annually. Our work has shown that it is technically feasible for IRS to use computer matching techniques and available information returns to identify a portion of this noncompliance. We recommended that IRS implement such matching techniques where tests show it would be cost-effective. We also recommended that IRS consider actions that could

be taken to expand the computer matching as part of its Tax Systems Modernization (TSM) effort. (GAO/GGD-93-133)

Electronic filing reduces the time it takes to issue refunds. Because this speed leaves IRS with little time to investigate and stop a refund, the program is particularly vulnerable to fraud. We recommended additional controls to help prevent fraudulent electronic returns from being filed and to better detect fraudulent returns that have been filed. IRS implemented several controls in 1995, but further efforts are needed to improve its computerized screening criteria. (GAO/GGD-93-27)

Accounts Receivable Collection

IRS is losing the potential to collect hundreds of millions of dollars of overdue taxes because of shortcomings in its processes for determining which accounts are currently collectible and which are not. We recommended that IRS (1) strengthen oversight of the ability-to-pay determination process and (2) modify criteria for reactivating cases previously classified as currently not collectible. We have also recommended that IRS develop information on the characteristics of the accounts written off to determine whether additional cost-effective collection measures can be developed and applied. (GAO/GGD-94-2 and GAO/GGD-91-89)

We reviewed IRS' Offer in Compromise Program, which affords taxpayers the opportunity to settle tax debts for less than the amount owed. While IRS is pleased with the results of the program, it has not demonstrated that the program's objectives of increased collections and improved compliance will be met. We recommended that IRS develop the indicators necessary to evaluate the Offer in Compromise Program as a collection and compliance tool. (GAO/GGD-94-47)

We studied private sector and state collection techniques to determine whether IRS could make changes to improve its collection of delinquent taxes. We recommended that IRS restructure its collection program to use collection staff in earlier, more productive phases of the collection cycle; develop detailed information on delinquent taxpayers for customized collection procedures; test the use of private collection companies, and identify ways to increase cooperation with state governments. (GAO/GGD-93-67)

While IRS' delinquent taxpayer workload has continued to grow, productivity of collection staff has varied at different field locations, and IRS does not use marginal productivity measurements to adjust staff levels

among those locations. We recommended that IRS develop a plan to ensure that collection staff would be allocated to maximize the assessment and collection of taxes. (GAO/GGD-93-97)

Tax Simplification

In September 1993, we reported that the Earned Income Tax Credit had been the source of more taxpayer mistakes than any other individual income tax provision. We recommended that IRS expand its efforts to notify low-income workers about the tax credit and clarify instructions on information reporting requirements. This followed our earlier recommendation to eliminate a complex schedule that did not add to IRS' compliance effort. (GAO/GGD-93-145 and GAO/T-GGD-91-68)

Our work has shown that the rules for claiming dependent exemptions were too complex and too burdensome for many taxpayers. We recommended that the Congress simplify the rules by substituting a residency test similar to that used for the Earned Income Tax Credit. (GAO/GGD-93-60)

Businesses, in order to determine their tax liabilities (e.g., employer portion of Social Security taxes) and take the appropriate steps to meet the requirements of other laws, need to be able to readily distinguish between workers who are "employees" and those who are "independent contractors." But, the IRS rules for classifying workers are unclear and subject to conflicting interpretations—putting employers at risk of large penalties and retroactive tax assessments. We have recommended congressional intervention to help clarify the rules. (GAO/GGD-92-108)

We reviewed certain aspects of life insurance company taxation—the deferral of taxes on "inside buildup" and the determination of taxable earnings of mutual life insurance companies (section 809). We found that "inside buildup" is accrued income that could be taxed and that section 809 did not follow a pattern normally associated with income taxes. We suggested that the Congress may wish to reconsider continuation of these tax practices. (GAO/GGD-90-19 and GAO/GGD-90-31)

Tax simplification also involves efforts to make IRS correspondence easier for taxpayers to understand and act on. In this regard, we have recommended that IRS modify its correspondence practices to (1) ensure that taxpayers' questions do not go unanswered, (2) clearly advise taxpayers whether their tax problems could be quickly handled over the telephone, (3) make certain system improvements, and (4) monitor taxpayer satisfaction with IRS correspondence. (GAO/GGD-94-118)

Management of IRS

IRS has a wide range of controls, processes, and oversight offices designed to govern how its employees interact with taxpayers. While this system of controls has many elements designed to protect taxpayers from abuse, breakdowns have occurred. To strengthen controls, we recommended that the Commissioner (1) ensure that the information systems being developed under TSM include the capability to minimize unauthorized access to taxpayer information, (2) ensure cash receipts are reconciled more frequently, and (3) better inform taxpayers about their responsibility and potential liability for trust fund recovery penalties. We also recommended that the Congress enable IRS to share tax information among taxpayers potentially subject to trust fund recovery penalties. (GAO/GGD-95-14)

A cornerstone of IRS' strategic management system is the annual business review. These reviews are used to assess agency accomplishments in support of IRS' Strategic Business Plan. However, these annual reviews do not make bottom-line assessments of the progress being made in implementing long-term strategies (such as Compliance 2000) or achieving long-term objectives (such as reducing taxpayer burden), as we have recommended. IRS management needs this information to determine whether the agency is moving in the right direction and what, if any, adjustments might be needed. (GAO/GGD-92-125)

Knowing how much it costs to carry out programs and activities is indispensable for planning and decision-making. For example, IRS management needs information to compare what it costs to run IRS at various times and at locations doing similar work. To strengthen IRS' financial management, we recommended that IRS develop a comprehensive cost accounting system, one that accounts for all IRS costs and identifies them with the organizational components and functions to which they relate. (GAO/GGD-89-1)

Taxpayer Service

Successful implementation of IRS' one-stop service initiative is crucial to IRS' plans for improving customer service, e.g., reducing taxpayer burden in terms of additional time and frustration associated with making numerous contacts with IRS to resolve a single problem. In August 1994, we concluded that a flawed measurement process had led IRS to overstate its progress in providing one-stop service and recommended that a different measurement system be adopted. This followed an earlier recommendation aimed at improving taxpayer access to IRS. We recommended that IRS develop a reliable measure of toll free telephone

accessibility so that it can make appropriate decisions on making services available. (GAO/GGD-94-131 and GGD-92-132)

Providing taxpayers with easily understood tax guidance (notices, forms, and publications) can have a major impact on promoting voluntary compliance. Our December 1994 reports showed that IRS did not have a systematic way to determine what individual taxpayers specifically find confusing and, with respect to the notices sent to taxpayers, no quick and easy method to revise them. We recommended steps to address these problems. (GAO/GGD-95-34 and GAO/GGD-95-6)

Taxpayers have entered into installment agreements with IRS to pay off billions of dollars in past-due tax debts. According to the terms of those agreements, the taxpayers continue to accrue interest and penalty charges on the unpaid debt balance. However, contrary to private industry practice, which is governed by truth-in-lending laws, IRS does not tell taxpayers the total estimated costs of the installment agreements, including interest and penalty accruals, nor the amount of time required to liquidate the debt. We have recommended that such reporting be made. (GAO/GGD-95-137)

Through Taxpayer Bill of Rights legislation, Congress has made a number of positive changes in the way IRS is to relate to taxpayers. Our review showed that IRS was generally successful in implementing those changes; however, we noted two areas that could benefit from statutory clarification. We suggested that the Congress may wish to consider legislation (1) authorizing IRS to withdraw a notice of lien when in the interests of the government and taxpayer and (2) specifying the amount of time taxpayers have to correct erroneous levy actions. (GAO/GGD-92-23)

Information
Resources
Management - General
Government Division
Issue Area (Budget
Function 990)

GAO Contact: Jack Brock, 202/512-6240
Rona Stillman, 202/512-6400

Impact of GAO's Work

Increasingly, the public is demanding that the government provide more services at less cost. To meet this challenge, government officials must increasingly rely on information technology systems to sustain and improve such vital functions as enforcing the law, collecting taxes and criminal debts, and protecting the public's investment in financial markets.

Our work covered agencies that are involved in the areas of TSM as well as the administration of justice and financial institutions and markets. The following examples show how we are assisting these agencies in managing their information resources and in effectively using technology to improve their operations.

Tax System Modernization

At IRS, processes established in the 1960s are being used to annually collect and account for over \$1 trillion in revenue. Introducing information technology into this environment and attempting to improve that technology have been expensive and have yielded marginal benefits.

Our 1995 comprehensive examination of IRS' TSM found that IRS had made progress through many actions initiated to improve the management of information systems; enhance its software development capability; and better define, perform, and manage TSM's technical activities. Nevertheless, both IRS' efforts to modernize tax processing and the government's investment in those efforts—which could total more than \$8 billion—are at serious risk due to remaining pervasive management and technical weaknesses that impede modernization efforts. We reported that IRS does not have a comprehensive, cost-effective business strategy to reduce paper submissions. Furthermore, IRS has not yet fully developed and put in place the requisite management, software development, and technical infrastructures necessary to successfully implement an ambitious world-class modernization effort like TSM.

Promptly addressing TSM's many unresolved management and technical issues is crucial to mitigating risks and better positioning IRS to achieve a successful information systems modernization. First, IRS' business strategy will not maximize electronic filings because it primarily targets taxpayers who use a third party to prepare and/or transmit simple returns, are willing to pay a fee to file their returns electronically, and are expecting refunds. Focusing on this limited taxpaying population overlooks most taxpayers, including those who prepare their own tax returns using personal computers, have more complicated returns, owe tax balances, and/or are not willing to pay a fee to a third party to file a return electronically. Without a strategy that also targets these taxpayers, IRS will not meet its electronic filing goals or realize its paperless tax processing vision. In addition, if taxpayers file more paper returns in the future than IRS expects, this will place added stress on IRS' paper-based systems. In addition, IRS does not have in place the management and technical infrastructure needed to realize TSM objectives.

To its credit, IRS has (1) developed several types of plans to carry out its current and future operations, (2) drafted criteria to review TSM projects, (3) assessed its software development capability and initiated projects to improve its ability to effectively develop software, and (4) started to develop an integrated systems architecture and made progress in defining its security requirements and identifying data weaknesses in current systems. Despite activities such as these, more remains to be done.

Administration of Justice

Pursuant to the Criminal Fine Improvements Act of 1987, AOUSC and DOJ have initiated action to centralize criminal debt accounting and reporting within the National Fine Center. Our report and follow-on testimony identified critical challenges that need to be addressed before almost \$5 billion in existing criminal debt can be centralized for more effective collection. Specifically, we emphasized that AOUSC needs to determine how it intends to proceed beyond phase I of the project. Further, AOUSC and DOJ need to work together to ensure that the National Fine Center has complete and reliable data for all 94 judicial districts.

In a joint effort with the General Government Division, we worked with the Congress to ensure that improved automation management was part of its consideration to reauthorize AOUSC's Judiciary Automation Fund. This fund provided in excess of \$400 million over the past 5 years to improve automation in federal courts. We recommended that the Fund be reauthorized for less than the 5 years the judiciary had requested. During this period, the judiciary would have the opportunity to assess the

effectiveness of its ongoing efforts and report to the Congress on progress made in its automation program. The Congress passed legislation to reauthorize the Fund for 3 years and included language in the reauthorization act requiring AOUSC to implement our recommendations.

In recent testimony, we informed the Congress of challenges facing the U.S. Customs Service during its implementation of the National Customs Automation Program, which is to be achieved primarily through the redesign of its ACS—projected to cost about \$100 million through fiscal year 1999. Customs is beginning to work on these challenges, which include (1) meeting with customers to discuss modernization plans and automation needs, (2) determining how information technology will support the key components of its redesigned operations, and (3) developing performance measures that will be used to assess results.

Financial Institutions and Markets

The National Association of Securities Dealers' (NASD) automated quotation and trading system—commonly called NASDAQ—has experienced several system outages, disrupting trading to millions of people. We reviewed the nature and causes of three outages that occurred in July and August 1994. Through our work at NASD and its federal regulator—SEC—we determined that stronger system controls and oversight were needed to prevent future outages. We also highlighted that SEC had a shortage of staff with critical computer skills and needed to strengthen its ability to oversee the rapid growth of automation in the securities industry. As a result of our work, NASD has begun to (1) strengthen software testing and (2) correct weaknesses by revising its disaster recovery plan, improving facilities, and strengthening its internal audit function. SEC recently hired two computer specialists to augment its market automation oversight and conducted several technical inspections to monitor NASD's implementation of corrective actions.

Through our joint work with GAO's General Government Division, we informed the Congress and the Thrift Depositor Protection Oversight Board about the state of RTC's information technology and its potential effect on RTC's continuing operations and transfer of activities to the FDIC. We reported that RTC's information systems remain critical to its efforts to manage and sell failed thrift assets and to FDIC's task of assuming responsibility for any remaining RTC operations after December 31, 1995. In the past, we found that RTC's information systems contained inaccurate and incomplete data. RTC is making progress in improving the quality of data in its systems. However, as it reduces staffing levels, RTC may have fewer resources to ensure that data errors are corrected. The quality of

RTC's data will affect FDIC when it assumes responsibility for those assets that remain to be sold.

Key Open
Recommendations
Tax System Modernization

We are working with agency officials to implement the key open recommendations stated below.

In a July 1995 report to the IRS Commissioner, we recommended that IRS' electronic filing business strategy focus on a wider population of taxpayers, including all taxpayers for whom electronic filing will be most cost-beneficial.

In addition, we recommended improvements to IRS' strategic information management, software development capability, and technical activities. First, we recommended that the Commissioner take immediate action to improve IRS' strategic information management by implementing a process for selecting, prioritizing, controlling, and evaluating the progress and performance of all major information systems investments, both new and ongoing, including explicit decision criteria. Using the best available information, IRS needs to develop quantifiable decision criteria that consider such factors as cost, mission benefits, and technical risk. IRS should have reviewed all planned and ongoing systems by June 30, 1995, to develop system costs for fiscal year 1996 using these criteria. Through this review, IRS will provide the Congress with insight, based on consistently applied and well defined factors, which can be used to gauge IRS' priorities and rationalization for TSM projects.

Next, we recommended that the Commissioner (1) immediately require IRS' future software development contractors to have Capability Maturity Model level 2 maturity and (2) by December 31, 1995, take measures to improve IRS' software development capability. The specific measures recommended are intended to move IRS to capability level 2 and include implementing consistent procedures for software requirements management, quality assurance, configuration management, and project planning and tracking.

In addition, we recommended that the Commissioner take several specific actions by December 31, 1995, to improve key system development technical activities. These included (1) completing an integrated systems architecture and security and data architectures, (2) institutionalizing formal configuration management for all new systems development projects and upgrades and developing a plan to bring ongoing projects

under formal configuration management, and (3) developing security concept of operations, disaster recovery, and contingency plans.

Finally, we recommended that the IRS Commissioner assign the Associate Commissioner responsibility for managing and controlling all systems development activities, including the research and development division's systems development efforts.

The time frames we recommended coincide with congressional deliberations on IRS' fiscal year 1996 and the fiscal year 1997 budget cycle. Meeting these time frames was considered necessary to give the Congress a sound basis for funding investments in IRS' systems modernization projects. (GAO/AIMD-95-156)

Administration of Justice

Our report and follow-on testimony on AOUSC's efforts to centralize criminal debt accounting and reporting within the National Fine Center highlighted several actions that should be taken to reduce the risks to this project. We recommended that AOUSC (1) fully define a strategy for addressing additional actions needed to enable the National Fine Center system to meet its users' needs and (2) work with DOJ to finalize a strategy for reconciling existing criminal debt accounts at the 94 judicial districts and entering these data into the National Fine Center system. AOUSC generally agreed with our findings and recommendations and has begun to address these issues. We also recommended that the Director of AOUSC and the Director of DOJ's Executive Office for U.S. Attorneys work together to develop and implement a methodology for determining the collectibility of all criminal debt. Both entities agreed to address this issue. (GAO/AIMD-95-76 and GAO/T-AIMD-95-215)

In related testimony on the reauthorization of AOUSC's automation fund, we made several recommendations to improve the controls and management of this fund. AOUSC is addressing these recommendations, which will help provide for more effective use of the judiciary's automation resources. (GAO/T-GGD/AIMD-94-176)

Our recent report on INS' pilot recommended that before INS decides to expand the center's activities nationwide, it should determine if information generated by the center is worth the related expense and resources. We also recommended that INS develop procedures to ensure that two related databases are complete and accurate. Further, we recommended that the action taken in response to these procedures should be independently verified to ensure that data reliability is

Chapter 4
Improving Justice and General Government
Programs

improved. We will continue to work with INS to implement these recommendations. (GAO/AIMD-95-147)

Financial and Information Management and Evaluation Programs

Budget Issue Area (Budget Function 990)

GAO Contact: Paul L. Posner, 202/512-9573

Impact of GAO's Work

The need to reduce the federal budget deficit has driven public debate in 1995. Although the Congress is charting a course leading to a balanced budget by fiscal year 2002, the long-term outlook remains challenging. For instance, even if growth in health care costs is moderated by the policies proposed today, the population's aging ensures that health care costs will continue to rise and fiscal pressures will continue. As a result, the budget will continue to be a focal point of public policy in the years to come.

Our work (1) provides the Congress with deficit reduction analysis and reduction options and strategies, (2) recommends improvements in the structure and presentation of the budget to assist in budget choices, and recommends improvements in the budget process, (3) highlights the choices between consumption and investment spending and provides decisionmakers with criteria and analyses to aid in the selection of effective investments, (4) assesses the impacts of budget rules and incentives on management, (5) examines the impact of proposed changes on managerial efficiency and congressional oversight, and (6) provides the Congress—through the budget—with information on fragmentation and overlap in agency and budget functions.

Deficit Reduction

Our long-term projections of the deficit and its impact on economic growth and productivity have been used by the public, private policy organizations, and the Congress to provide perspective on recent economic experiences and the administration's economic plan. This year we updated our 1992 report on our simulations of the long-term economic impacts of the deficit. We tracked the economic implications of three possible fiscal paths through the year 2025, highlighting how some types of early action on the deficit, including early action on health—a principal driver of future spending—might affect the long-term deficit outlook.

For the second straight year we produced a report on the budgetary implications of selected GAO work. The report, prepared with the active support of approximately 20 GAO issue areas and the cooperation of CBO and staff from the Joint Committee on Taxation, provided the Congress with over 120 options for possible budget savings or revenue gains. Many of these options were cited and used in House and Senate budget deliberations.

We also reported on the deficit reduction experiences of six other nations. In our report, Deficit Reduction: Experiences of Other Nations (GAO/AIMD-95-30), we reviewed the deficit reduction experiences of Australia, Canada, Germany, Japan, Mexico, and the United Kingdom. We identified the elements prompting these governments to engage in fiscal austerity policies, the budget actions they took, and how they achieved political agreement to take these actions. The experiences of the case study countries show that significant structural improvements in fiscal policy are possible in modern democracies, although such progress appears difficult to sustain. Despite obvious cultural, political, and economic differences, we believe that elements of other nations' experiences may be of interest to the United States as it addresses this common challenge.

Improving Budgetary Choices

Because budget structure greatly influences decision-making, highlighting and providing needed information about critical budget choices is very important. In addition, better information about the costs of federal programs and a greater ability to link budgeting to accounting data could enhance the quality of budget decisions.

Our look-back report, Budget Issues: Fiscal Year 1994 Budget Estimates and Actual Results, the fourth such report, showed that the deficit's sharp drop from estimated levels resulted primarily from better-than-expected economic performance and its effect on interest costs. Although these results do not suggest large estimation issues, they underscore the sensitivity of budget outlays and receipts to changes in economic conditions. The report also observed that over the 4 years of the series, net revolving fund outlays have proven consistently difficult to estimate accurately.

In addition to these reports, we provided written correspondence to the Congress on a proposal to remove transportation trust funds from the budget. We reiterated our support for a unified budget and also relayed our ideas on how to provide greater transparency to budget totals so that trust fund surpluses are not used to "mask" the true size of the deficit. We also issued a report that laid out the extent to which revenues are earmarked in the federal budget.

In another study, we examined the usefulness and applicability of depreciation in federal budgeting for spending on transportation infrastructure, research and development, and human capital. We found that according to research, depreciation in budgeting is inappropriate. Congressional staff considered our results in developing current capital

Government Restructuring and
the Federal Role

budgeting proposals that, unlike previous proposals, exclude depreciation on investments.

The Congress has shown strong interest in a range of government reform initiatives, including privatization, consolidating government programs and agencies, and giving states new authority to run entitlement programs by converting Medicaid and AFDC from open-ended entitlements to block grants.

In testimony on federal program consolidation, we discussed general issues important to these efforts, such as budget savings and accountability. We also identified examples of consolidation opportunities identified in GAO work, mostly drawn from our report on options to reduce the deficit. In our report on block grant implementation, we stressed the need for the Congress to build accountability provisions into newly proposed block grants. We noted that well designed accountability provisions, such as comparable data reporting and maintenance of effort requirements, will help clarify the financial and programmatic relationship between the federal government and the states and could be important in sustaining the block grant approach as these programs mature.

We issued several reports this year examining the federal government's budget function and subfunction classifications, offering perspectives on the relationship between areas of national need and federal organizational and staffing patterns. Collectively, these reports provide a governmentwide perspective not only on who is doing what, but also on how the federal government addresses its various missions. These reports illustrate widespread duplication in the missions of departments and agencies, and offer a road map for government restructuring initiatives.

We have also provided the Congress with information on privatization policies and processes in foreign governments. Our current work in this area highlights issues central to divestiture such as valuation, budgetary display, treatment of obligations incurred prior to sale, and the overall process in which divestitures are undertaken.

Key Open
Recommendations

Budget Enforcement Act
Compliance

We are required by law to submit an annual compliance report that addresses OMB's and CBO's compliance with the Budget Enforcement Act of

1990. When we reviewed the reports and presidential orders for the session of the Congress ended January 3, 1992, we reported that OMB and CBO had substantially complied with the act; however, we found several minor instances in which either OMB or CBO or both had not implemented certain provisions. We discussed several matters for congressional consideration involving technical corrections to the act to clarify certain areas and allow more precise implementation. While the Congress included some changes to the Budget Enforcement Act in the Omnibus Reconciliation Act of 1993 it did not address our specific recommendations. (GAO/AFMD-92-43)

Federal Credit Reform

In response to a congressional request, we issued a series of reports examining several highly technical issues related to the implementation of the Federal Credit Reform Act of 1990. In our July 1994 report on coverage and compliance issues, we stated that Government National Mortgage Association (GNMA) guarantees were covered by the Credit Reform Act but that GNMA had not fully complied with the act's requirements. We recommended that the OMB Director require GNMA to budget for guarantees using the issuance dates of the guarantees to determine whether their costs should be included in the financing account or the liquidating account. OMB is examining long-term credit reform treatment for GNMA.

In the same report, we stated that it was appropriate for a credit program to capture the cost of a closely linked cross-subsidy program in determining the credit program's total subsidy costs. We also presented criteria for defining a "closely linked cross-subsidy program." We discussed, as a matter for congressional consideration, an amendment to the act to include the cost of closely linked subsidies in the cost of credit programs. For cross-subsidies not meeting the criteria for being closely linked, we recommended that the OMB Director include a table in the appendix to the Budget of the United States Government for the associated credit program showing, for each cross-subsidy, the size, cost, and effect of the credit subsidy rate. OMB has responded favorably to our recommendation, but a new budget has not been issued since the recommendation was made. The Congress has not yet addressed the matter for consideration.

The same report examined FDIC's and RTC's fair housing program. We suggested, as a matter for congressional consideration, amending the act to exclude from credit reform requirements only those FDIC and RTC programs whose sole purpose was resolving and disposing of assets of failed and failing financial institutions. (GAO/AFMD-94-57)

In our recently issued report on the treatment of negative subsidies under credit reform, we examined the budgetary treatment of negative subsidies (those in which receipts exceed outlays) and examined whether this treatment could adversely affect program management and budgeting. Specifically, we reviewed budget proposals and actions for fiscal years 1992 through 1995 for the FHA's Mutual Mortgage Insurance Fund, the Export-Import Bank, and GNMA.

We determined that the budgetary treatment of credit programs with negative subsidies was not consistent with credit reform requirements. The act does not explicitly address situations in which programs have negative subsidies. Under OMB's guidance, appropriations of negative subsidy receipts, unlike appropriations of general funds, do not make budget authority available for obligation. We determined that this disconnect between appropriations and available budget authority, coupled with the credit reform requirement that budget authority be available before direct loans are obligated or loan guarantees are committed, might delay or reduce program expenditures to avoid violations of the Antideficiency Act. To avoid this, we recommended that the Congress appropriate only general funds for all subsidies and administrative costs of credit programs and use negative subsidy receipts to reimburse the general fund.

In the same report, we stated that programs with both positive and negative subsidy direct loans and loan guarantees, such as the credit programs of the Export-Import Bank, presented an additional issue. The act calls for appropriating amounts equal to estimated net subsidy costs (the estimated subsidy cost from positive subsidy direct loans and loan guarantees offset by estimated receipts from negative subsidy loans and loan guarantees). With such an appropriation (or, from another viewpoint, an appropriation equal to estimated net outlays), an agency would not have sufficient budget authority to make all subsidized loans.

To solve this problem, we recommended that the Congress amend the act to require the appropriation of an amount equal to the gross subsidy cost for credit programs with both positive and negative subsidy components. The Congress has not yet addressed our recommendation. (GAO/AIMD-94-58)

Mandatory Spending

In response to a congressional request, we examined the implementation issues involved in applying a budgetary spending cap to mandatory spending programs. In our July 1994 report, we stated that although a spending cap on mandatory programs would achieve savings, a cap would

have little, if any, effect on the long-term growth trends in these programs until issues of underlying eligibility and benefit formulas, which drive spending, are addressed. We discussed, as a matter for congressional consideration, an alternative process under which the Congress would reduce spending by periodically setting spending targets, assessing mandatory spending, and voting on whether and how to change mandatory programs.

The Congress did not consider overall budget process reform legislation this past year. Once again, however, the House is considering proposals for a mandatory spending cap and discussing a look-back mechanism in connection with Medicare cost growth, but no action has been taken as of this date. (GAO/AIMD-94-155)

Tax Expenditures

In a joint effort with the General Government Division's tax policy and administration issue area, we responded to a congressional request to examine the growth of tax expenditures and alternatives for limiting their growth. Our June 1994 report contained a recommendation to the Congress, matters for congressional consideration, and recommendations to the OMB Director.

We recommended that the congressional tax-writing committees explore, within the existing framework, opportunities to exercise more scrutiny over indirect "spending" through tax expenditures. Although these committees have considered revisions to various existing tax expenditures over the years to either eliminate such expenditures or more narrowly restrict eligibility, no specific action has been taken on our recommendation.

In this report, we also stated that should the Congress wish to address tax expenditure efforts in the broader context of the allocation of federal resources, it could consider further integrating those efforts into the current budget process. One option would be for the Congress to consider whether it wished to seek a specified level of tax expenditure savings during its annual deliberations on the congressional budget resolution. Several proposals for better controlling tax expenditures have been offered, but no specific action has been taken on our recommendation.

In the same report, we made several recommendations to the OMB Director. First, we recommended that the Director, in consultation with the Secretary of the Treasury, revise the budgetary presentation of tax

expenditure information to highlight the fiscal and other consequences associated with tax expenditures.

OMB revised its fiscal year 1995 budget to highlight information about tax expenditures in two respects: (1) the budget presents estimated tax expenditures over the 5-year budget window, as well as estimated expenditures for the current fiscal year and actual expenditures for the prior fiscal year, and (2) present value estimates are reported for tax expenditures involving deferrals and similar long-term revenue effects. Although OMB agreed in principle that the combined presentations of outlays and tax expenditures within functional areas would be helpful and is exploring the feasibility of presenting this information on a selective basis, OMB anticipates no significant additions for the fiscal year 1996 budget. The Treasury Department is deferring to OMB on this recommendation.

Second, we recommended that, to the extent practical, OMB incorporate tax expenditures into the annual budget review process. OMB has announced its intentions to begin such a process and has initiated preliminary actions to implement joint reviews of tax expenditures and related outlay programs as part of its annual budget review.

Third, we recommended that OMB, working with the Treasury, design and test a basic structure for tax expenditure performance reviews before developing the governmentwide framework the 1993 GPRA requires by May 1997. OMB has not yet developed this framework. We recommended further that once the initial determinations were made, OMB, along with the Treasury, conduct case studies of the proposed performance review process. This would enable OMB and the Treasury to gauge how well the proposed framework might function. In addition, we recommended that once tax expenditure performance data were developed, OMB consult with the Treasury in considering how to present tax expenditure performance information in the budget. OMB is scheduled to begin action on the above recommendations according to the time frames established in GPRA. The Treasury Department is deferring to OMB on this recommendation.

(GAO/GGD/AIMD-94-122)

Civil Audits Issue Area (Budget Function 990)

GAO Contact: Greg Holloway, 202/512-9510

Impact of GAO's Work

Our civil agency audit work continues to demonstrate the importance of reliable financial information and effective systems in strengthening accountability and improving control over the federal government's financial resources and program activities. The preparation and audit of accurate and useful financial statements depends upon the quality, usefulness, and availability of the financial information on which they are based and ultimately the adequacy of the underlying systems and related internal controls. Overall, progress is being made. But remaining problems are difficult, and much remains to be accomplished to successfully implement the Chief Financial Officers (CFO) Act—especially to improve the quality of information and systems, which remain in serious disrepair today.

Chief Financial Officers Act of 1990

The CFO Act establishes a solid foundation for greatly needed, comprehensive reform of federal financial management. Since its enactment in 1990, coupled with the Government Management and Reform Act of 1994, financial statement preparation and audit coverage have more than doubled and, for fiscal year 1994, reached 67 percent of the government's gross budget authority. However, only a few of the 24 CFO Act agencies have received unqualified audit opinions on financial statements for their entire operations. Within the next 2 years, audit coverage is expected to increase to 98 percent of the government's gross budget authority, as executive branch agencies work toward producing the agencywide financial statements now required by law and subjecting these statements to audit.

The process of preparing and auditing annual financial statements continues to strengthen the reliability of financial information. The process also provides a more complete view of agencies' financial conditions, highlights control weaknesses and high-risk areas that need to be resolved, and identifies actual and potential savings. But major improvements continue to be needed to restore integrity to the federal government's financial management operations. Key elements of successful federal financial management reform are high-quality leadership; an effective CFO organizational structure; effective long-range planning; and preparation of meaningful and auditable component level, agencywide, and governmentwide financial statements. Though agencies

have made some progress in these areas, substantive and lasting improvement will depend on prompt action needed to implement our recommendations and to meet the requirements of the CFO Act. To meet the CFO Act's ultimate goals of providing reliable, useful financial information, CFOs must overcome serious financial management, reporting, and system weaknesses and the Inspectors General (IG) must better position themselves to perform required financial audits.

We will continue to work with OMB and with agency CFOs and IGs to develop a strategy for preparing and auditing both agency level and the first-ever consolidated executive branch financial statements.

Other Financial Management Improvements

Our audits at civil agencies over the past several years continue to result in significant financial management improvements. Over the past year, we assessed the effectiveness of agency efforts to implement CFO Act requirements. Through this effort we were able to work collaboratively with agency management in identifying problems and potential solutions as agencies position themselves to meet the audit requirements of the CFO Act over the next several years. We also have stressed the need for those agencies to make sound investments immediately to upgrade the qualifications of financial management staff, fix rudimentary bookkeeping problems, and make existing financial systems work better. At the same time, agencies must concentrate on developing performance measures and cost accounting systems, which are almost universally lacking in the federal government today, and emphasize integrating budget, accounting and management data. (GAO/T-AIMD-95-204)

Key Open Recommendations

Governmentwide Recommendations

We have continued to press agencies and the administration to improve credit management and debt collection practices. Agencies have long had problems in managing credit programs and collecting tax and nontax debt, and these problems have been highlighted in our reports and testimonies over many years. During the past year, legislation, supported by the administration, was introduced by the House Committee on Government Reform and Oversight to make substantive improvements in these areas. We support the general thrust of the proposed bill and testified that many of its provisions are consistent with recommendations we have made in the past. Such provisions include (1) expanding and enhancing debt collection tools available to agencies, (2) strengthening agencies' authority

to offset delinquent debts from federal payments, (3) strengthening coordination among agencies through increased centralization of collection activities, and (4) denying loans and loan guarantees to those delinquent on federal debts. We will assist the Congress as it considers the pending legislation and continue to work with both the Congress and administration on efforts to improve credit management and debt collection procedures. (GAO/T-AIMD-95-235)

Agency-Specific
Recommendations

We continue to make many agency-specific recommendations to correct problems involving fundamental accounting procedures, including serious internal control and accounting system weaknesses. The following recommendations deserve priority attention.

Based on our 1993 and 1992 audits of the U.S. Customs Service's financial statements, we made a number of key recommendations. In its audit of Customs' 1994 financial statements, Treasury's Office of Inspector General (OIG) reaffirmed the need for these actions to (1) reasonably ensure overall compliance with trade laws and to ensure that duties, taxes, and fees on imports would be properly assessed and collected and refunds of such amounts would be valid, (2) control, manage, and report the results of its enforcement efforts, including maintaining accountability and stewardship over the tons of illegal drugs and millions of dollars of cash and property seized or used in its enforcement efforts, and (3) adequately control the use and the reporting of its operating funds. (GAO/AIMD-94-119)

In our report on IRS' 1994 financial statements, we noted that it had made some progress in responding to the problems identified in our previous audits. For example, IRS has implemented a new administrative accounting system to account for its day-to-day operations. IRS also successfully transferred its payroll processing to the USDA's National Finance Center and, as a result, properly accounted for and reported on its \$5.1 billion of payroll expenses for fiscal year 1994. However, IRS had made less progress in improving accounting for federal revenues. It had completed action on only 2 of 14 recommendations we made in previous reports concerning revenue collections. IRS needs to intensify its efforts, including developing a detailed plan with explicit, measurable goals, and set a timetable for action, to attain the level of financial reporting and controls needed to effectively manage its massive operations and to reliably measure its performance. (GAO/AIMD-95-141)

On our audits of the District of Columbia, we identified financial and other management problems that have adversely affected the economic health

of the District. District managers do not have fundamental financial and other management information to help control spending and costs, analyze results of operations, or to estimate budget and cash needs. In part, in response our work, the Congress established an oversight control board to address budget deficits and management inefficiencies and help to ensure that our recommendations for actions targeted at long-term financial, fiscal, and economic vitality and operational efficiency of the District of Columbia are effectively implemented. (GAO/T-AIMD-95-176, GAO/AIMD-95-19, GAO/T-AIMD-95-170)

Our work at the Department of the Interior's Bureau of Indian Affairs (BIA) showed that some progress has been made in certain areas. This progress includes strengthened systems staffing and improved policies and procedures. However, the work also reaffirmed continuing trust fund management problems and the need for the Secretary to (1) complete the BIA trust fund reconciliation and certification efforts, (2) implement trust fund management subsidiary systems, (3) continue to hire qualified trust fund financial management staff, (4) acquire investment advisory services, and (5) develop a comprehensive strategic plan for Indian trust business management. (GAO/T-AIMD-95-94)

Financial audits of the Federal Family Education Loan Program continue to identify significant issues related to determining program costs, effectively monitoring payments to guaranty agencies and lenders, and ensuring accurate financial reporting. These weaknesses undermine Education's ability to effectively and efficiently achieve the program's mission of providing loan access to all eligible students at a reasonable cost to taxpayers. Education has made some progress in addressing these issues; however, it needs to continue to improve controls to ensure that weaknesses are corrected. Education should also continue to work with guaranty agencies and lenders to improve the accuracy and reliability of reported loan data. In addition, improvements over Education's financial management process continue to be needed to ensure that financial statements and other management reports are reliable. (GAO/AIMD-94-131)

High-Risk and Management Control Issues

In our February 1995 High-Risk Series, we provided an update on a number of critical government operations that we consider to be highly vulnerable to waste, fraud, abuse, and mismanagement. The government continues to needlessly lose billions of dollars and miss huge opportunities to achieve its objectives at less cost and with better service delivery. These vulnerabilities expose the government to future losses.

Mitigating these losses is especially important as the government grapples with large budget deficits.

In the latest high-risk series, we were able to report progress in five areas sufficient to remove their high-risk designation. But other areas were added to GAO's high-risk list. Our focus in the near term will be on six broad categories, which collectively affect almost all of the government's \$1.25 trillion in revenue collection efforts and hundreds of billions of dollars in federal expenditures.

Our management control focus is an integral part of our overall monitoring of agency efforts to achieve the objective of the CFO Act. OMB's recently revised Circular A-123 provides a good foundation for assessing management controls across government, and we will monitor executive branch efforts to integrate its reporting on management controls with other management reporting.

Corporate Audits
Issue Area (Budget
Function 990)

GAO Contact: Robert W. Gramling, 202/512-9406

Impact of GAO's Work

Government corporations provide trillions of dollars in guarantees and insurance in support of the nation's major financial industries, including banks, savings and loan institutions, credit unions, and pension plans.

The financial difficulties experienced by the banking and thrift industries in the last decade demonstrated how rapidly federal deposit insurance funds can be depleted. The condition of the Bank Insurance Fund (BIF) has greatly improved to the point where BIF has met its statutorily designated reserve ratio. However, the Savings Association Insurance Fund (SAIF) continues to be significantly undercapitalized and the thrift industry is facing a competitive disadvantage due to a premium disparity between banks and thrifts. Also, RTC is nearing completion of its responsibilities for resolving troubled thrifts, but needs to ensure a smooth transition of those responsibilities to the FDIC.

PBGC's large unfunded deficit and significant exposure from underfunded pension plans still threatens the insurance program's long-term viability. However, PBGC anticipates that legislation passed in December 1994 to strengthen minimum funding standards will significantly reduce underfunding in the plans that PBGC insures and improve its financial condition.

Accounting standards continue to be largely based on historical cost and raise serious questions about their utility in an economy of rapid changes affecting market values. Accounting standards also continue to lag behind business practices in significant areas such as the use of derivatives.

To act promptly and minimize the taxpayers' exposure and costs, the Congress and regulators need reliable and informative financial reporting that provides early warning of emerging problems. Therefore, we continue to focus our work on ensuring that corporate entities accurately report their financial condition and performance and maintain internal control structures that provide accountability and safeguard assets. We also continue to focus our work on evaluating whether generally accepted accounting principles and auditing standards provide an adequate basis for fairly and consistently reporting financial condition and operating performance.

Financial Condition,
Performance, and Internal
Controls

We have continued to independently assess the reliability of the financial statements of FDIC's three funds—BIF, SAIF, and the Federal Savings and Loan Insurance Corporation Resolution Fund, and the financial statements of PBGC, RTC, and the Panama Canal Commission. We have also continued to independently assess these corporations' control structures and worked closely with them to improve their internal control systems and operations. For fiscal year 1994, we issued unqualified opinions on each corporation's financial statements. However, our audits continue to disclose internal control weaknesses of varying significance that, if not corrected, could affect the reliability of future financial reports and adversely affect their operations. In general the corporations have acted quickly to address the weaknesses we identified, although some weaknesses involve systems deficiencies that require longer-term solutions. The progress BIF, RTC, and PBGC have made in improving internal controls, along with legislation to protect the insurance funds, provide funding to RTC to complete its mission, and reduce pension plan underfunding and help PBGC eliminate its deficit, have resulted in these entities' removal from GAO's "high-risk" list.

Our work concerning the conduct of independent audits of the Federal Reserve Banks has led the Board of Governors of the Federal Reserve System to contract for external independent audits of all the banks to be completed over the next 5 years.

Our study of the likelihood and probable impact of a significant disparity in premium rates between banks and thrifts has provided policy alternatives for the Congress to consider to prevent cost differences that could threaten the viability of thrifts, especially those that do not meet minimum capital standards. Our reporting and detailed analysis facilitated timely congressional and administration acknowledgement of the seriousness of the problem and focused the policymakers on addressing solutions.

We are working closely with RTC and FDIC management to ensure a smooth transition of RTC operations into FDIC, including the need for any contingent funding for uncertain economic and noneconomic factors that could affect RTC's recoveries from failed thrifts' assets. We are also working with officials of the Panama Canal Commission and the administration on proposed legislation, which would provide the Commission's management flexibility in conducting its operations to aid in insuring a smooth transition of the canal to the Republic of Panama in

1999. This legislation would allow the Commission to operate as a government corporation and to directly contract for independent audits.

Our work in reviewing examination policies, procedures, and practices for banks and thrifts resulted in financial institution regulators taking various actions to improve loan sampling methodologies, develop internal control review procedures and guidance, and develop examiners' workpaper and supervisory review requirements. These actions should enhance examination effectiveness and oversight of banks and thrifts.

Accounting and Auditing Standards

Our efforts to improve accounting standards focused on issues related to accounting and disclosures for financial derivatives. We also focused on the importance of sound internal controls and risk management policies and procedures for derivatives activities.

With regard to derivative accounting and disclosure issues, the Financial Accounting Standards Board (FASB) recently issued an accounting standard pertaining to disclosure requirements for derivatives. However, the new standard does not establish specific requirements for reporting of quantitative measures of risks and exposure as a result of derivatives activities. FASB plans to reconsider disclosure requirements for derivatives when it completes development of derivative accounting requirements. FASB does not have a definite time when the accounting requirements will be established.

Also, in connection with our work on derivatives, we reported that strong internal control systems; independent, knowledgeable audit committees; and public reporting on internal controls were critical to firms engaged in complex derivatives activities and should play an important role in ensuring sound financial operations and protecting shareholder interests of these firms. In response to our recommendations, regulators, standard setters, and the financial services industry have issued guidance to aid management in assessing the effectiveness of its risk management policies and procedures for derivatives activities. However, much of this guidance is voluntary and we are concerned that the widespread growth in the use of derivatives may continue before generally accepted risk management practices are adopted.

Key Open Recommendations

Corporations' Internal Control Systems

In our 1994 financial statement audits of PBGC, RTC, and FDIC's three funds, we found that these corporations continued to make significant progress in dealing with internal control weaknesses. This progress contributed to our removal of PBGC, RTC, and BIF from GAO's "high-risk" list. However, these corporations continue to face internal control weaknesses in financial systems and internal controls, which they are currently addressing. We are in agreement with the planned corrective actions and we will monitor the corporations' progress. (GAO/AIMD-93-21, GAO/AIMD-94-109, GAO/AIMD-95-157, GAO/AIMD-94-35, GAO/AIMD-94-135, and GAO/AIMD-95-102)

Bank and Thrift Examinations

Our 1993 reports on bank and thrift examinations performed by the Office of the Controller of the Currency and the Federal Reserve Board still contain open recommendations concerning sampling methodologies and internal control reviews. These two regulatory agencies have actions in process to address our recommendations. We will continue to monitor the agencies' progress to assess the effectiveness of changes in the examination process. (GAO/AFMD-93-13 and GAO/AFMD-93-14)

Defense Financial Audits Issue Area (Budget Function 990)

GAO Contact: Lisa G. Jacobson, 202/512-9542

Impact of GAO's Work

The primary objective of our work has been to further the implementation of the CFO Act within DOD. Our work has concentrated on assessing the military services' ability to prepare auditable financial statements so that they can ultimately be incorporated into the consolidated financial statements for the federal government. Our overall strategy has included (1) conducting the initial audits of the three military services' financial reports and statements, (2) demonstrating the need for financial reform within DOD, and (3) working with the DOD audit community to develop its ability to perform financial statement audits mandated by the CFO Act. We have also focused on the financial and accounting policies, practices, internal controls, and systems DOD uses to account for, control, and report on its billions of dollars of inventories, weapons systems, equipment, and other assets.

Our audits have shown that many DOD financial systems are deficient, outdated, and inefficient. They can routinely produce neither relevant, timely, and accurate information on DOD's assets and liabilities nor verifiable data on the results and costs of DOD's operations. Nonetheless, our audits have demonstrated that significant improvements in financial reporting can be achieved with DOD's present systems. In addition, our audits have illustrated, to the Congress, DOD, and the public, the critical need for more effective internal controls and procedures to strengthen accountability and control over DOD's multibillion dollar investment in equipment and inventories.

In particular, our work was instrumental in gaining DOD officials' acknowledgement of the extent and severity of the department's financial management problems and the obstacles to establishing adequate departmentwide financial management. The Secretary's January 1994 annual management report to the President and the Congress acknowledged that financial management complacency has permitted pervasive weaknesses to persist in DOD financial management operations. The report cited several fundamental causes of DOD financial management problems, including "vertically oriented disparate organizations, the predominance of physical over financial controls, and complacency about financial management problems." The Secretary pointed out that DOD's

“financial management problems waste money that is needed more than ever to sustain sufficient combat power.”

More recently, the Secretary’s February 1995 annual management report reiterated DOD’s commitment to resolving its long-standing financial management problems. The report highlighted the need for financial management reform and identified the underlying problems making that reform necessary. The Secretary stated that DOD’s financial management structure was characterized by multiple organizations having multiple processes. Over time, these processes produced “business practices that were complex, slow, and error-prone.” Exacerbating the problem are some 250 finance and accounting systems with different data standards that produce largely incompatible data, making it difficult to prepare reliable consolidated financial information.

Such forthright admissions of serious weaknesses places DOD, for the first time, in a better position to comprehensively and realistically address and resolve these weaknesses. As mentioned in the Secretary’s February 1995 report, DOD developed a blueprint for reengineering its business practices to resolve these long-standing problems. We are currently evaluating this blueprint.

An integral part of our strategy has been to work with the DOD audit community as it increases its capability to perform the financial audits required by the CFO Act. Our training, encouragement, assistance, and oversight have been critical factors in ensuring that the DOD audit community succeeds in performing these audits. Under the overall direction of the DOD IG, these organizations have been devoting substantial efforts and resources, and are developing uniform approaches to conducting these audits.

In fiscal year 1995, the State Department, AID, and NASA were added to the Defense Financial Audits issue area, making us responsible for assessing these agencies’ progress toward meeting the CFO Act requirements. Our limited assessment of these agencies’ CFO organizations and IG audits have shown that weaknesses in accounting systems and poor accounting for property continue to preclude State and AID from preparing auditable financial statements and fully achieving the objectives of the CFO Act. In contrast, NASA has made financial management improvements and received an unqualified opinion on its fiscal year 1994 financial statements. However, since NASA’s accounting systems still have numerous manual

processes and applications and, overall, are not integrated, they do not comply with OMB financial requirements (OMB Circular A-127).

Financial Statement Audits

On completion of our ongoing audit of the Navy's financial operations, we will have performed financial audits of each of the three military services. However, because the services' financial records and systems are deficient and basic internal controls are lacking, we could not express an opinion on any of the financial statements. (It should be noted that the Navy has not been required to prepare financial statements by the CFO Act. Our audit is, therefore, assessing its overall financial operations and reporting pursuant to Treasury requirements.)

Our financial audits of the Air Force and Army identified weaknesses in the basic processes used to develop the financial information managers need to support effective management, oversight, and accountability over DOD's extensive inventories of weapons systems, equipment, and supplies; funds expended; and liabilities incurred. Our financial audits (1) identified serious problems in DOD's financial operations, (2) led to some improvements in DOD's ability to control and account for its assets, (3) prompted DOD to implement corrective actions to enhance the integrity and reliability of some financial information, and (4) caused DOD to improve its financial accounting and reporting. If DOD builds upon these improvements, it will ultimately be able to better meet not only its own management information needs but also the reporting objectives of the CFO Act.

In July 1995, we testified that unless DOD makes significantly more progress toward resolving its monumental financial management weaknesses, it will be unable to meet the legislative timetable for preparing auditable fiscal year 1996 financial statements. The Secretary of Defense and DOD's CFO have forthrightly acknowledged the magnitude and severity of these problems. However, we pointed out that DOD will need to intensify its efforts in order to correct its long-standing, significant financial management problems. These problems greatly impede DOD's ability to prepare auditable financial statements. According to DOD officials, the Department is not expected to be able to prepare auditable financial statements before the turn of the century.

In May 1995, we testified that DOD's financial management reform efforts, while representing a formidable challenge, can, if properly implemented, substantially improve financial management operations.

In November 1993, we reported that the Army's system for recording and reporting real property at installations did not provide complete and accurate information on the quantity and type of Army structures and facilities. We specifically pointed out that such information is needed to develop reliable real property maintenance budgets and provide baseline information for base realignment and closure decisions.

In December 1993, we reported that the Army's budget execution system had fundamental weaknesses that limit the Army's ability to ensure its compliance with the Antideficiency Act. The report also pointed out that inaccurate reporting could cause the Army to underestimate its future required outlays.

Also, we worked cooperatively with the Army Audit Agency in its first audit of the Army's fiscal year 1993 financial statements. As a result of this effort, the cooperation fostered between GAO and the Army during our fiscal year 1991 and 1992 audits of the Army's financial statements was continued and strengthened. The Army Audit Agency has since completed the fiscal years 1993 and 1994 financial statement audits of the Army.

We assisted the Air Force Audit Agency in its audit of the Air Force's fiscal year 1992 consolidated financial statements—its first financial statement audit. In addition, we reviewed this audit and provided suggestions for improving future financial audits. The Air Force Audit Agency has since completed the fiscal years 1993 and 1994 Air Force financial audits.

Internal Controls

Our reports and testimonies highlighted for both the Congress and DOD the importance of effective internal controls and the consequences of such controls breaking down. Our audits focused on identifying whether DOD's internal controls ensured that its financial management systems could accurately capture, process, and report on day-to-day transactions involving billions of dollars. As we pointed out in our May 1995 testimony, we have been critical of DOD's past failure to acknowledge its fundamental internal control deficiencies in its Federal Managers' Financial Integrity Act reporting. However, more recently, we have been encouraged by DOD's more complete and realistic reporting on its internal control weaknesses.

In April 1994, we testified that weak internal controls over disbursements resulted in millions of dollars in overpayments to contractors and illegal payments—such as about \$3 million in fraudulent payments to a former Military Sealift Command supply officer. We also testified that ineffective internal controls resulted in an estimated \$7.8 million in unauthorized

payroll payments to “ghost” soldiers and Army deserters. As of May 1995, DOD had collected over \$5.4 million of this amount.

In addition, in August 1994, we sent a letter to the Director of DFAS Center-Cleveland and the Assistant Secretary of Navy for Financial Management pointing out that weak internal controls resulted in a \$163 billion error in property values in the Navy’s fiscal year 1993 Treasury Report on Financial Position (SF-220). Further, in May 1995, we reported that weak internal controls increased the risk of improper payroll payments to Navy civilians.

Key Open Recommendations

Although DOD has enhanced its ability to more reliably account for and report on its financial operations and the financial status of its resources, much more remains to be done. A constant theme of our reporting has been that it is important for DOD to pursue short-term and intermediate improvements, as well as long-term system enhancements. The following are among our most important recommendations that have yet to be fully implemented.

Army Programs

In December 1993, we reported that the lack of sustained DOD leadership has impaired Army’s ability to strengthen financial accountability. We recommended that the Acting DOD CFO (1) develop and implement a comprehensive plan, with specific milestones, for identifying and monitoring improvements in DOD and Army financial management, including personnel qualifications, organizational structures, and systems used to carry out Army financial management, and (2) revise existing policies and procedures to more clearly delineate the roles of the various DOD and Army organizations with Army financial management responsibilities. (GAO/AIMD-94-12)

In June 1993, we reported that we could not express an opinion on the Army’s fiscal year 1992 financial statements, in part because corrective actions had not been completed on previous recommendations and the weaknesses we had previously reported still existed. Specifically, our August 1992 report on the Army’s fiscal year 1991 financial management operations and financial reporting contained recommendations for improving overall financial management by (1) enhancing internal controls and accountability over assets and resources, (2) developing reliable financial performance measures, and (3) improving integration of logistics and financial systems. (GAO/AFMD-92-82)

Navy Programs

In May 1995, we reported that because of weak internal controls, the civilian payroll operations DFAS carried for the Navy were susceptible to improper payments. Our report recommended that the Navy and DFAS (1) identify and correct systemic causes of overpayments, (2) conduct required reconciliations of payroll and personnel records, and (3) establish a requirement for timely systematic follow-up of all discrepancies. The report also recommended that DFAS develop controls that cannot be circumvented to identify individuals who record or change transactions and records. (GAO/AIMD-95-73)

In June 1993, we issued a report recommending that the Assistant Secretary of the Navy for Financial Management correct the \$13.6 billion of unmatched disbursements contained in the Standard Accounting and Reporting system—one of the Navy's major accounting systems. (GAO/AFMD-93-21)

Audit Oversight and Liaison Issue Area (Budget Function 990)

GAO Contact: David L. Clark, 202/512-9489

Impact of GAO's Work

Accountability for program results requires that government managers have financial management systems that provide accurate, reliable, and timely financial information so that programs can be managed efficiently and effectively, progress toward program goals can be measured, and managers can make informed decisions. CFOs and IGS have concluded that the benefits of reviewing internal controls and the related financial statement audits bring much needed rigor to financial reporting and highlight where the real problems are. As with any well-operated enterprise, the investment in audited financial statements of the federal government is essential to building reliable systems and providing accountability.

Our work focused on improving accountability through financial audits and the support that intergovernmental audit organizations can provide. Our recommendations to improve the effectiveness of the OIGs and other audit organizations allow them to better plan and provide resources for these audits in a time of federal downsizing and major organizational change. In addition, our financial audits of legislative branch operations and audits mandated by statute improve the financial management and effectiveness of those offices.

Regarding the OIGs and other audit organizations involved in intergovernmental auditing, our reviews resulted in additional audit coverage, better resource usage, and improved quality of work as well as the removal of impairments to IG independence and authority. In support of the government's overall control environment, we also reviewed the oversight of those federal offices that do not have IGS and the investigative work of other OIGs. In addition, our review of the efforts of IGS and agency follow-up officials in implementing audit recommendations prompted OMB to initiate revisions of its audit follow-up guidance to ensure that agencies act on IG audit recommendations.

To improve the effectiveness of the audit work performed by other auditors, we reviewed their work. To improve the usefulness of the Single Audit Act, we reviewed its implementation. Also, as a result of our work on the audits of private employee benefit plans, the Department of Labor is drafting legislation that would encourage better plan management and

better protect the interests of both the plan participants and the government. We continue to work with congressional committees on legislation that would increase responsibilities for auditors to detect and report irregularities found during their work.

Our financial audits of legislative branch operations and activities, such as the Library of Congress and selected House and Senate operations, resulted in a number of improvements in internal controls and accounting systems. Likewise, our audits mandated by law included reviews of the financial support provided by the AOUSC for independent counsels, which resulted in improvements in cost management. Also, after a mandated review of the independence of legal counsel available to the IGS, we recommended changes for improved IG independence.

Key Open Recommendations

Intergovernmental Auditing

In our continuing reviews of OIGs, we concluded that improvements to the IGS' strategic planning would improve the implementation of the IG Act at 34 designated federal entities. We recommended that these IGS develop strategic plans for a 5-year period. The plans should assess their respective entities' risks, describe the strategies for reducing those risks, detail the resources required and available to implement the strategies, and provide measures to evaluate their progress. In addition, these plans should be included in the first semiannual report of each fiscal year so that entity heads, OMB, and the Congress are informed of the IGS' resource needs. (GAO/AIMD-94-39)

For those federal offices that do not have IGS, we reviewed their arrangements for oversight and obtained information indicating that audit and investigative oversight is included in their operations. (GAO/AIMD-95-152FS) After focusing on the investigative support of the Navy IG, we recommended several changes to better address the investigative process and coordinate oversight to improve the overall control environment. (GAO/AIMD-94-128)

Over the years, federal managers have not paid adequate attention to implementing IG recommendations, which has rendered audit resources less effective and has resulted in losses in federal programs and operations. The audit resolution problems are attributable, in part, to outdated guidance in OMB Circular A-50, "Audit Followup," on closing audit

recommendations. We recommended that OMB revise the circular to require agencies to close audit recommendations and provide the necessary documentation to verify the closure when (1) agreed-upon corrective actions had been implemented, (2) alternative actions had been taken that essentially met the auditors' intent, or (3) circumstances had changed and the recommendations were no longer applicable. (GAO/AFMD-92-16)

The single audit process is an important oversight tool for the nearly \$200 billion in federal financial assistance provided to state and local governments each year. We recommended revising the criteria for determining the entities and programs subject to single audit, improving the content of single audit reports, and shortening the time frame to publish and strengthen the impact of the reports. We also recommended increasing recipient entities' responsibilities for internal controls over federal funds and improving guidance to auditors. (GAO/AIMD-94-133 and GAO/AIMD-89-72)

Our reviews of the quality of audits by nonfederal auditors have identified weaknesses in the audits of private employee benefit plans so serious that the audits' reliability and usefulness were questionable. We recommended that the Congress amend the Employee Retirement Income Security Act (ERISA) to (1) eliminate ERISA's limited scope audit provision, (2) require reporting on the adequacy of internal controls by plan administrators and auditors, (3) provide for directly reporting fraud and serious ERISA violations to the Department of Labor, and (4) require peer review of plan auditors. (GAO/AFMD-92-14)

In recent years, well-publicized cases of financial irregularities in many companies and financial institutions (such as those in the savings and loan industry) have raised serious questions about corporate accountability, the effectiveness of corporate governance and regulation, and the adequacy of audit requirements. We have supported congressional efforts to amend banking laws and securities laws to increase both management's and the auditor's responsibilities for detecting and reporting irregularities. We have recommended that SEC (1) ensure that managers of public companies publicly report on their responsibilities for financial statements and internal controls, (2) require the auditor to review and publicly report on the management report, and (3) adopt a requirement for public companies to establish audit committees. (GAO/AFMD-89-38)

Legislative Branch Operations

In the first-ever attempt to audit the financial operations of the Library of Congress, we recommended that the Librarian of Congress develop an overall financial management improvement plan in order to address weaknesses in financial management operations and the Library's ability to account for and control its collection of an estimated 89 million books and other materials. While a plan has been developed, it has not yet been fully implemented. (GAO/AFMD-91-13)

Mandated Audits

Because there is concern that IGs who use the legal services of counsels located in their agencies' Offices of General Counsel may have impaired independence, we recommended that the IGs at the Treasury Department and FEMA either locate their principal legal advisors within their offices or implement memorandums of understanding with their agencies' General Counsels. These memorandums should contain requirements and conditions similar to those found in the memorandums of other OIGs that obtain legal services from their Offices of General Counsel. (GAO/OGC-95-15)

Information
Resources
Management - Policies
and Issues Area
(Budget Function 990)

GAO Contact: Christopher Hoenig, 202/512-6406

Impact of GAO's Work

Our work focuses on strategic, enterprise-level issues designed to increase the control and risk-adjusted return on the government's annual \$26 billion investment in information technology and related activities. To support this objective, we promote improved management practices in four areas: strategic information management (SIM), business process reengineering, information technology (IT) investment, and data and network management. Our work involves

- developing and supporting widely applicable standard methodologies to increase the capability of our evaluators to engage in these areas,
- addressing the specific needs of congressional decisionmakers on IT issues and legislative initiatives,
- working with the central oversight agencies to institutionalize the principles of sound information management,
- working with federal departments and agencies to implement improved information management practices, and
- reinforcing agencies' accountability for using technology investments to reduce the cost of government and improve service to the American people.

To date, our work has been instrumental in (1) building and establishing criteria for strategic information management principles and practices and (2) transferring knowledge and techniques to federal agencies and the oversight community. Most notably, we have helped establish a defined set of strategic information management practices in our report entitled Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology. OMB has incorporated our strategic information practices into its latest revision of Circular A-130, "Management of Federal Information Resources," which establishes major governmentwide policies for managing information technology. We have

also released an exposure draft of our Strategic Information Management Self-Assessment Toolkit for agencies to use in assessing the effectiveness of their existing information management practices.

In fiscal year 1995, our accomplishments included the following:

- Five federal agencies have completed self-assessments of their existing information management practices using an exposure draft of our Strategic Information Management Self-Assessment Toolkit. In each case, management actions plans, designed to address weaknesses unveiled by the self-assessments, have been produced.
- We have worked with OMB in preparing a governmentwide executive guide entitled Evaluating Information Technology Investments: A Practical Guide. The guide is designed to assist agency and OMB staff in creating and evaluating a portfolio of information technology investments. The guide is in final clearance stages and is expected to be issued in November 1995.
- Numerous other federal, state, and local public agencies have contacted us to obtain copies of our SIM Self-Assessment Toolkit. To date, we have distributed over 2,000 copies of the assessment guide and have been contacted by dozens of federal agencies who have indicated they are expecting to conduct assessments.
- We helped facilitate a nationwide SIM self-assessment involving over 70 IRS participants using our toolkit. Using the results from this assessment, IRS issued a comprehensive action plan for correcting management and technical weaknesses affecting the success of TSM, including establishing IT investment selection, control, and evaluation processes, developing IRM performance measures based on corporate objectives, and defining critical IRM training and skills needs. These actions, if successfully implemented, should significantly strengthen the management of IRS' multibillion dollar TSM initiative.
- We continue to brief senior executives in industry and government on the strategic information management approach outlined in our May 1994 report, Executive Guide: Improving Mission Performance Through Strategic Information Management. We have given key addresses at five major governmentwide conferences this year on our work in business process reengineering, strategic information management, and IT investment controls.

- Our testimonies before the Congress highlighted the huge opportunities offered by reengineering and modern technology to reduce federal costs while improving the quality of government services.
- We provided the Congress with a governmentwide breakdown of IT investments and highlighted large, multimillion dollar IT projects that are at risk of not meeting their cost, schedule, or performance expectations.
- In August, we published an exposure draft of our Business Process Reengineering Assessment Guide. This audit methodology is a key element in building our capacity to evaluate federal agencies' use of reengineering to achieve dramatic improvements in cost and quality by redesigning outmoded work processes with the aid of information technology.
- We have helped strengthen the current legislative foundation for IRM by working with the Senate Governmental Affairs Committee to get key strategic information management provisions added to the Paperwork Reduction Act, the primary statute that establishes governmentwide policy for IRM. These provisions include changing the focus of the law to (1) applying information resources to support the accomplishment of agency missions, (2) managing information systems projects as investments, and (3) integrating agency planning, budgeting, and evaluation processes. The amended act was signed into law by the President on May 22, 1995 (Public Law 104-13).
- We are also working to strengthen the legislative foundation related to the acquisition and management of IT by working on the Information Technology Management Reform Act with the Senate Governmental Affairs' Subcommittee on Oversight of Government Management and the District of Columbia. The bill would (1) establish new management mechanisms for IT investments and performance measures, (2) require agencies to establish chief information officers, and (3) repeal the "Brooks Act."
- We provided suggestions, which were adopted by OMB, for better integrating information security review requirements prescribed in OMB's newly revised Circular A-130, Appendix III, "Security of Federal Automated Information Systems," with financial audit requirements included in the CFO Act.
- We developed an exposure draft of our methodology for evaluating computer-related controls that we expect will serve as a companion to our

**Chapter 5
Financial and Information Management and
Evaluation Programs**

**Financial Audit Manual and, thus, support our efforts and those of the IGS
to more efficiently perform financial statement audits.**

**Key Open
Recommendations**

None.

**Program Evaluation
and Methodology
Issue Area (Budget
Function 090)**

GAO Contacts: Kwai-Cheung Chan, 202/512-3092
Mary Hamilton, 202/512-2900

Impact of GAO's Work

Congressional committees require evaluative information on federal government programs and issues, and they look to the congressional agencies, including GAO, to provide it. Sound program evaluations are also valuable tools for better management in government. To help improve the quality of evaluative information available to the Congress and to federal agencies, we evaluate various agencies' programs, usually at the request of congressional committees. These studies generally fall into one of three areas - (1) Program Effectiveness or Quality, (2) Government Evaluation Capability and Performance, (3) Methodology Development and Review.

In many evaluation reports, we make recommendations to agency officials to (1) correct problems identified in existing programs, (2) identify new methodological approaches which will improve analytical efforts, (3) improve the quality of information they are collecting and analyzing, and (4) develop more fully their own capability to perform high-quality program evaluations. Thus, though these studies are often used initially by the Congress in its deliberations on specific programs, they are also intended to bring about improvements by the agencies as well.

In some cases, our program evaluations have provided demonstrations of novel or substantially improved designs for evaluating or measuring the extent of program effectiveness or answering evaluation questions of general interest. Thus, the results of our work have frequently helped others in the evaluation field perform their work.

**Key Open
Recommendations**

**National and Public Health
Issues**

The Congress has established a funding set-aside to assure that the Public Health Service programs are adequately evaluated. We found that this effort to develop evaluative information to inform the Congress has not realized its potential. More work needs to be done to synthesize evaluation information by program area to effectively communicate program results. (GAO/PEMD-93-13)

Our evaluation of Medicare denial rates for medical necessities found significant regional variation, which could not be explained by random denial patterns. We identified several steps which are required to achieve consistency and effective oversight of carrier denials. For effective classification of denials, improvement of the screening process for claims is required. In order to reduce denied claims, HHS should identify and eliminate the population of applicants which consistently submits claims that are denied. (GAO/PEMD-95-10)

The Centers for Disease Control has established a large program to distribute vaccines to children; the intent of the program is to assure immunization of children to serious disease. Our evaluation of the program found that a reexamination of program goals and the quality of the program's implementation is needed to assure that vaccine is being provided to children at need. We concluded that Congress should consider refocusing the program's goals from improvement of general immunization rates to achieving higher rates in "pockets of need" and focus the program on children who are at greatest risk for delayed immunization. (GAO/PEMD-95-22).

Peer Review of Grant Proposals

We examined grant selection in three federal agencies that use peer review - NIH, NSF, and the National Endowment for the Humanities (NEH). We found that the rating of grant proposals was related to gender at all the agencies and to race at the NSF. We also found at all the agencies that an applicant's track record was related to scores. Of the recommendations we made, one in particular has not been addressed: the agencies should increase the monitoring of discrimination, including tests comparing blind to conventional reviews, to ensure that gender, race and ethnic discrimination are not affecting scores provided by peer reviewers. (GAO/PEMD-94-1)

Computer Matching

Government agencies have conducted computer matching programs in recent years in an effort to stem waste, fraud, and abuse in federal benefit programs. To provide improved analyses of these programs and to protect individuals' privacy, the Congress passed the Computer Matching and Privacy Protection Act of 1988. Concerned about how agencies have implemented this act, we conducted a comprehensive evaluation. We found that the cost-benefit analyses being conducted need improvement. We recommended that OMB expedite the publication of minimum standard criteria for cost-benefit analyses and specify which cost and benefit elements must be included. While some actions have been taken to

address the intent of this recommendation, others have not yet been completed. (GAO/PEMD-94-2)

Pollution Prevention

Our evaluation identified 105 state pollution prevention programs nationwide and found major differences in how these state programs are operated. Both regulatory and nonregulatory programs exist. We found that many state programs claiming to conduct pollution prevention activities were inordinately involved in waste recycling, treatment, and/or disposal. Many state programs evaluate the progress of their program activities. The indicators used to monitor progress vary greatly, however, and many do not sufficiently document how well programs are working. In addition, the methods used invite respondent bias. Finally, the data are unsuitable for aggregating nationally, and they also do not allow the determination of pollution prevention program effectiveness, even at the state level.

We recommended, among other things, that the EPA Administrator ensure that state pollution prevention programs emphasize source reduction; improve data collection processes such that state programs can be evaluated; establish criteria within the related grant program for measuring the success of source reduction efforts undertaken. Several recommendations have still not been addressed. (GAO/PEMD-94-8)

Water Pollution: Control of Toxic Substances

EPA implements the control of toxic pollutant discharges into waterways through seven "core" activities spread across a number of programs. We identified 13 types of information required to analytically support these 7 activities and found that 5 fell short in implementing the quality assurance steps needed to produce accurate information. Also, the current permit process does not limit the vast majority of toxics being discharged from the nation's facilities. Although most of these toxics are "nonpriority" pollutants, they can and do pose human health and aquatic life risks. Finally, we attempted to evaluate the risk implications of uncontrolled pollution cases identified, but the majority of cases could not be evaluated because the criteria were lacking to assess whether discharges posed an unacceptable risk. We recommended that the EPA Administrator (1) initiate immediate efforts to address the information quality assurance problems we had identified in the five toxic control activities and (2) expand the use of the Toxics Release Inventory data base to identify nonpriority pollutants being discharged to water that should be considered for control through the permit process. (GAO/PEMD-94-9)

**Food and Drug Administration
User Fees**

The Congress passed the Prescription Drug User Fee Act of 1992 to authorize user fees that would “provide the FDA with sufficient additional resources to significantly expedite the drug approval process.” A critical question is whether the act has allowed safe and effective new drugs to become available to patients earlier than they were available before user fees were collected. The legislation requires the Food and Drug Administration (FDA) to report to the Congress annually on changes in the amount of time that drug applications are under review at the agency. However, reductions in the amount of “FDA review time” do not necessarily translate into drugs becoming available to the public more quickly. Therefore, we recommended that FDA include “time to market” in its annual report to Congress, as well as take other initiatives. FDA has not yet addressed all our recommendations. (GAO/PEMD-94-26)

Operation Desert Storm

Our report addressed the possibility that U.S. veterans of the Persian Gulf War may be experiencing reproductive dysfunction as a result of their service in the war. Steps taken before, during and after the war did not identify various potential reproductive toxic substances we found to be present during the war. Also, the activities undertaken to monitor servicemen and servicewomen for reproductive dysfunction after the war have major shortcomings. Therefore, we recommended that (1) the Secretary of VA use a revised questionnaire to reregister the more than 20,000 Gulf War veterans who had already responded to an earlier, significantly less complete questionnaire and (2) the Secretary of Defense undertake actions to make additional scientific inquiry into possible causes of the problem, collect additional baseline data to help identify the existence of potential current and future problems and develop procedures to better inform and protect U.S. servicemen and servicewomen in the future. (GAO/PEMD-94-30)

Quick Reference—Electronic Edition

Introduction:

This electronic edition contains the details for GAO's open recommendations. This PC-based software allows you to use several text search and retrieval options to find either summaries of key open recommendations or the details of open recommendations.

How to Install:

To load the software on your hard drive (7.5MB required):

1. Place program disk 1 in your disk drive.
2. Type the drive designation of your drive and the word "INSTALL".

For example, type "B:INSTALL". Press <Enter>.

3. Follow the instructions on the screen.
4. If you are updating a previous version, the install program will replace the old files with new ones.

Notes: 1. The default subdirectory is \OPENREC.
2. Disk 2 of 2 is the "LAST" disk.

How to Start:

To run the program:

1. Change to the drive and subdirectory where the software has been loaded.

Type "C:". Press <Enter>. Type "CD\OPENREC". Press <Enter>. Type "OR". Press <Enter>.

2. When the Introductory Menu is displayed, highlight an option to learn more about this program. Press <Enter>.

How to Search:

You may search for open recommendations by using report number, title, date, name of a federal entity, congressional committee, name of GAO's point of contact, or any other word or phrase that may appear in the report.

To perform this search, use the numerous options provided on several search menus. Most menus have similar options and require the following general steps:

1. Start at the Introductory Menu, highlight “MAIN”. Press <Enter>.
2. At the Main Search Menu, highlight the option to locate the information you want. (See Search Options.) Press <Enter>.
3. At the next menu, indicate how much information you want to extract and where you want the output to go. (Figure 1 shows the menu screen.) Press <Enter>.

Figure 1. Output Menu Options

	Output Destination		
	Screen	Printer	File
1. Report: title	:A	:E	:I
2. Report: title and hit count	:B	:F	:J
3. Report: title and abstract	:C	:G	:K
4. Full information, including recommendations	:D	:H	:L
IHELP			
MAIN!OPTION			

Note: Menu provides information in ascending order, with least detail provided first, most detail in fourth menu option. However, full information on a selected report, including recommendations, is available from all menu options.

4. To perform the search, type a word or phrase. Press <Enter>.

The most recent report is listed first.

5. To review the open recommendations for a specific report shown on the list of titles, highlight the “REPORT NUMBER”. Press <Enter>.

6. Use the <PgDn> and arrow keys to scroll through the open recommendations and related information.

7. When using special lists to narrow a search (see Search Options), you perform the search (in step 4 above) by displaying the special list. Type a word or phrase to get a subset of relevant terms or type “ALL” to get the entire list of terms. Press <Enter>.

Second, highlight your desired term on the list. Press <Enter>.

8. To rerun your last search after selecting another output option, press <Enter> without entering new search words.

Notes on Figure 1

1. Menu option 2 takes longer but will give you a count of the reports meeting your search criteria.
2. Menu option 4 directly provides the open recommendations and related information for the most recent report that meets your search criteria. Additional reports will follow in the order they were issued.
3. If chosen, output can be sent to the printer at LPT1.
4. If chosen, output can be sent as ASCII text to the disk file that you designate.

Search Options:

Report Summary—Open Search:

The Main Search Menu includes eight options to help you narrow or expedite your search.

Allows you to locate open recommendations using a report number, title, date, job code, or any other word or phrase that may appear in the report.

This includes “!OPTIONS” that provides a way to obtain custom askSam queries and reports (for those who know the askSam programming language).

Issue Area Summary Search:

Allows you to identify the impact of GAO’s work and key open recommendations that deserve priority. You may search using key words or a table of contents.

GAO Thesaurus Terms Search:

Allows you to locate open recommendations using terms indexed to major subjects in GAO reports.

Congressional Committees Search:

Allows you to locate open recommendations by the congressional committee or subcommittee having primary interest in or jurisdiction over subjects discussed in GAO reports.

Recommendation Addressees Search:

Allows you to locate open recommendations that were addressed to a specific executive department, agency, or congressional committee.

GAO Issue Areas Search:	Allows you to locate open recommendations by GAO's programming issue areas within its operating divisions.
Requester (Member's Name) Search:	Allows you to locate open recommendations that have been requested by a specific congressional member.
Requester (Committee) Search:	Allows you to locate open recommendations that have been requested by a congressional committee.

How to Refine Searches:

To refine a search, you can use the following:

1. To look for a phrase in the exact order, enclose your search words in "[]".
2. You can use wildcard characters to substitute for a single character or a group of characters.

"*" can represent a group of characters. For example, use "ACCOUNT*" to get ACCOUNTING, ACCOUNTANT, and ACCOUNTS.

"?" can represent a single character. For example, use "F-1?" to get F-15, F-16, and F-18.
3. Combine search words or phrases with connectors—"{and}"; "{or}"; "{not}"—to narrow or broaden a search.

Note: Do not type the quotation (" ") marks.

How to Quit

1. The Escape key (i.e., "Esc") may be used at any time to cancel a search or backup to a previous menu.
2. To quit this program and return to the DOS prompt (at any menu option), highlight "QUIT". Press <Enter>.

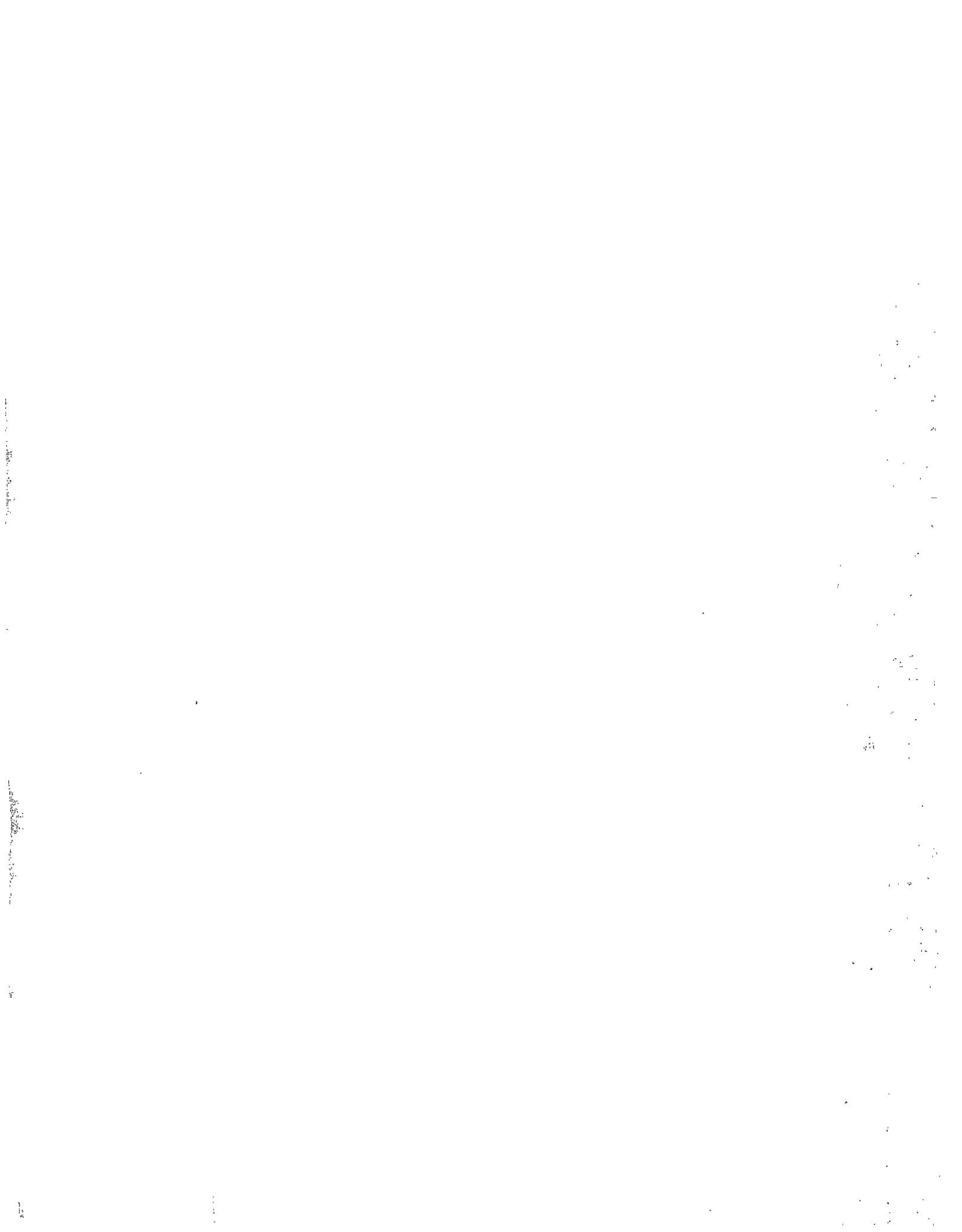
How to Get Help:

1. At the Introductory Menu, highlight "How to use this software". Press <Enter>.
2. On any menu screen, highlight "!HELP". Press <Enter>.

3. Technical support is available from:

Lawson "Rick" Gist, Jr.
Assistant Director
GAO, Office of Policy

Voice (202) 512-4478
Fax (202) 512-4844



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