



**Comptroller General
of the United States**

Washington, D.C. 20548

B-282357

April 12, 1999

The Honorable Dan Burton
Chairman
Committee on Government Reform
House of Representatives

Subject: High-Risk Series: Recommendations Need to be Implemented

Dear Mr. Chairman,

This responds to your February 23, 1999, letter asking for a listing of open recommendations to help solve problems in areas we have designated high-risk. You also asked that we include a reference to the source and date of those recommendations and the status of agency actions to implement our suggestions. Finally, you asked that we identify any legislative recommendations that could further assist in fully addressing these high-risk problems.

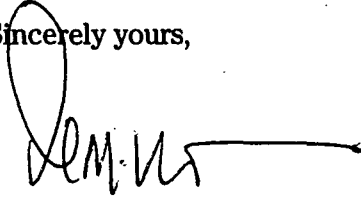
Annually, we conduct a comprehensive update on the implementation status of all open recommendations. The most recent update was completed in the fall of 1998, and our responses are based on data from that update, unless we have more current information or have made new recommendations.

As indicated in my February 10, 1999, testimony before you, our most recent update indicates that there were more than 700 open recommendations in the 26 areas in our latest High-Risk Series. As agreed with your office, for those areas with numerous open recommendations, we have focused on those recommendations that are most important to solving the high-risk problem (generally 10 to 12 per area), and briefly summarized the essence of the other recommendations. For many recommendations, agencies have indicated their agreement and intent to implement. In some cases, actions are underway and progress is being made, while in others, implementation has not yet begun. In some instances agencies disagreed with our recommendations and do not plan to take action. To maximize the utility of the information, we have kept our comments on agency actions brief. For each recommendation, we provide a point of contact to work with your office and provide additional information as needed.

While none of the recommendations listed call for legislation, the Congress has enacted a number of legislative initiatives over the years aimed at resolving problems in high-risk areas such as Medicare, Farm Loan Programs, and Asset Forfeiture Programs. More broadly, the Congress has put in place a statutory framework to address the kinds of recurring problems contributing to high-risk issues and to instill performance-based management into federal agencies. This framework includes the Chief Financial Officers (CFO) Act and related financial management legislation, the Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995, and the Government Performance and Results Act of 1993. Also, the Congress is currently considering legislation that would deal with the Supplemental Security Income high-risk area.

We look forward to working with you on resolving these problems. If you or your office have any further questions or would like to discuss any of the issues in more detail, please call me at (202) 512-5500 or the GAO contact points for the specific recommendations.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'DMW', with a long horizontal line extending to the right.

David M. Walker
Comptroller General
Of the United States

Enclosures

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High-Risk Area: Year 2000 Computing Challenge

Description of high-risk area: The Year 2000 computing problem is a pervasive, time-critical risk. With the government's widespread dependence on large-scale, complex computer systems to deliver vital public services and carry out its massive operations, unless adequate actions are taken, key federal operations--national defense, benefit payments, air traffic management--could be seriously disrupted. Over the past 2 years, the government has revamped and intensified its approach to this problem. In February 1998, the President established a Year 2000 Council, and both the House and the Senate have been relentless in addressing the state of readiness in government and the private sector through hearings, emergency funding, and legislation. While preparedness has improved markedly, significant challenges remain and time is running out. The President's Year 2000 Council also has been working to increase awareness in the private sector, state and local governments, and other countries.

We have issued over 90 reports and testimonies containing well over 100 recommendations related to the Year 2000 problem, mostly aimed at individual agencies, but some applying governmentwide. These recommendations, which have been almost universally embraced, have centered on project planning, priority-setting, data exchanges, testing, and business continuity and contingency plans. Recent work at key agencies such as DOD, SSA, IRS, FAA, and the Health Care Financing Administration found that they have implemented our recommendations or were in the process of implementing them. We also issued several Year 2000 recommendations to the Chair of the President's Council on Year 2000 Conversion. In April 1998, we recommended that the Council use a sector-based approach and establish the effective private/public partnerships necessary to address this issue. The Council subsequently established over 25 sector-based working groups. The Council also formed a Senior Advisory Group composed of representatives from private sector firms across key economic sectors. We also recommended that the Council develop a comprehensive picture of the nation's Year 2000 readiness, which would include identifying and assessing the risks of the nation's key economic sectors. In January 1999, the Council issued its first quarterly summary of assessment information of key economic sectors. The following table provides information on two key governmentwide Year 2000 recommendations that are outstanding.

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GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-98-85 April 30, 1998</p>	<p>The Chairman of the President's Council on Year 2000 Conversion should establish governmentwide priorities, and ensure that agencies set agencywide priorities, for the most mission-critical business processes and supporting systems.</p>	<p>The Chair of the President's Council on Year 2000 Conversion has stated that agencies have established priorities by identifying their mission-critical systems and that the Council's focus should be to assist agencies as they work to ensure that all of their mission-critical systems are ready. However, the Chair and OMB have recently begun efforts to identify priority business processes that could implement this recommendation. For example, on March 26, 1999, OMB identified 40 high impact federal programs and directed the lead agencies for those programs to submit a plan to ensure that the programs continue to operate effectively.</p>
	<p>The Chairman, President's Council on Year 2000 Conversion should, for the selected priorities, designate a lead agency to be responsible for ensuring that end-to-end testing of these processes and supporting systems occurs across organizational boundaries and that independent verification and validation of such testing has been performed.</p>	<p>The Chair of the President's Council on Year 2000 Conversion has stated that agencies are developing end-to-end testing plans and obtaining independent verification and validation for these systems. However, the Chair and OMB have recently begun efforts that could implement this recommendation.</p>

High-Risk Area: Resolving Serious Information Security Weaknesses

Description of high-risk area: Continuing computer security weaknesses put critical federal operations and assets at great risk. Such problems make it easier for individuals and groups to obtain sensitive information, commit fraud, or disrupt operations. Federal agencies rely on computers and electronic data to perform functions that are essential to the national welfare and directly affect the lives of millions of individuals. More and more, these functions, which include national defense, tax collection, benefits payments, and law enforcement, depend on automated, often interconnected, systems and on electronic data rather than on manual processing and paper records.

In addition to the 18 recommendations discussed below, there are about 40 other open recommendations pertaining to specific control weaknesses at the Departments of State and Veterans Affairs, the Internal Revenue Service, the Federal Aviation Administration, the Department of the Treasury's Financial Management Service and Bureau of Public Debt, the Federal Reserve Bank, the Defense Manpower Data Center, and the District of Columbia Government. Some of these recommendations cite multiple detailed weaknesses, some of which have been corrected. GAO will be conducting follow up work to identify the status of agency efforts to implement these recommendations.

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GAO Report No. and Date	Recommendation	Agency Action
AIMD-97-128 Sept. 9, 1997	<p>The Secretary of Defense should ensure that the Defense Manpower Data Center develop (or modify) and implement security policies and procedures to ensure that: (1) all users are authorized and have only the necessary access to facilities and data; (2) such access is reviewed periodically and removed promptly when warranted; and (3) access violations are researched. (This recommendation pertains to improving controls over the Military Retirement Trust Fund.)</p>	<p>Organization is in early stages of developing a policy.</p>
	<p>The Secretary of Defense should ensure that the Defense Manpower Data Center develop and implement comprehensive change management procedures governing changes to both the Fund's application programs and related operating systems.</p>	<p>Organization plans to implement change control software in the near future.</p>
	<p>The Secretary of Defense should ensure that the Defense Manpower Data Center design, develop, test, and implement a comprehensive disaster recovery plan.</p>	<p>A plan is currently being developed.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-98-30 Dec. 15, 1997</p>	<p>The Director of the Office of Information Systems (District of Columbia Government) should strengthen physical security over the facilities, system, and data by controlling all physical access to local area network (LAN) centers and protecting all backup files.</p>	<p>The D.C. Government's Chief Financial Officer said that the District was in the process of developing a new or revised Financial Management System and that computer system issues, such as security access, segregation of duties, and a disaster recovery plan are major issues being addressed during the Financial Management Systems implementation process. We plan to review the implementation process.</p>
	<p>The Director of the Office of Information Systems (District of Columbia Government) should strengthen logical security and better control the access to data and systems by conducting a security risk analysis, restricting access to security functions, maintaining security access files, and applying LAN modification updates uniformly.</p>	<p>The D.C. Government's Chief Financial Officer said that the District was in the process of developing a new or revised Financial Management System and that computer system issues, such as security access, segregation of duties, and a disaster recovery plan are major issues being addressed during the Financial Management System implementation process. We plan to review the implementation process.</p>
<p>AIMD-98-92 Sept. 23, 1998</p>	<p>The Director of the Office of Management and Budget and the Assistant to the President for National Security Affairs should ensure that the various existing and newly initiated efforts to improve federal information security are coordinated under a comprehensive strategy.</p>	<p>These organizations have begun to coordinate their activities. Most notably, the new Critical Infrastructure Assurance Office has begun to work with the CIO Council's Security Committee and GSA. In addition, officials from these entities are trying to present a consistent message to the federal community by participating together in various conferences. We will continue to monitor these efforts as the year progresses.</p>

GAO Report No. and Date	Recommendation	Agency Action
AIMD-98-145 May 18, 1998	The Department of State should establish a central information security unit and assign it responsibility for facilitating, coordinating, and overseeing the department's information security activities. In doing so, State should assign the Chief Information Officer (CIO) the responsibility and full authority for ensuring that the information security policies, procedures, and practices are adequate.	State has agreed to establish a central security unit and is in the process of determining what organization will have that responsibility.
AIMD-98-155 May 18, 1998	The Secretary of Transportation should direct the Administrator, FAA, to develop and execute a plan to inspect the 187 air traffic control (ATC) facilities that have not been inspected in over 4 years and correct weaknesses identified so that these ATC facilities can be granted physical security accreditation as expeditiously as possible, but no later than April 30, 1999.	On February 23, 1999, FAA agreed with this recommendation and stated that it had just recently initiated action to address it.
	The Secretary of Transportation should direct the Administrator, FAA, to correct identified physical security weaknesses at inspected facilities so that these ATC facilities can be granted physical security accreditation as expeditiously as possible, but no later than April 30, 1999.	On February 23, 1999, FAA agreed with this recommendation and stated that it had just recently initiated action to address it.

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of Transportation should direct the Administrator, FAA, to establish an effective management structure for developing, implementing, and enforcing ATC computer security policy.</p>	<p>On February 23, 1999, FAA agreed with this recommendation and stated that it had just recently initiated action to address it.</p>
<p>AIMD-98-175 Sept. 23, 1998</p>	<p>The Secretary of Veterans Affairs should direct the VA CIO to work in conjunction with the Veteran Benefit Administration (VBA) and Veterans Health Administration (VHA) CIOs and the facility directors, as appropriate, to limit access authority to only those computer programs and data needed to perform job responsibilities and review access authority periodically to identify and correct inappropriate access.</p>	<p>VA is in the process of completing corrective action.</p>
	<p>The Secretary of Veterans Affairs should direct the VA CIO to work in conjunction with the VBA and VHA CIOs and the facility directors, as appropriate, to implement identification and password management controls across all computer platforms to maintain individual accountability and protect password confidentiality and test these controls periodically to ensure that they are operating effectively.</p>	<p>VA is in the process of completing corrective action.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of Veterans Affairs should direct the VA CIO to work in conjunction with the VBA and VHA CIOs and the facility directors, as appropriate, to require operating system software changes to be documented, authorized, tested, independently reviewed, and implemented by a third party.</p>	<p>VA is in the process of completing corrective action to ensure that one individual cannot independently authorize, test, and implement software changes.</p>
<p>AIMD-99-10 Oct. 20, 1998</p>	<p>The Secretary of the Treasury should direct the Commissioner of Financial Management Service (FMS) and the FMS Information Resources Assistant Commissioner to correct the individual weaknesses that GAO identified and communicated to FMS management during GAO's testing, which were summarized in a "Limited Official Use" report.</p>	<p>Treasury agreed with our recommendations and stated that FMS has planned or has already taken actions to correct many of the individual weaknesses identified. We will evaluate FMS's efforts to address these matters during our audit of the federal government's FY 1999 consolidated financial statements.</p>
	<p>The Secretary of the Treasury should direct the Commissioner of FMS and the FMS Information Resources Assistant Commissioner to work with other appropriate assistant commissioners to ensure that an effective entity-wide security planning and management program is in place.</p>	<p>Treasury agreed with our recommendations and stated that FMS has planned or already taken actions to correct many of the individual weaknesses identified. We will evaluate FMS's efforts to address these matters during our audit of the federal government's FY 1999 consolidated financial statements.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-99-38 Dec. 14, 1998</p>	<p>The Commissioner of Internal Revenue should direct the Chief Information Officer and Director of the Office of Systems Standards and Evaluation to work in conjunction with the facility directors as appropriate to continue efforts to implement appropriate control measures to limit physical access to facilities, computer rooms, and computing resources based on job responsibility.</p>	<p>IRS has corrected a large percentage of the systems weaknesses that we had previously reported, and we verified that these corrective actions were implemented. However, we continue to identify additional problems. IRS has agreed with our new recommendations and stated that it is taking additional corrective actions. We will review actions to address both new and previous recommendations as part of our audit of IRS' FY 1999 financial statements.</p>
	<p>The Commissioner of Internal Revenue should direct the Chief Information Officer and Director of the Office of Systems Standards and Evaluation to work in conjunction with the facility directors as appropriate to continue efforts to limit access authority to only those computer programs and data needed to perform job responsibilities and review access authority regularly to identify and correct inappropriate access.</p>	
	<p>The Commissioner of Internal Revenue should ensure that IRS completes the implementation of an effective servicewide computer security management program. This program should include procedures for assessing risks for all of IRS' facilities, networks, major systems, and taxpayer data on a regular, ongoing basis to ensure that controls are adequate.</p>	

High-Risk Area: Air Traffic Control Modernization

Description of high-risk area: Faced with rapidly growing traffic volume and aging equipment, the FAA initiated an ambitious air traffic control (ATC) modernization program in 1981. This effort involves acquiring new air traffic control facilities as well as a vast network of radar, automated data processing, navigation, and communications equipment, with an expected total cost of \$41 billion through 2004. Over the past 17 years, the modernization program has experienced cost overruns, schedule delays, and performance shortfalls of large proportions. Our work has pinpointed solutions to address root causes of such problems.

GAO has made many recommendations for addressing problems at FAA. Currently, there are 22 open recommendations related to systems architecture, software acquisition capabilities, cost estimating and accounting practices, computer security, and an at-risk system development effort. The 10 key recommendations are discussed below.

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GAO Report No. and Date	Recommendation	Agency Action
AIMD-97-30 Feb. 3, 1997	The Secretary of Transportation should direct the FAA Administrator to ensure that a complete ATC systems architecture is developed and enforced expeditiously before deciding on the architectural characteristics for replacing the Host Computer System.	FAA is working to develop a complete systems architecture. We are continuing to monitor FAA's progress in addressing this recommendation.

GAO Report No. and Date	Recommendation	Agency Action
AIMD-97-30 Feb. 3, 1997	The Secretary of Transportation should direct the FAA Administrator to establish an effective management structure for developing, maintaining, and enforcing the complete ATC systems architecture. Specifically, the Administrator should (1) assign the responsibility and accountability needed to develop, maintain, and enforce a complete ATC systems architecture to a single FAA organizational entity, (2) provide this single entity with the resources, expertise, and budgetary and/or organizational authority needed to fulfill its architectural responsibilities, and (3) direct this single entity to ensure that every ATC project conforms to the architecture unless careful, thorough, and documented analysis supports an exception.	FAA recently hired a CIO who reports directly to the Administrator. This is a good first step toward establishing an effective management structure for developing, maintaining, and enforcing the complete ATC systems architecture. We are continuing to monitor FAA's progress in addressing this recommendation.
AIMD-97-47 March 21, 1997	To improve FAA's software acquisition capability for its ATC modernization, the Secretary of Transportation should direct the FAA Administrator to require that, before being approved, every ATC modernization acquisition project has software acquisition processes that satisfy at least Software Acquisition Capability Maturity Model (SA-CMM) level 2 requirements.	FAA has not yet required that every new acquisition project satisfy at least SA-CMM level 2 requirements. In responding to this recommendation, FAA stated that it intended to identify specific process areas for appropriate acquisition programs that are the most critical, or represent the areas of greatest acquisition risk for those programs. We are continuing to monitor FAA's progress in addressing this recommendation.

GAO Report No. and Date	Recommendation	Agency Action
AIMD-97-20 Jan. 22, 1997	<p>The Secretary of Transportation should direct the FAA Administrator to institutionalize defined processes for estimating ATC projects' costs. These processes should include a corporate memory (or historical database) which includes cost and schedule estimates, revisions, reasons for revisions, actuals, and relevant contextual information.</p> <p>The Secretary should also direct the Administrator to immediately begin disclosing the inherent uncertainty and range of imprecision in all ATC projects' official cost estimates presented to executive oversight agencies or the Congress.</p>	<p>FAA has developed a standard work breakdown structure, which is to be the basis for its corporate memory. We are continuing to monitor FAA's progress in addressing this recommendation.</p> <p>FAA has developed draft guidance instructing project managers to disclose the inherent uncertainty of project cost estimates in presentations to executive oversight agencies and the Congress. We are continuing to monitor FAA's progress in addressing this recommendation.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary should direct the Administrator to acquire or develop and implement a managerial cost accounting capability that will satisfy the requirements of Statement of Federal Accounting Standard (SFFAS) No.4, Managerial Cost Accounting Concepts and Standards for the Federal Government. This system capability should provide the cost accounting and financial management information needed by FAA management and those who make investment decisions. Such information should include full life cycle costs, which include the costs of resources consumed by a project that directly or indirectly contributes to the output and the costs of identifiable supporting services provided by other organizations within the reporting entity.</p>	<p>FAA is acquiring a cost accounting system. Once this system is in place, we will determine if it meets the requirements of SFFAS 4.</p>
<p>AIMD-98-155 May 18, 1998</p>	<p>To improve security for future ATC modernization systems, the Secretary of Transportation should direct the FAA Administrator to ensure specifications for all new ATC systems include security requirements based on detailed security assessments by requiring that security requirements be included as a criterion when FAA analyzes new systems for funding under its acquisition management system.</p>	<p>FAA agreed with our recommendation and stated that it is revising its security orders to provide enhanced guidance for addressing security through the acquisition management system process. We will review this revised order when it is completed.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>To improve security for future ATC modernization systems, the Secretary of Transportation should direct the FAA Administrator to ensure that the National Airspace Systems Information Security Group establishes detailed plans and schedules to develop a security architecture, a security concept of operations, and security standards and that these plans are implemented.</p>	<p>FAA agreed with this recommendation and reported that it intends to enhance available guidance for system and information system security. FAA also noted that it would establish specific actions and milestones once the new CIO position was filled and the CIO's office staffed. The CIO position was recently filled and the office is being staffed. We will continue to review FAA's progress in addressing this recommendation.</p>
<p>RCED-98-79 April 30, 1998</p>	<p>To assist Congress in making future funding decisions for the Wide Area Augmentation System (WAAS), the Secretary of Transportation should direct the FAA Administrator to provide to Congress a detailed explanation of the agency's strategy for leasing geostationary satellites.</p>	<p>FAA is analyzing alternatives for acquiring additional WAAS satellites. These analyses will help determine the agency's strategy for leasing additional satellites.</p>
	<p>To assist Congress in making future funding decisions for WAAS, the Secretary of Transportation should direct the FAA Administrator to provide to the Congress an updated benefit-cost analysis, including a comparison with alternative investments of FAA's resources and an explanation of the effects of including small increments of passenger time savings.</p>	<p>FAA is currently updating its benefit-cost analysis of WAAS. This analysis is to contain the effects of including small increments of passenger time savings.</p>

High-Risk Area: IRS' Tax Systems Modernization

Description of high-risk area: IRS has spent over \$3 billion during the last decade attempting to modernize its outdated, paper-intensive approach to tax processing. In 1995, we identified serious management and technical weaknesses in IRS' modernization that jeopardized its successful completion and made recommendations to address those weaknesses. Since 1995, we have reviewed IRS' actions to address our recommendations and made additional recommendations to help the Service effectively modernize its tax systems. Until IRS takes the actions needed to address management and technical weaknesses, its modernization effort will remain a high risk.

IRS agrees with and has actions underway to implement our recommendations. Specifically, in December 1998, IRS hired a Prime Systems Integration Services (PRIME) contractor to help the Service modernize its systems and address our recommendations. According to IRS' Chief Information Officer, the Service plans to use the PRIME to complete the modernization blueprint, as we recommended, and to account for (1) changes in system requirements and priorities caused by IRS' organizational restructuring and (2) changes to accommodate new technology and to implement the IRS Restructuring and Reform Act of 1998. The CIO also stated that IRS plans to establish disciplined life cycle management processes and structures and mature software development and acquisition capabilities before it begins building modernized systems.

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GAO Report No. and Date	Recommendation	Agency Action
AIMD/GGD-98-54 Feb. 24, 1998	To ensure that IRS develops a complete blueprint for modernizing its information systems, the Commissioner of	IRS is taking steps to implement these recommendations. For example, IRS is

GAO Report No. and Date	Recommendation	Agency Action
	<p>Internal Revenue should require the IRS CIO to complete the definition and implementation of all System Life Cycle (SLC) processes, including processes for ensuring disciplined software development and acquisition and for validating SLC products;</p> <p>(2) for each phase of the modernization, define business requirements and complete the architecture with sufficient detail and precision to build or acquire systems;</p> <p>(3) formulate a sequencing plan that specifies: (a) phase and release cost and schedule estimates; (b) projects that constitute the phases and releases; (c) project cost and schedule estimates; (d) project interdependencies; (e) the evolution of architectural subfunctions; and (f) the projects that replace legacy systems that are eliminated; and</p> <p>(4) validate the business requirements, architecture, and sequencing plan using the completed and implemented SLC processes.</p>	<p>working with the PRIME to define and implement a system life cycle by mid-1999, which is the process that IRS officials told us will be used to validate business requirements and other blueprint components. IRS and the PRIME are also studying alternative ways to reorder the development and deployment of projects in the sequencing plan. This study is scheduled to be completed by the end of March 1999. IRS officials have indicated that IRS will provide sequencing plan details for each project prior to developing and deploying systems.</p>
AIMD/GGD-98-54 Feb. 24, 1998	To ensure that the modernization blueprint is implemented and enforced agencywide, the Commissioner of the Internal Revenue should give the CIO	IRS has taken steps and has actions underway to implement this recommendation. Specifically, IRS is restructuring the Information Systems

GAO Report No. and Date	Recommendation	Agency Action
	<p>(1) responsibility for developing, implementing, and enforcing SLC processes and products across IRS; and</p> <p>(2) requisite budgetary and organizational authority over all IRS systems development, research and development, and maintenance activities.</p>	<p>(IS) organization to, among other things, provide the CIO the requisite responsibility and authority needed to ensure the modernization blueprint is implemented and enforced. The IS restructuring working group is analyzing the organization and developing recommendations with the goal of finalizing its work during the second quarter of calendar year 1999.</p>
<p>AIMD/GGD-98-54 Feb. 24, 1998</p>	<p>Until mature SLC processes for developing and acquiring systems have been implemented across IRS, the Commissioner should limit requests for future appropriations for information technology to only cost-effective efforts that (1) support ongoing operations and maintenance, including all efforts to make IRS systems year 2000 compliant; (2) support ongoing IRS efforts to instill requisite SLC discipline, including completing and enforcing the architecture, institutionalizing disciplined software development and acquisition processes, and improving its information technology investment management; (3) are small, represent low technical risk, and can be delivered in a relatively short time frame; or (4) involve deploying already developed systems, but only if these systems have been fully tested, are not premature given the lack of a completed architecture, and produce a proven, verifiable business value.</p>	<p>IRS has taken steps to implement this recommendation. The Service has generally limited its budget requests for information systems to these spending categories. The exception is the request to establish an information technology investment account for modernization. The Congress funded a portion of Treasury's request and limited IRS' ability to obligate account funds until certain conditions were met. These conditions include submitting to the Congress for approval an expenditure plan that (1) implements the blueprint, (2) complies with requirements of OMB's system investment guidelines, (3) passes reviews and approvals by OMB and Treasury's IRS Management Board, and (4) is reviewed by us.</p>

High-Risk Area: National Weather Service Modernization Program

Description of high-risk area: The National Weather Service began a nationwide modernization program in the 1980s to upgrade observing systems, such as satellites and radars, and to design and develop advanced forecaster computer workstations. We initially designated NWS modernization as high-risk in 1995, including its four major programs: the Next Generation Weather Radar (NEXRAD), the Next Generation Geostationary Operational Environmental Satellite (GOES-Next), the Automated Surface Observing System (ASOS), and the Advanced Weather Interactive Processing System (AWIPS). These programs collectively cost about \$4.5 billion. After substantial delays and cost overruns, three of the four programs are now operational. However, NWS modernization remains on our high-risk list because (1) the final piece--AWIPS--is not scheduled to be deployed until June 1999 and then with less than full functionality, and (2) NWS lacks an overall systems architecture.

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GAO Report No. and Date	Recommendation	Agency Action
AIMD-94-28 March 11, 1994	The Deputy Under Secretary for Oceans and Atmosphere should direct the new single manager or chief architect for modernization to develop a systems architecture that includes all weather forecasting and warning subsystems and be used as a guide in current and future subsystems development.	NWS management has not dedicated sufficient resources to this effort, but the Assistant Administrator for Weather Services recently told us that NWS plans to intensify its efforts to develop a systems architecture.

GAO Report No. and Date	Recommendation	Agency Action
AIMD-95-132 May 31, 1995	The Secretary of Commerce should direct the NOAA Assistant Administrator for Weather Services to begin analyzing and monitoring system availability data on a site-specific basis for its operational NEXRAD and correct any shortfalls in system availability that this analysis shows.	NWS continues to act on this recommendation by pursuing several planned activities to improve radar availability.

High-Risk Area: DOD Systems Development and Modernization Efforts

Description of high-risk area: DOD has taken steps to implement legislative requirements to institute modern information technology management practices. However, it faces a major challenge in changing its current organizational structure and culture, which impedes oversight and coordination of information resources from a departmentwide perspective. A prime example of DOD's poor management of information technology is its \$18 billion system migration effort to replace almost 2,000 duplicative and inefficient systems. One functional area of the migration effort, which we reported on in 1996, spent over \$700 million pursuing a substantially flawed effort—which was later abandoned—without rigorous department level oversight. In October 1997, we reported that the Department had little assurance that the migration systems being developed would help achieve DOD's technology goals. Effective information technology project planning and oversight are especially important as DOD moves to coordinate its thousands of decentralized command, control, communications, intelligence, surveillance, and reconnaissance systems in order to ensure information superiority over our nation's enemies. To this end, we made a number of recommendations that would establish and enforce processes to thoroughly examine alternatives and develop business cases before investing in new systems. Further, we recommended that system investments be consistent with department technical standards and that controls and performance measures be established to allow management "visibility" over system development efforts. Recommendations which are currently open are discussed below.

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GAO Report No. and Date	Recommendation	Agency Action
AIMD-98-5 Oct. 20, 1997	<p>To ensure that DOD's continued investment in migration systems provides measurable improvements in mission-related and administrative processes, the Secretary of Defense should require the Defense components to rank development/modernization migration systems justifications and complete them on an expedited basis.</p>	<p>DOD has stated that the issues we raised have been and will continue to be addressed as the Department implements reform legislation enacted over recent years. This legislation includes the Clinger-Cohen Act, the Federal Acquisition Streamlining Act, GPRA, and the Paperwork Reduction Act. DOD also stated that the Department "is in the process of formally incorporating the requirements of these Acts into [its] regulatory guidance and oversight processes...."</p>
	<p>The Secretary of Defense should require the Chief Information Officer (CIO) to review these justifications and certify that they include a business case of operational alternatives for each functional area that clearly demonstrates that continued development and deployment of the migration system is the best solution for improving performance and reducing costs in the functional area it serves, when compared to other available alternatives. The alternatives analyzed should include reengineering the functional area's processes before making investments in information systems and using, when appropriate, the private sector to perform major functions now performed by government personnel and information systems.</p>	<p>As stated in our February 25, 1999 testimony, <u>Defense Information Management: Continuing Implementation Challenges Highlight the Need for Improvement</u> (GAO/T-AIMD-99-93):</p> <p>"Defense [DOD] has made little progress in addressing these recommendations. While Defense's plans to reform IT management have potential for addressing some of the weaknesses we identified in our [migration strategy] report, nothing has actually been fully implemented to address our concerns. Furthermore, in December 1998, DOD indicated that it no longer concurred with the recommendations aimed at improving the quality of data in the ...DIST—a system which served as Defense's inventory for information systems—because it stopped using this system and</p>
	<p>The Secretary of Defense should require the CIO to review these justifications and certify that they include an economic analysis showing a return on investment or other results-based benefits to the Department that justify further investment in the migration system.</p>	

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of Defense should require the CIO to review these justifications and certify that they include current compliance with applicable Defense technical standards and use standard data, or a schedule and plan for bringing the system into compliance with these standards.</p>	<p>undertook other efforts to improve inventory-related data. The lack of complete and accurate system inventory data was a major problem impeding Defense's early Year 2000 efforts to complete assessments and estimate costs."</p>
	<p>The Secretary of Defense should require the CIO to establish routine procedures for reporting on the status of reviews of migration system justifications to the Deputy Secretary of Defense so the information can be used in the Department's planning, programming, and budgeting system. Any exception to the accomplishment of these reviews should be approved by the Deputy Secretary of Defense.</p>	<p>"Our recommendations were aimed not only at bringing meaningful change to the current decision-making and oversight environment for migration, but to facilitate DOD's implementation of the Clinger-Cohen Act and to rectify the weaknesses that pervade a broad spectrum of DOD's IT efforts, including management of telecommunications networks, computer systems, and the Year 2000 program. The Department's failure to implement our recommendations serves to limit its ability to comply with basic tenets of good information management practices and the specific requirements of the Clinger-Cohen Act."</p>
	<p>The CIO should revise Defense's policies, practices, and procedures to institutionalize the management of information systems and technology expenditures as investments and ensure that these investments provide measurable improvements in mission performance.</p>	

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of Defense should direct the CIO, in coordination with the Chief Financial Officer (CFO) and other appropriate Defense officials, to ensure that Defense's strategic information technology planning and investment control policies, practices, and procedures include requirements that Principal Staff Assistants document that they and the key stakeholders for their functional areas (including the services, agencies, and major commands) have: (1) conducted thorough economic and risk analyses of alternative operational approaches (business case analyses) for accomplishing the mission of the functional area; (2) examined tradeoffs among the competing proposals; and (3) prioritized the alternative proposals based on mission impact, risk, and return.</p>	<p>(see agency actions on pages F-2 and F-3)</p>
	<p>The Secretary of Defense should direct the CIO, in coordination with the CFO and other appropriate Defense officials, to finalize and issue guidance for developing and using analyses of alternatives and economic analyses for information system decisionmaking. Once this guidance is issued, the CIO should require that all Defense program managers and Defense managers, as appropriate, be trained in using the guidance. Also, the CIO should ensure that the guidance defines a standard return on investment definition for Defense information systems and require that this definition be used to calculate all returns on investment for information systems efforts. Additionally, the CIO should require that all major migration and other information</p>	

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	<p>systems under direct review by the Major Automated Information System Review Council (MAISRC), and those delegated by MAISRC to other oversight organizations for review, have their alternatives analyses and economic analyses independently verified by Defense's Program Analysis and Evaluation (PA&E) office, or another qualified independent review organization, in accordance with this guidance before major investments are authorized for system development/modernization.</p>	<p>(see agency actions on pages F-2 and F-3)</p>
	<p>The Secretary of Defense should direct the CIO, in coordination with the CFO and other appropriate Defense officials, to require post-implementation reviews of migration and other information systems and ensure that these reviews are designed to compare actual systems' costs, benefits, risks, and returns against the original baseline estimates/projections and determine the causes of any differences between planned and actual results.</p>	
	<p>The Secretary of Defense should direct the CIO, in coordination with the CFO and other appropriate Defense officials, to expedite the definition, coordination, testing, and implementation of information management and performance measures in the Department and establish milestones for evaluating progress in implementing these performance measures.</p>	

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of Defense should direct the CIO, in coordination with the Chief Financial Officer (CFO) and other appropriate Defense officials, to modify the Defense Integration Support Tools (DIST) system or acquire/develop a new Defense-wide management information system or systems for tracking and reporting key schedule, progress, and performance information on migration systems and other Defense information systems and ensure the system or systems contain complete, current, and accurate</p> <ul style="list-style-type: none"> ▪ schedule data necessary to track the progress of each migration system's development/deployment and each legacy system's termination; ▪ budgeted and actual cost data on each system for which the Department maintains such data (an alternative to putting budget and cost data in DIST is to establish the capability to directly interface with other systems in the Under Secretary of Defense (Comptroller's) Office or other Defense organizations containing system's budget and/or cost data); 	<p>(see agency actions on pages F-2 and F-3)</p>

GAO Report No. and Date	Recommendation	Agency Action
	<ul style="list-style-type: none"> ▪ data necessary to track the progress of each migration system in complying with applicable Defense technical and data standards, including whether each system has been independently certified to be in compliance with applicable technical and data standards; ▪ data for tracking progress in accomplishing the mission-based performance goals and information management performance goals for the functional areas supported by each system once these data have been identified; ▪ information determined to be needed for oversight by the Defense Acquisition Board, MAISRC, and PA&E; and ▪ information determined to be needed for management and oversight by the Defense CIO, the CIO Council, other Defense senior managers, and the Congress. 	(see agency actions on pages F-2 and F-3)
	<p>The Secretary of Defense should direct the CIO, in coordination with the CFO and other appropriate Defense officials, to develop and implement management controls and a quality assurance program to ensure the DIST data's accuracy and completeness since these data are used to track and report to senior Defense managers and the Congress on the overall status of the migration initiatives and on other Defense information management initiatives.</p>	

High-Risk Area: DOD Financial Management

Description of high-risk area: DOD continues to struggle to overcome the many problems brought about by decades of neglect and to fully institute sound financial management practices. These problems range from being unable to properly account for billions of dollars in assets to being unable to produce reliable and timely information needed for day-to-day management of operations and sound resource decisionmaking.

The open recommendations summarized in the following section relate to areas most in need of actions to improve DOD's financial management operations. These areas include improving financial reporting and the preparation of reliable financial statements; strengthening accountability and control over the Department's substantial investment in plant, property, equipment, and inventories; strengthening the Department's overall financial management workforce; and implementing procedures that comply with federal accounting standards for environmental and disposal costs, deferred maintenance, operating materials and supplies; and accounting for the cost of operations. In most of these areas, there are additional open recommendations.

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AIMD-97-29 Jan. 31, 1997	As part of DOD's long-term systems improvement strategy, the Senior Financial Management Oversight Council should oversee the development of an inventory of all financial management systems, including mixed systems.	<p>DOD concurred with this recommendation and, in its first Biennial Financial Management Improvement Plan, for the first time included 83 "feeder systems"; i.e., mixed systems, which DOD has historically omitted; in its inventory of financial management systems. This is a significant step forward. However, we still have concerns that DOD's systems inventory is significantly understated. First, the department has chosen to report only those systems that it refers to as "critical" systems, but does not define "critical". In addition, while DOD reports that it currently has 230 finance, accounting, and feeder systems "that meet OMB's definition"; the plan only specifically identifies 192 systems. Further, the plan states that DOD's planned integrated property management system will replace over 150 separate existing property management systems, but a number of those systems to be replaced are not included in the reported inventory. Although DOD is making progress towards developing a comprehensive inventory of its accounting, finance, and feeder systems, the inventory as reported remains incomplete because it does not identify (1) non-critical systems, or (2) the 150 property management systems that DOD plans to eventually replace by a departmentwide integrated property management system. We are continuing to monitor DOD's efforts in this area as part of our DOD financial systems work.</p>

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AIMD-99-44 Jan. 29, 1999	The Secretary of Defense should develop and issue a supplemental plan for: (1) revising the concept of operations; (2) describing how data will be shared among various DOD functional areas; (3) clarifying the role of each of the Described initiatives between the current environment and the future concept of operations; and (4) identifying steps the department will take to ensure feeder system data reliability.	DOD took issue with each of our findings and recommendations on the concept operations. While the department said that it disagreed regarding the role and definition of financial management and how it should support critical program functions, our findings and recommendations are fully consistent with the fundamental management reforms mandated by the CFO Act and the Federal Financial Management Improvement Act of 1996, and consistent with guidance, reports, and pronouncements by OMB and JFMIP.
AIMD-96-7 March 27, 1996	The DOD Comptroller and the Assistant Secretary of the Navy for Financial Management and Navy Comptroller should jointly act to improve the credibility of the Navy's financial reports and to adequately position the Navy and DFAS to prepare auditable financial statements for the Navy, beginning with those for FY 1996.	While this recommendation was directed at the Navy, it is one of approximately 50 open GAO recommendations for actions needed to improve the credibility of DOD's financial reporting and financial statement preparation. DOD continues to report that the Navy, DFAS, and other DOD components are working jointly to fully implement CFO reporting requirements for general funds, working capital funds, and trust funds. However, fiscal year 1998, 1997 and 1996 financial statements were not auditable. DOD auditors continue to report that DOD lacks the systems and supporting documentation needed to manage and report on its financial affairs. The DOD Comptroller, DOD auditors, OMB and GAO have begun working together to develop a short-term strategy for addressing material deficiencies that have precluded audit of significant DOD assets and liabilities. However, the long-

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	<p>To ensure that basic internal control requirements are enforced, the Navy and DFAS should develop and implement strategies for monitoring progress throughout the year.</p>	<p>term solution to these problems depends on systems improvements and while DOD has taken some important first steps, it is still far from its goals.</p> <p>This recommendation represents one of a series of open GAO recommendations addressing actions needed to better ensure that DOD components follow existing control procedures. DOD reported that such actions would be taken in accordance with the requirements of a September 1, 1995, memorandum on the preparation of CFO Act financial statements. However, during the audit of the fiscal year 1998, 1997, and 1996 financial statements, auditors of DOD components continued to note numerous material weaknesses. As part of the short-term strategy being developed by DOD, DOD auditors, OMB, and GAO, milestones and responsible parties are assigned for needed improvement actions. Both GAO and DOD are tracking progress against the milestones.</p>
<p>AIMD-97-45 March 31, 1997</p>	<p>DFAS should develop a more complete analysis of the underlying causes of its problem disbursements in order to ensure the effectiveness of its disbursement reform efforts.</p>	<p>This is one of a number of recommendations we have made in recent years related to DOD problem disbursements, which continue to involve billions of dollars. DOD has indicated that it has a number of actions planned or underway to address the underlying systems and process complexities that contribute to this problem. For example, DOD points to its development of a concept of operations and implementation of an integrated financial</p>

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		<p>management system as the kind of fundamental reform needed. However, we have identified and reported a number of shortcomings with the concept of operations. Also, while DOD asserts that implementation of the new financial management system is targeted to begin in March 2000, DOD has not yet identified functional systems requirements for logistics, procurement, and accounting. Further, the department does not have any plans for changing its current contract accounting procedures. These procedures entail (1) a complex cost allocation process, (2) an inability to match all disbursements made with obligations, and (3) a costly reconciliation and adjustment process that does not take place for several years after the disbursement. All of these weaknesses contribute to unmatched disbursements. Until the department can put in place needed fundamental systems and process reforms, the problem will continue. We are continuing to monitor this important issue.</p>
<p>AIMD-97-159R Sept. 30, 1997</p>	<p>The DOD Comptroller and the Under Secretary of Defense (Acquisition and Technology) should take action to put in place a DOD-wide policy directing the Department's compliance with the fiscal year 1998 effective date for the new federal deferred maintenance accounting standard.</p>	<p>DOD did not meet the required fiscal year 1998 date for the new accounting standard. A study contracted for by DOD was completed in November 1998. Based on the results of the study, the DOD Comptroller is now developing DOD-wide policy and implementation guidance for reporting deferred maintenance. The target issue date for the new policy and guidance is June 1999, with implementation for year-end reporting.</p>

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T-AIMD-95-143 May 16, 1995	The Secretary of Defense should determine what skills are required for personnel to ensure that DOD's blueprint for reforming its financial management operations is turned into substantive improvements.	These two recommendations are among a number we have made in the area of qualifications and training of DOD financial management personnel, with the goal of strengthening DOD's overall financial management workforce. On the first, DOD has not yet taken action to identify the number of personnel and corresponding skills required to effectively carry out its financial operations.
AIMD-98-126 June 24, 1998	The Secretary of Defense should ensure that the DOD Comptroller develop and implement a Department-wide, formalized, structured training program for financial management personnel that takes into account the DFAS Financial Management Career Development Plan as well as related initiatives that are planned or underway in the military services and that DFAS should modify its existing plan to include minimum annual training requirements, the majority of which should be in technical or related financial management training courses.	Also, DOD does not agree that the DOD Comptroller should have responsibility for overseeing the development and implementation of a department-wide financial management training program. Instead, DOD believes that DFAS should be charged with developing a generic plan that other DOD organizations could flexibly adapt and implement. With respect to establishing minimum annual training requirements, DOD officials have stated that while they would support a goal to that effect, possible funding and monitoring difficulties prevent establishing a requirement.
AIMD-98-32 Dec. 19, 1997	The Secretary of Defense should ensure that the DOD Comptroller and the Under Secretary of Defense (Acquisition and Technology) act jointly to issue guidance for implementing the new accounting standard that requires recognition of the liability associated with DOD's ammunition disposal costs. The	This recommendation represents one of a series we have made on disposal liability reporting for a variety of DOD's assets, including missiles, aircraft, and ships. The DOD Comptroller, in conjunction with the Under Secretary (Acquisition and Technology), has initiated actions to revise its Financial Management Regulation and associated guidance on this issue. Draft guidance was sent to DOD

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	<p>guidance should address such key liability estimation factors as data reliability and completeness and the need for updated information.</p>	<p>components, DOD auditors, and GAO for comment in December 1998. However, because auditors and management have not been able to agree on the timing for recognition of certain liabilities, the guidance has not been finalized. DOD, the audit community, and OMB will continue to work on this issue as part of DOD's short-term improvement strategy.</p>
<p>AIMD-98-274 Sept. 28, 1998</p>	<p>DFAS should take action to strengthen payment processing controls by establishing separate organizational responsibility for entering (1) contract and obligation information, (2) invoice and receiving report information, and (3) changes in remittance addresses.</p>	<p>DOD reports a number of actions intended to improve controls over payment processing. We will be following up on our recommendations and resulting DOD actions as part of our continuing review of DOD payment procedures and controls.</p>
<p>AIMD-99-19 Jan. 19, 1999</p>	<p>The DOD Comptroller should revise the problem disbursement policies and procedures to ensure that the Navy's funds control system maintains, on an ongoing and current basis, accurate and reliable unobligated and unexpended balances for the Navy's expired and canceled appropriations consistent with the Antideficiency Act and requirements for accurate and timely financial reporting. The DOD Comptroller should monitor compliance with the revised policies and procedures.</p>	<p>While DOD concurred with the intent of our recommendations, DOD indicated that the Navy's ongoing review of the 29 potentially overobligated appropriations might identify adjustments that would result in positive balances. In a March 25, 1999, letter to us, DOD's Deputy Chief Financial Officer advised us that the Navy had determined that 23 of the 29 appropriations are not, in fact, overobligated and the Navy is continuing to review the remaining 6 appropriations. Navy officials told us that they were able to deobligate funds to achieve positive balances for the 23 appropriations. They said that they are continuing to review the remaining 6 potentially</p>

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AIMD-97-150 Sept. 30, 1997	To resolve the implementation problems specific to DISA, the Director, DISA should 1) finalize procedures for reconciliation of DISA's general ledger accounts for property to DPAS property records, including timely reconciliation, and 2) correct the interface program.	overobligated appropriations; however, the resolution of these overobligations will be more problematic. We will review Navy documentation for adjustments related to the deobligations and will continue to follow up on the remaining issues.
		Reconciliations are being performed; however, there are no written policies and procedures in place to help ensure that these reconciliations are carried out. DPAS program management office has identified financial systems, which must interface with DPAS; however, the interface program will not be addressed until January 1999.

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	<p>To ensure that DPAS meets the DOD Comptroller's stated goal of achieving financial control and accountability over general PP&E by the year 2000, the Deputy Secretary of Defense should:</p> <ol style="list-style-type: none"> 1) modify DPAS to include all federal property accountability requirements using the U.S. Government Standard General Ledger, 2) develop a detailed DPAS implementation plan, and 3) develop, in consultation with the appropriate Assistant Secretaries, a concept of operations. 	<p>System Change Requests have been developed for each of the changes required by the new federal standards and are scheduled to be completed in late 1999.</p> <p>DFAS prepared a memo to ask each of the military services to provide this information on sites where DPAS was to be implemented. The DOD Comptroller has not yet approved this memo.</p> <p>We have identified and reported a number of shortcomings with the concept of operations recently issued by DOD which result in it not meeting the requirements specified by Congress or the intent of our recommendation.</p>
AIMD-98-17 Jan. 23, 1998	<p>The Secretary of the Army should ensure that CBSX receives all applicable Standard Property Book System-Redesign (SPBS-R) transactions and reconcile their SPBS-R submissions to CBSX.</p>	<p>The Army published a revised logistics regulation requiring weekly instead of monthly reporting and investigating unit compliance with CBSX reporting requirements. However, software changes to the SPBS-R have been suspended pending the development of a replacement property book/unit logistics system. LOGSA is also developing a CBSX help desk.</p>

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	<p>The Secretary of the Army should ensure that corrections are made to software problems in CBSX and SPBS-R which are causing incompatibilities between the two systems.</p>	<p>DOD officials informed GAO that software problems in the CBSX system were corrected. However, changes to SPBS-R have been suspended pending the development of a replacement property book/unit logistics system.</p>
	<p>The Secretary of the Army should improve the effectiveness of LOGSA's plans to improve the CBSX.</p>	<p>Army is seeking funding for a CBSX Improvement Plan II which includes enhancing the property book/CBSX reconciliation process to provide property book officers with more timely feedback.</p>
	<p>The Secretary of the Army should improve the effectiveness of CBSX performance measurement.</p>	<p>LOGSA has changed the method of computing unit compatibility rates by assigning a zero compatibility rate to any unit not submitting validation data by the date required. However, this action is not fully responsive to our recommendation in that the compatibility rate is not a complete indicator of CBSX accuracy. It does not measure (1) the degree to which CBSX data agrees with data in non-property book systems such as those for wholesale level assets or (2) errors associated with equipment in-transit between locations. We will continue to follow up with DOD on this issue.</p>

High-Risk Area: Forest Service Financial Management

Description of high-risk area: Inconsistencies in Forest Service's accounting system make it difficult to ascertain specifically why indirect costs rose during fiscal years 1993-97. According to the Forest Service, indirect costs rose for four main reasons: the implementation of a congressionally established program to increase the amount of salvage timber offered for sale, additional costs associated with downsizing, the allocation of costs incurred in previous years but not charged against the funds at the time, and computer modernization. However, during this same time period, the Forest Service was changing its policies about how to account for indirect costs, and individual regions and forests were implementing these policies in markedly different ways. As a result, the accounting system produced information that was not consistent from year to year or location to location. Once the problems with the Forest Service's accounting system are solved and the agency's indirect costs are clearly known, there is the opportunity for informed decisions to be made on how to control them.

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GAO Report No. and Date	Recommendation	Agency Action
RCED-98-258 Aug. 28, 1998	Incorporate the Statement of Federal Financial Accounting Standards No. 4 into the Forest Service's cost accounting system.	The Forest Service (FS) has drafted a definition of indirect cost that is in conformance with the Statement of Federal Financial Accounting Standard No. 4. This definition is currently under extensive agencywide review prior to finalization and is to be coordinated with us prior to being published in the Forest Service directives system.

GAO Report No. and Date	Recommendation	Agency Action
RCED-98-258 Aug. 28, 1998	Ensure that all offices consistently implement guidance with respect to accounting for indirect costs and hold the offices accountable by following up to make sure that the standards are being consistently used.	The FS plans to ensure that all offices consistently implement the guidance with respect to accounting for indirect costs by including a review of the application of the indirect cost definition in the Fiscal Compliance and Internal Control Review process.

High-Risk Area: FAA Financial Management

Description of high-risk area: The Federal Aviation Administration (FAA) lacks accountability for major assets including its Air Traffic Control (ATC) Modernization Program. Many problems related to FAA's lack of accountability for its assets are because the agency lacks a reliable system for accumulating project cost accounting information.

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AIMD-97-20 Jan. 22, 1997	In light of FAA's weaknesses in the accounting and reporting ATC project costs, the Secretary of Transportation should direct the FAA Administrator to acquire or develop and implement a managerial cost accounting capability that will satisfy the requirements of SFFAS 4, Managerial Cost Accounting Concepts and Standards for the Federal Government.	FAA agreed with the recommendation and is in the process of implementing a cost accounting system. The agency stated that the system should be fully functional by March 31, 2001.
AIMD-97-20 Jan. 22, 1997	The Secretary of Transportation should report FAA's lack of a cost accounting capability for its ATC modernization as a material control weakness in the Federal Managers' Financial Integrity Act reports until the problem is corrected.	FAA states that its lack of cost accounting capability is not a material weakness and therefore, no action is planned. We continue to believe that it is important for FAA to have cost information for its ATC modernization, and that the absence of this information represents a material weakness that should be reported under FMFIA.

High-Risk Area: IRS Financial Management

Description of high-risk area: The Internal Revenue Service's (IRS) mission is to collect the proper amount of tax revenue in a fair and efficient manner at the least cost to the public. For fiscal year 1998, IRS reported collecting about \$1.8 trillion in tax revenue, disbursing \$151 billion in tax refunds, and managing \$222 billion in unpaid assessments, of which \$26 billion is estimated to be collectible. IRS operations were funded by an \$8 billion appropriation for the fiscal year.

GAO has performed annual financial statement audits of IRS since fiscal year 1992. In the course of conducting these audits, we have identified numerous weaknesses with IRS' financial management that render government and taxpayer funds and taxpayer data highly vulnerable to waste, fraud, abuse, and mismanagement. While some progress has been made, our most recent audit revealed that many of these weaknesses continue to exist. Consequently, we continue to identify IRS' financial management as a high-risk area.

In addition to the 17 recommendations discussed in detail below, we have made 32 other recommendations dealing with IRS financial management that are still outstanding. Some of these additional recommendations further address weaknesses related to areas discussed in the table below such as recommendations to establish unpaid assessment documentation standards, improve physical security and accountability over receipts and taxpayer data, and improve employee background check and fingerprinting procedures. We have also recommended improvements to (1) IRS' financial reporting procedures resulting from its inability to rely on its general ledger to support its financial statements and (2) its excise tax certification procedures to more accurately distribute excise tax collections to the general fund and federal trust funds. Many of the recommendations we have made require IRS to make numerous systems changes, some of which IRS has known about for several years. However, its systems modernization efforts have experienced several delays, and its current systems modernization plan is not expected to be fully implemented for at least 10 years.

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GAO Report No. and Date	Recommendation	Agency Action
AIMD-99-16 Oct. 30, 1998	<p>Manually review and eliminate duplicate or other assessments that have already been paid to assure all accounts related to a single assessment are appropriately credited for payments received.</p>	<p>IRS does not believe that this recommendation is achievable, citing the cost of such a manual process. The problem exists because its current systems are not linked so that multiple assessments related to a single tax liability can be identified. In response to our fiscal year 1998 financial audit report, IRS stated it has convened a task force to develop specifications to automate the assessment process and to ensure cross-reference linkages are established in the master files. However, this solution will take many years to implement.</p>
	<p>Ensure that IRS' modernization blueprint includes developing a subsidiary ledger to accurately and promptly identify, classify, track, and report all IRS unpaid assessments by amount and taxpayer. This subsidiary ledger must also have the capability to distinguish unpaid assessments by category in order to identify those assessments that represent taxes receivable versus compliance assessments and write-offs. In cases involving trust fund recovery penalties, the subsidiary ledger should ensure that (1) the trust fund recovery penalty assessment is appropriately tracked for all taxpayers liable, but counted only once for reporting purposes, and (2) all payments made are properly credited to the accounts of all individuals assessed for the liability.</p>	<p>According to IRS, its systems modernization plan will include the development of a subsidiary general ledger to identify, classify, track and report all unpaid assessments by amount, taxpayer, and category of unpaid assessment. The plan is expected to include the development of a relational database that has the capability of tracking and linking multiple trust fund recovery assessments. However, it is dependent upon service center personnel manually inputting the appropriate cross-reference information needed to link duplicate trust fund liabilities. In addition, the capability to ensure that all trust fund recovery payments are credited to individual accounts is not currently under development and thus, IRS does not have an estimated date as to when this capability may be implemented. Therefore, this solution will take many years before it is fully implemented.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>Examine and consider options to increase deterrent controls at service centers. Some options IRS should examine and consider include:</p> <ul style="list-style-type: none"> --installing surveillance cameras to monitor staff when they are opening, extracting, and sorting the mail, and when they are processing receipts; --restricting personal items that can be brought into the receipt processing areas, such as handbags, briefcases, and bulky outerwear; and, --providing lockers and requiring their use for storing personal belongings outside of the receipt processing areas. 	<p>According to IRS, it is in the process of analyzing all potential deterrents to theft of cash, checks, and taxpayer data and expects to complete their analysis by June 30, 1999. However, even though it may complete its study by then, it is unclear if and when IRS will take corrective action. For example, although IRS stated it intends to install lockers at each service center, it is still in the process of conducting space feasibility studies at each service center with space constraints. IRS states that the implementation of the recommendations is dependent upon completion of the space feasibility study and negotiations with the Nation Treasury Employees Union.</p>
	<p><u>Refund controls</u> (two related recommendations):</p> <p>a. Conduct a cost-benefit study to evaluate whether preventive controls, such as manually comparing W-2 information to tax returns at the time returns are received rather than many months later, would be cost beneficial. This study should include a complete analysis of the projected costs and associated benefits of increases to preventative controls. If such controls are determined to be beneficial, IRS should implement them to the extent practical to reduce the amount of inappropriate refund payments.</p>	<p>In IRS' agency response to our report, it stated that while agreeing that reducing invalid refunds up-front is generally preferable, it believed that manually comparing W-2s and other third party documents during processing is neither feasible nor practical. However, IRS has yet to conduct a comprehensive study analyzing not only the expected additional costs but also the benefits derived such as the value of invalid refunds that would be prevented and cost savings from having less invalid refunds to pursue and attempt collection. While IRS states there is a plan in its modernization blueprint to implement an automated matching of W-2 and other</p>

GAO Report No. and Date	Recommendation	Agency Action
AIMD-99-15 Nov. 30, 1998	<p>b. Ensure that IRS' modernization blueprint includes the ability to compare W-2 and other third-party information to tax returns as they are processed to further prevent improper refunds from being issued.</p> <p><u>Employee Background Checks</u> (three related recommendations):</p> <ol style="list-style-type: none"> a. Develop and implement a policy prohibiting new employees from being assigned to process receipts until results of fingerprint checks are received and reviewed by management. b. Continue efforts to explore the feasibility of obtaining local police checks on IRS applicants and evaluate the efficiency and effectiveness of Philadelphia Service Center's electronic fingerprinting system in order to supplement FBI fingerprint checks. c. Continue efforts to negotiate with OPM and the FBI and procure the necessary equipment so that it can participate in the FBI's Integrated Automated Fingerprint Identification System (IAFIS) program by August 1999. 	<p>third-party information to tax returns as they are processed, this will require changes in the tax code and tax document filing process. Consequently, this is a long-term solution for which IRS does not have an estimated completion date.</p> <p>While IRS concurs with the recommendation to prohibit assigning new employees to process receipts before fingerprint checks are completed, officials responded that due to the anticipated April volume of returns and their limited success in recruiting, they will not be able to comply during the 1999 filing season. In the meantime, IRS has installed the IAFIS equipment at all 10 service centers and is ready to use it once the system goes online which is scheduled on or about July 1999. In addition, IRS stated it is continuing efforts to expand the capability of checking fingerprints against local police agencies. However, based on these responses receipts and taxpayer data will continue to be vulnerable to theft and misuse during the 1999 filing season. Once the system is operational, we will follow up to determine its effectiveness.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>Improve the physical security controls over receipts and returns in unsecured overflow areas. Such controls might include limiting unnecessary traffic by temporarily designating these overflow areas as restricted access areas and/or posting additional security guards over such areas during the peak filing season.</p>	<p>IRS is assessing the space issue at its service centers, to determine where the overflow mail can be properly stored and secured. According to an IRS official, they expect to have improved security over overflow mail by January 2000. However, based on this response the weaknesses will still exist during the 1999 peak filing season.</p>
	<p><u>Security over loose checks:</u></p> <ol style="list-style-type: none"> a. Consistently locate all final candling activities in a restricted access area. b. Store unmatched checks in locked containers until they can be researched and processed for deposit. 	<p>An IRS official stated they are working with the service centers to assess the space issue, and expect to have all final candling activities located in restricted access areas by January 2000. IRS stated it is also in process of obtaining suitable containers for storing unmatched checks in service centers. However, because it does not plan to complete this process until August 1999, these weaknesses will continue during the 1999 peak filing season.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p><u>Courier transport</u> (two related recommendations):</p> <ol style="list-style-type: none"> a. Study the feasibility of improving security for deposits in transit. In conducting this study, IRS should consider a number of alternatives, including the use of depositories in closer proximity to its various field locations and employing security guards to accompany couriers to the depositories. b. Develop a policy to ensure that contracts related to courier services do not unduly expose the government to losses in the event of lost, stolen, or damaged deposits in transit. 	<p>In response to both of these recommendations, IRS stated that it will engage an outside contractor to conduct a study of the various security methods available for transporting deposits to determine the best method to limit the Government's exposure to loss, theft, or damage while in transit. However, no timeframes have been established for completion of the study or taking corrective actions to resolve these weaknesses. Consequently, these weaknesses will continue to exist at least through the 1999 peak filing season.</p>
<p>AIMD-94-33 Feb. 9, 1994</p>	<p><u>Reconciliation of Fund Balance With Treasury</u> (two related recommendations):</p> <ol style="list-style-type: none"> a. Promptly resolve differences between IRS and Treasury records of IRS' cash balances and adjust accounts accordingly. b. Promptly investigate and record suspense account items to appropriate appropriations accounts. 	<p>While IRS has made various efforts over the years to address this problem, they have been inconsistent and largely ineffective. In IRS' draft action plan to address the weaknesses we noted in our fiscal year 1998 financial audit report, IRS noted it was engaging a contractor to assist in the reconciliation of its Fund Balance with Treasury and related suspense accounts.</p> <p>Absent timely, appropriate reconciliations of fund balance with Treasury, this historically problematic area will continue to hinder IRS' ability to ensure operating funds are properly spent, accurately recorded, and reliably reported.</p>

GAO Report No. and Date	Recommendation	Agency Action
AIMD-93-24 Aug. 5, 1993	<p><u>ADP Property Accounting and Inventory:</u></p> <p>a. Develop and implement standard operating procedures that incorporate controls to ensure that inventory records are accurately maintained. Such controls should include</p> <ul style="list-style-type: none"> --establishing specific procedures to ensure the prompt and accurate recording of acquisitions and disposals in IRS' ADP fixed asset system, including guidance addressing the valuation of previously leased assets; --reconciling accounting and inventory records monthly as an interim measure until the successful integration of inventory and accounting systems is completed as planned; and, --implementing mechanisms for ensuring that annual physical inventories at field locations are effectively performed, that discrepancies are properly resolved, and that inventory records are appropriately adjusted. <p>b. Develop an interim means to capture relevant costs related to in-house software development.</p>	<p>IRS has identified property management as a material weakness since 1983. Hence, this is a known, long-standing area of weakness. Although IRS has drafted an action plan to address the weaknesses noted in our fiscal year 1998 financial audit report, the plan is still undergoing revision and thus it is unclear what course of action IRS plans to take to respond to these recommendations. While several measures can be taken in the short-term to address these problems, part of the problem results from the lack of integration between its general ledger and its subsidiary property systems. However, because IRS' systems modernization plan does not include any of its internal administrative systems, there are currently no plans to integrate these systems.</p>

High-Risk Area: IRS Receivables

Description of high-risk area: This high-risk area covers IRS' efforts to efficiently and effectively collect billions of dollars of unpaid tax assessments. As of September 30, 1997, IRS had identified \$214 billion in unpaid tax assessments. These assessments consist of (1) \$90 billion in taxes due from taxpayers for which IRS can support the existence of a federal tax receivable through taxpayer agreement or a favorable court ruling, (2) \$48 billion in compliance assessments for which neither a taxpayer nor a court has affirmed that the amounts are owed, and (3) \$76 billion in write-offs, which represent unpaid assessments for which IRS does not expect further collection because of factors such as the taxpayer's death, bankruptcy, or insolvency. Our work supports IRS' estimate that it will collect only \$28 billion of the \$90 billion in federal taxes receivable. The uncollectible amount is owed primarily by taxpayers (1) experiencing financial hardships, (2) undergoing bankruptcy, or (3) unwilling to pay some or all of the amounts they owe. In addition, IRS' prospects of collecting the \$48 billion in compliance assessment is low because (1) these taxpayers have not acknowledged the debt and (2) in many instances, these amounts are derived through IRS' various compliance and enforcement programs and may not ultimately represent the amounts actually owed by the taxpayer. Further, IRS has virtually no hope of collecting the \$76 billion in write-offs--amounts primarily due from bankrupt and insolvent taxpayers, including billions in delinquent taxes that are owed by failed financial institutions.

Striving to close the gap between the amount of tax revenue owed and the amount likely to be collected is a major challenge for IRS. It has continually tried to manage its receivables with systems that are unable to provide timely, useful, and reliable information on the status of taxpayers' accounts. These deficiencies have impeded IRS' efforts to detect non-compliant taxpayers earlier, increasing the likelihood that delinquencies, if and when detected, will yield little in collected revenue.

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GAO Report No. and Date	Recommendation	Agency Action
GGD-93-67 May 11, 1993	The Commissioner of Internal Revenue should restructure IRS' collection organization to support earlier telephone contact with delinquent taxpayers and determine how to use current collection staff in earlier, more productive phases of the collection cycle.	IRS has taken some initial steps to implement each of these recommendations, but until the results of IRS' actions are known, these recommendations remain open. IRS is currently planning a major reorganization of its operations including the reengineering of its business processes. It is likely that the need for actions detailed in some of the recommendations that IRS has not fully implemented will be affected by the proposed reorganization and new business processes. In addition, as we have stated in our high-risk and other reports, systems modernization is a prerequisite for major progress in reducing the risks associated with IRS receivables. We are continuing to monitor this high-risk area.
GGD-93-67 May 11, 1993	The Commissioner of Internal Revenue should develop detailed information on delinquent taxpayers and use it to customize collection procedures.	
GGD-93-67 May 11, 1993	The Commissioner of Internal Revenue should identify and implement ways to increase cooperation with state governments in collecting delinquent taxes.	
GGD-92-130 Sept. 22, 1992	The Commissioner of Internal Revenue should actively use information returns from federal agencies in IRS enforcement programs.	

GAO Report No. and Date	Recommendation	Agency Action
GGD-94-47 Dec. 23, 1993	<p>To improve administration of the offer in compromise program, the Commissioner of Internal Revenue should develop the indicators necessary to evaluate the offer in compromise program as a collection and compliance tool. The indicators should be based on accurate data, resolving the errors GAO identified, and include: (1) the yield of the program in terms of costs expended and amounts collected; (2) the amount of revenues collected that would not have been collected through other collection means; (3) a measure of noncompliant taxpayers who returned to the tax system; and (4) a measure of participating taxpayers who remained compliant in future years.</p>	
GGD-94-118 June 1, 1994	<p>The Commissioner of Internal Revenue should direct IRS staff to implement Correspondence Task Force recommendations to: (1) incorporate correspondence improvements at district offices; (2) meet user requirements for a letter writing measure and an automated inventory control system; and (3) measure taxpayer satisfaction.</p>	

High-Risk Area: Medicare

Description of high-risk area: In 1990, Medicare was included on GAO's original list of agencies that were vulnerable to waste, fraud, abuse, and mismanagement, and it has remained a high-risk program to the present. Accordingly, the Medicare program has long been the focus of numerous GAO reviews. Since the beginning of fiscal year 1997, GAO has issued more than 50 reports and testimonies relating to different aspects of the Medicare program. The Health Care Financing Administration (HCFA), within the Department of Health and Human Services, is responsible for administering the Medicare program, which pays about \$200 billion in benefits for approximately 39 million beneficiaries annually. Medicare is now in what may be the most dynamic and challenging period of its history. Recent legislation, specifically the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and the Balanced Budget Act of 1997 (BBA) have given HCFA new tools, as well as major new responsibilities, in its administration and oversight of the Medicare program. New contracting authority granted under HIPAA can lead to a significant restructuring of how HCFA and its contractors carry out the Medicare program. Medicare+Choice, created by the BBA, is a major new managed care initiative. The solvency of Medicare's Hospital Insurance Trust Fund continues to be a serious concern; the Fund trustees' 1998 annual report projects that the fund will be depleted by the year 2008. Overshadowing all of this is HCFA's need to assure that its computer systems are ready for the year 2000, which has delayed HCFA's efforts to improve systems operations in numerous areas.

In addition to the 11 recommendations discussed below, there are about 40 other open GAO recommendations pertaining to a wide variety of Medicare program issues, including the implementation of claims auditing and antifraud technologies, contractor procedures for reviewing claims, excessive payments for medical supplies, HCFA's methods for revising physician payments, and HCFA's oversight of HMO institutional payments.

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GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-98-284 Sept. 28, 1998</p>	<p>To minimize disruption of Medicare benefits and services, the Administrator, HCFA, should (1) identify the critical path for the Y2K program on the basis of a complete and integrated Y2K project schedule; (2) define the scope of an end-to-end test of the Medicare claims process, and develop plans and a schedule for conducting such a test, including testing procedures and a plan for executing the test, obtaining commitments from participating data exchange partners, and reaching an agreement on dates for conducting the test; and (3) accelerate the development of business continuity and contingency plans for the Medicare program to allow time to ensure that they are reliable and ready when they may be needed.</p>	<p>In testimony delivered February 24, 1999 on the status of HCFA's efforts to address our Y2K recommendations, we noted that HCFA still lacks an integrated schedule that identifies a critical path. Without this, it will be difficult for HCFA management to identify important dependencies in this complex environment and prioritize its remaining work in the time that remains. We also noted that HCFA plans to perform end-to-end testing with its year 2000-compliant test sites, and that HCFA has established cross-organizational workgroups to develop contingency plans, which are expected to be completed and tested by June 30, 1999. As of April 1999, HCFA had not yet received the required contingency plans from all of its claims processing contractors, or from all of its Medicare managed-care operators.</p>
<p>HEHS-95-155 Aug. 3, 1995</p>	<p>The Secretary of Health and Human Services should direct HCFA to verify the effective operation of all HMO quality assurance and utilization management practices, by applying sufficient trained staff during routine monitoring, and integrating peer review organization findings into HCFA compliance monitoring reviews.</p>	<p>HCFA reports three approaches to improve staffing for HMO quality monitoring. It has hired nursing staff into its regions and headquarters. It plans to contract with selected Peer Review Organizations (PROs) for clinical and statistical expertise. Also, it is moving towards the option of "deeming" private and accreditation agencies' reviews as meeting Federal standards -- as provided for in the Balanced Budget Act of 1997. HCFA also proposes to contract with PROs to advise HMOs on quality studies.</p>

GAO Report No. and Date	Recommendation	Agency Action
T-HEHS-96-138 April 30, 1996	HCFA should target Medicare's high-cost, high-utilization areas for running demonstrations to apply such strategies as the use of case management and companies specializing in utilization review.	Section 202 of HIPAA established a Medicare Integrity Program, and gave HCFA the authority to enter into contracts to promote the integrity of the Medicare program. One potential activity for these contracts was independent utilization review of service providers or others furnishing items and services for Medicare. In 1998, HCFA conducted its first solicitation for program safeguard contractors (PSCs), as authorized by the Medicare Integrity Program. The initial selection of PSCs is to be made around May 15, 1999.
HEHS-97-202 Sept. 26, 1997	The HCFA Administrator should profile physicians ordering laboratory tests for dialysis patients and notify the claims processing contractors of the providers whose test order rates are aberrant. The Administrator should instruct the contractors to review those cases and carefully scrutinize physicians who order too many or too few tests.	HCFA plans to recommend GAO's methodology for identifying overutilized laboratory tests to its contractors. As of March 1999 formal action had not yet been taken, due to the higher priority of Y2K issues.
HEHS-98-17 Nov. 7, 1997	The Administrator of HCFA should (1) monitor trends in Medicare beneficiaries' use of stationary liquid oxygen systems and liquid and gas portables and (2) advise the Secretary of HHS whether a budget-neutral restructuring of Medicare reimbursement for home oxygen is needed to improve patient access to home oxygen	HCFA has contracted for a long-range study of the trends in beneficiaries' use of home oxygen. This study is in its design phase, and HCFA will evaluate potential restructuring of Medicare payments for oxygen upon its completion.

GAO Report No. and Date	Recommendation	Agency Action
HEHS-98-29 Dec. 16, 1997	<p>systems, and whether Medicare controls can be implemented to ensure that the use of such systems is limited to patients that can benefit from them.</p> <p>The Administrator, HCFA, should (1) require that Home Health Agencies (HHAs) be certified to provide only those services for which they have been surveyed, (2) establish procedures for claims processing contractors to provide state survey agencies with information that would help them assess HHAs compliance with the Medicare's conditions of participation, (3) require that branch offices be periodically surveyed to ensure that they provide quality care and monitor state surveyors to ensure that they conduct home visits with patients treated by HHA branch offices, and (4) issue implementing regulations for the intermediate sanctions authorized by the Congress that allow for penalizing and terminating HHAs that are repeatedly out of compliance with the conditions of participation.</p>	<p>HCFA did not oppose our recommendation (1), but believed it would impose a burden on the state survey agencies and on HCFA's survey and certification budget. HCFA agreed with the other recommendations summarized as (2) through (4), but as of late 1998 had not yet established procedures for contractors to provide information to state survey agencies, had not issued a policy requiring that branch offices be periodically surveyed, had not revised its policy to require state surveyors to conduct home visits of patients treated by HHA branch offices, and had yet to implement intermediate sanctions.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>HEHS-98-102 May 12, 1998</p>	<p>In order for HCFA to gather information needed to adjust Medicare fees for durable medical equipment, the Administrator, HCFA, should (1) ensure that HCFA's contractors systematically gather and analyze market prices for medical equipment, supplies, and off-the-shelf orthotic devices by using commercial pricing databases and (2) require suppliers to identify the specific medical equipment, supplies, and devices they bill to Medicare by including universal product numbers on their Medicare claims.</p>	<p>HCFA reports that they have (1) initiated efforts to routinely collect and analyze market prices for medical equipment, supplies, and off-the-shelf orthotic devices billed to Medicare, and (2) begun to study the issues Related to implementing universal product numbers. In September 1988, HCFA's contractors announced their intent to reduce Medicare payments for eight commonly used items of medical equipment and supplies; however, as of March 1999, those payment reductions had not yet been implemented.</p>
<p>HEHS-98-202 July 27, 1998</p>	<p>In order to better protect the health, safety, welfare, and rights of nursing home residents and ensure that nursing homes sustain compliance with federal requirements, the Administrator, HCFA, should revise federal guidance and ensure state agency compliance by (1) revising federal survey procedures to instruct surveyors to take stratified random samples of resident cases and review sufficient numbers and types of cases to better detect problems and assess their prevalence and (2) eliminating the grace period for homes cited for repeated serious violations and impose sanctions promptly.</p>	<p>HCFA plans an interim change to strengthen its nursing home resident sampling process during 1999, with a more thorough modification to occur around the end of 2000. Available funding may pace implementation. HCFA also issued a preliminary advisory to states in September 1998 about pending changes in guidance on when to immediately sanction nursing homes for serious violations and continuing poor performance. Changes in policy and guidance are being paced by availability of funding, and resolution of sensitive issues raised by stakeholders. As of March 1999, HCFA was continuing to modify draft guidance, following a dialogue with Congressional staff.</p>

GAO Report No. and Date	Recommendation	Agency Action
HEHS-99-23 Jan. 29, 1999	To implement the BBA's surety bond requirement for Home Health Agencies (HHAs), the HCFA Administrator should revise the present regulation so that all HHAs obtain one financial guarantor surety bond in the amount of \$50,000 for the guaranteed return of overpayments for both Medicare and Medicaid.	HCFA agreed with the recommendation when commenting on our draft report, but as of April 9, 1999, their final written response had not been received.
HEHS-99-30 Feb. 24, 1999	In calculating the practice expense relative value units (RVUs) that will support revised Medicare physician fee schedules, the Administrator of HCFA should (1) use sensitivity analysis to target data collection and analysis to issues that have the greatest effect on new practice expense RVUs; (2) develop plans for updating the RVUs; and (3) monitor indicators of beneficiaries' access to care, and consider access problems when evaluating the physicians' payment system.	HCFA agreed with our recommendations. They note that this report addresses complex issues that will require substantial research, which is currently underway, as well as advice and comments from independent sources. Specifically, HCFA intends to make use of American Medical Association recommendations on practice expense RVUs for new and revised codes, and on refining resource inputs for existing codes.

High-Risk Area: Supplemental Security Income

Description of high-risk area: SSI is the nation's largest cash assistance program for the poor. Last year, the program paid about 6.6 million low-income aged, blind, or disabled recipients about \$27 billion. Since assuming responsibility for SSI in 1974, SSA has been significantly challenged in its efforts to serve the diverse needs of recipients while still protecting the financial integrity of the program. In fiscal year 1998, current and former SSI recipients owed SSA more than \$3.3 billion in overpaid benefits, including \$1.2 billion in newly detected overpayments for the year. The magnitude of overpayments involved and SSA's inability to recover outstanding SSI debt were significant factors in our decision to designate SSI a high-risk program in February 1997.

In addition to the 12 recommendations detailed below, GAO has 9 open recommendations for improving program performance and integrity.

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GAO Report No. and Date	Recommendation	Agency Action
HEHS-96-51 Feb. 28, 1996	The Commissioner of SSA should, after seeking legislation if necessary, gather additional management data on PASS program participation and impact, and use these data to evaluate the impact of PASS program participation on employment.	SSA attempted to develop a database that would capture additional management data about PASS provisions for use in evaluating the effect of PASS on return-to-work outcomes. However, the data are not considered reliable because of operational problems SSA experienced in constructing the database. SSA has since purchased software for PASS specialists to use in assessing PASS plans. The specialists have

GAO Report No. and Date	Recommendation	Agency Action
HEHS-96-152 Aug. 30, 1996	<p>In order to identify SSI recipients who have been erroneously paid in prior years, the Commissioner of SSA should direct field offices to obtain information from county and local jails on former prisoners. SSA should then process this information to: (1) determine if it made erroneous payments to any of these former prisoners, (2) establish overpayments for the ones it paid, and (3) attempt to recover all erroneous payments.</p>	<p>been using the software to varying degrees to evaluate and approve PASS applications. SSA plans to have a vendor modify the assessment software to capture data necessary to evaluate the impact of PASS program participation on employment. However, SSA does not yet have a timeframe for completing the software modification.</p> <p>SSA initiated a pilot project to determine the feasibility and cost benefit of implementing our recommendation. SSA plans to obtain information on former prisoners from 50 states, the 25 largest county and local jail systems, the Bureau of Prisons, and about 300 various other correctional institutions. Last year, SSA also submitted a legislative proposal to the Congress that would require federal, state, and local institutions to provide certain information to SSA for the purpose of matching prisoner populations with the records of SSI beneficiaries.</p>
HEHS-98-75 Mar. 27, 1998	<p>The Commissioner of SSA should develop computerized interfaces necessary to access Office of Child Support Enforcement's (OCSE) New Hire Database and Quarterly Wage Database to detect undisclosed earnings during initial and subsequent determinations of eligibility for the SSI program.</p>	<p>SSA is in the final stages of obtaining access to the OCSE state wage database and intends to conduct quarterly matches to detect wages SSI recipients fail to disclose. This match will replace the semi-annual matches SSA now conducts with nearly all states. This year, SSA also plans to institute online access between its field offices and OCSE wage, new hire, and unemployment databases.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Commissioner of SSA should study the feasibility of obtaining computerized information from financial institutions to detect financial accounts that SSI clients do not report during the application process and subsequent determinations of eligibility. Such a study should include a comparison of the cost of obtaining and using such information and the program savings achievable. Security and confidentiality issues should also be addressed.</p>	<p>SSA has submitted a legislative proposal to the Congress that would facilitate the agency's ability to acquire financial account information. This proposal would require applicants/recipients to authorize SSA to obtain information about their income and resources from any financial institution. SSA's proposal has been incorporated into draft legislation currently under consideration by the Subcommittee on Human Resources aimed at addressing SSI program fraud and abuse (H.R. 631, SSI Fraud Prevention Act of 1999).</p>
<p>HEHS-98-123 May 6, 1998</p>	<p>In view of the fact that many of SSA's medical listings are outdated and allow eligibility to be based on multiple standards of severity, the Commissioner of Social Security should immediately update and modify its medical listings to incorporate advances in medicine and science and to reflect a uniform standard of severity.</p>	<p>SSA is developing a schedule to update its medical listings. The agency estimates that it will take several years to complete the update, which it describes as a complex task requiring significant research and analysis. SSA has not yet taken a position on whether the updated listings should or would reflect a uniform standard of severity.</p>
<p>HEHS-98-158 Sept. 14, 1998</p>	<p>The Commissioner of SSA should enhance SSA's ability to verify applicant-and recipient-reported eligibility information and deter overpayments by accelerating efforts to identify timely and complete sources for verifying SSI financial eligibility information.</p>	<p>SSA is expanding its use of on-line state data to obtain more real-time applicant and recipient information. In May 1998, SSA also submitted a legislative proposal that would provide the agency with the ability to quickly access essential information from state databases. This proposal has been incorporated into the draft SSI bill currently being developed by the Subcommittee on Human Resources.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Commissioner of SSA should sustain efforts to obtain and implement additional SSI overpayment deterrence and debt collection tools commonly available to other means-tested programs. These include using credit bureau reporting, collection agencies, intercepts of other state and federal benefit payments, and interest levies to recover more SSI debt.</p>	<p>SSA has submitted a legislative proposal to the Congress seeking statutory authority to use credit bureaus, private collection agencies, interest levies, and other tools to strengthen its collection efforts. This proposal has also been incorporated into the draft bill (H.R. 631) currently being developed by the Human Resources Subcommittee.</p>
	<p>The Commissioner of SSA should reevaluate SSA's field office work-credit and incentive structure at all levels of the agency and make appropriate revisions to encourage better verification of recipient information and greater staff attention to fraud prevention and detection. For improved accountability, line staff and middle management expectations, as well as senior executive contracts, should include specific requirements and performance measures in this area.</p>	<p>SSA has initiated a review of its existing work measurement system with a specific focus on the kind of work that is counted and how time values are assigned to units of work. SSA expects to complete this review by mid-1999.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Commissioner of SSA should better utilize SSA's policy development component to address SSI program policies that, for many years, have placed the SSI program at considerable risk of fraud, waste, abuse, and mismanagement. This would include, but not be limited to, the development and advancement of legislative proposals aimed at simplifying complex SSI living arrangement and in-kind support and maintenance policies and continuing SSA's sponsorship of legislation restricting the transfer of valuable assets and resources to qualify for SSI benefits.</p>	<p>SSA has acknowledged the need to play a more active policy development role and has restructured its research and policy development components to better address our concerns. In this regard, SSA has also made conducting effective policy development, research, and program evaluation a key agency goal. Additional staffing resources have been obtained by the newly created Office of Policy. SSA also recently developed and submitted to the Congress its first major SSI legislative proposal aimed at improving program integrity.</p>
	<p>The Commissioner of SSA should move forward in developing an SSI-focused strategy or plan with clearly defined priorities, goals, and performance measures to gauge SSA's progress in addressing its most significant SSI program challenges. This document should be consistent with the Results Act and include specific initiatives, goals, and performance measures aimed at addressing long-standing SSI problems and facilitating a change in SSA's organizational culture and management approach to SSI.</p>	<p>In response to our recommendation, SSA produced its first management report in October 1998, which discussed the need to take aggressive action in four areas: improving overall payment accuracy, increasing continuing disability reviews, combating program fraud, and improving debt collection. The management report established specific goals to measure the anticipated yearly impact of planned initiatives in each of these areas. We are currently assessing this report and other agency plans in relation to the requirements of the Results Act.</p>
<p>GAO-99-11 Jan. 12, 1999</p>	<p>The Commissioner of Social Security and the Secretary of Health and Human Services should take steps to implement a cost-effective method for</p>	<p>In its written comments to this report, SSA agreed that single parents applying for or receiving SSI benefits on behalf of children under age 18 should be required to</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>ensuring that data on Child Support enforcement collections for children receiving SSI are made available to SSA and used in making eligibility determinations. This may include seeking legislative changes to allow SSA access to states' data on child support collections.</p>	<p>cooperate with child support enforcement (CSE) services, unless they have good cause not to do so. The agency is considering various options for effectuating such changes in the SSI program.</p>

High-Risk Area: IRS Tax Filing Fraud

Description of high-risk area: Filing fraud refers to the filing of fraudulent refund claims by taxpayers or tax return preparers. Most of the fraudulent refund claims identified by IRS involved the Earned Income Credit (EIC)—a refundable tax credit available to low-income, working taxpayers. In an IRS study released in April 1997, about \$4.4 billion of the \$17.2 billion in EIC claims on tax year 1994 returns (25.8 percent) was estimated to be overclaims.

Since we first included filing fraud as a high-risk area in February 1995, IRS has taken several steps in an attempt to reduce its exposure to filing fraud. In addition, the Congress passed legislation that gave IRS (1) new enforcement tools and (2) additional funding specifically designated for EIC-related activities. With those new tools and funds, IRS, in 1998, began implementing a 5-year EIC compliance initiative. To help assess the overall effectiveness of its efforts, IRS plans to do annual studies of EIC compliance. Using the results of a baseline study of returns filed in 1998 and subsequent years' studies, IRS plans to measure the rate of compliance and improvement in that rate over time.

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GAO Report No. and Date	Recommendation	Agency Action
GGD-98-150 July 28, 1998	The Commissioner of Internal Revenue should ensure that customer service efforts aimed at EIC claimants are available earlier in the filing season when most EIC claims are filed.	IRS has told us that customer service efforts aimed at EIC claimant will be provided much earlier in the 1999 filing season. We will determine, as part of our annual filing season work whether this recommendation has been fully implemented.
GGD-98-150 July 28, 1998	The Commissioner of Internal Revenue should include prominent information regarding the 2-year and 10-year sanctions and the recertification process in the Form 1040 EIC instructions and Schedule EIC.	IRS has included information on the 2-year and 10-year sanctions and the recertification process in the tax year 1998 Schedule EIC instructions and said that it would revise the schedule for tax year 1999.

High-Risk Area: Defense Infrastructure

Description of high-risk area: Despite the Department of Defense's (DOD) actions over the last 10 years to reduce operations and support costs, billions of dollars are wasted annually on inefficient and unneeded activities. DOD has, in recent years, substantially downsized its force structure. However, it has not achieved commensurate reductions in operations and support costs. We previously reported that for fiscal year 1998, DOD estimated that about \$147 billion, or 58 percent of its budget, would be for operations and support activities. These activities, which DOD generally refers to as its support infrastructure, include maintaining installation facilities, providing nonunit training to the force, providing health care to military personnel and their families, repairing equipment, and buying and managing spare parts inventories.

In addition to the recommendations detailed below, GAO has a number of open recommendations pertaining to DOD that largely relate to developing long-range plans for use of its depot maintenance and other industrial facilities. This includes plans for reducing excess industrial facilities infrastructure and increasing the cost-effectiveness of remaining operations.

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GAO Report No. and Date	Recommendation	Agency Action
<p>NSIAD-96-165 May 21, 1996</p>	<p>The Secretary of Defense should establish specific milestones for completing the new depot maintenance policy and individual guidance and criteria necessary for the implementation of the policy's various components.</p>	<p>There has been lack of consensus between congressional oversight committees and DOD, and even within DOD components, concerning future directions for DOD's industrial facilities. This includes the extent to which work will be done in-house or contracted with the private sector. Other related, but unresolved, issues include the extent to which work associated with these facilities should be considered "core" or "inherently governmental," or otherwise needs to be retained in house to meet wartime sustainment or surge needs. Consequently, DOD has not yet implemented the recommendations listed in this table. Rather, each one remains under consideration by the Department.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of Defense should develop a set of measurable goals to determine if the depot maintenance policy is achieving the desired objectives, such as eliminating excess depot maintenance capacity, restructuring remaining depots to improve their efficiency and capacity utilization, decreasing depot maintenance costs, and improving readiness.</p>	
<p>NSIAD-98-8 March 31, 1998</p>	<p>To provide for consistent and comprehensive source-of-repair decisions, the Secretary of Defense should direct that action be taken to clarify the inconsistencies among DOD Regulation 5000.2-R, DOD Directive 4151.18, service implementing instructions, and provisions in the 1998 Defense Authorization Act. In taking this action, at a minimum, the approach for analyzing core, cost, readiness, and sustainability factors for making source-of-repair decisions should be clearly defined.</p>	
	<p>The Secretary of Defense should direct that the service secretaries assess the adequacy of the analyses supporting source-of-repair decisions made over the last 2 years. These reviews should be done based on the previously recommended clarifications to the decisionmaking approach. Where weaknesses in the analysis are identified, new analyses should be done and adjustments made to the source-of-repair decisions where appropriate and feasible.</p>	

GAO Report No. and Date	Recommendation	Agency Action
<p>NSIAD-98-130 June 15, 1998</p>	<p>The Secretary of Defense should require the development of a detailed implementation plan to guide future management improvement efforts to increase the cost-effectiveness of DOD's depot maintenance program, including issues related to improving the management and cost-effectiveness of contract depot maintenance workloads.</p>	
<p>NSIAD-98-221 Sept. 14, 1998</p>	<p>The Secretary of Defense should issue guidance requiring the services to document in the contract file support for their commercial item determinations under 10 U.S.C. 2464 and subsequent logistics support decisions. On the basis of GAO's review of the T406 case, examples of items that might be considered for documentation include: (1) percentage of common parts; (2) a comparative value of the average sales price of the baseline commercial item with the estimated price of the item that is the subject of the determination; (3) the value of unique support and test equipment and tools required to support the military requirement; and (4) a cost evaluation documenting that the life-cycle logistics support in the private sector is expected to result in a lower cost to the government.</p>	
	<p>The Secretary of Defense should require the Secretary of the Navy to complete a new and updated cost analysis, correcting previous errors and inconsistencies, before executing future option years under the current T406 contract.</p>	

GAO Report No. and Date	Recommendation	Agency Action
NSIAD-99-31 Nov. 30, 1998	<p>We recommend that the Secretaries of Defense and the Army determine (1) the extent to which the Army's logistics and manufacturing capabilities are of such importance that they need to be retained in-house and (2) the extent to which depot maintenance work is to be done at regular depots, rather than lower-level maintenance facilities.</p> <p>We recommend that the Secretary of the Army develop and issue a clear and concise statement describing a long-range plan for maximizing the efficient use of the remaining depots and arsenals. At a minimum, the plan should include requirements and milestones for effectively downsizing the remaining depot infrastructure, as needed, and an assessment of the overall impact from competing plans and initiatives that advocate increased use of private sector firms and regional repair facilities for depot-level workloads. If a decision is made to retain in-house capabilities, we also recommend that the Secretary of the Army develop a long-term strategy, with shorter-term milestones for improving the efficiency and effectiveness of Army industrial facilities.</p>	

High-Risk Area: Department of Housing and Urban Development Programs

Description of high-risk area: We designated HUD programs as a high-risk area in 1994 because of four serious, long-standing departmentwide management deficiencies. Specifically, internal control weaknesses, such as lack of necessary data and management processes, were a major factor leading to the HUD scandals of the late 1980s. Second, poorly integrated, ineffective, and generally unreliable information and financial management systems did not meet the needs of program managers and weakened their ability to provide management control over housing and community development programs. Third, HUD had organizational deficiencies, such as overlapping and ill-defined responsibilities and authorities between its headquarters and field organizations and a fundamental lack of management accountability and responsibility. Finally, an insufficient mix of staff with the proper skills hampered the effective monitoring and oversight of HUD's programs and timely updating of procedures. Resolving these management deficiencies is particularly critical for HUD because its housing and community development programs rely extensively on the integrity of thousands of diverse individuals and entities over whom it does not have direct control.

In January 1999, we reported that HUD is making significant changes and has made credible progress in overhauling its operations to correct its management deficiencies. But our recent work indicates that internal control weaknesses and problems with information and financial management systems persist. For example, material internal control weaknesses persist in the Section 8 subsidy payment process, which provides \$18 billion in rental assistance, and HUD has not adequately monitored programs and functions such as its real estate asset management contractors and the performance of appraisers of properties purchased with FHA-insured loans. In addition to the 12 recommendations discussed in detail below, we have made 23 other recommendations that remain open dealing with issues such as improving information resources management (establishing a data management program, eliminating computer security control weaknesses, developing contingency plans for backup, recovery, and continuity, etc.); considering unexpended Section 8 project-based program balances to offset funding needs and the methodology for estimating expenditure rates; and improving HUD's management and oversight of the Title I home improvement program.

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GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-94-34 April 14, 1994</p>	<p>In order to make the HUD IRM program more responsive to its missions, the Secretary of HUD should direct Information Policies Systems to develop a strategic information architecture that is based on the strategic business and IRM plans to govern the development, deployment, and use of IRM resources.</p>	<p>HUD has taken action by preparing an initial version of its departmentwide information architecture in September 1995; however, since then, the Secretary has adopted a new strategy for several major business functions and the information architecture will need to be revised accordingly. Our analysis of the draft information architecture showed that it had a primary focus on data rather than business functions. HUD expects the final information architecture to focus on its business functions.</p>
	<p>In order to make the HUD IRM program more responsive to its missions, the Secretary of HUD should establish strategic business and IRM planning processes and develop and maintain up-to-date plans that are clearly linked to each other.</p>	<p>HUD has and continues to take action on this recommendation. In 1997, HUD completed a departmentwide information strategy plan and has issued draft strategic IRM plans. The Secretary adopted a new strategy for several major business functions and the plans will need to be revised accordingly.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-99-25 Dec. 18, 1998</p>	<p>In order to strengthen Financial Systems Integration (FSI) management and oversight and HUD's information technology investment management decisions, the Secretary of HUD should ensure that the department: (1) prepares complete and reliable estimates of the life-cycle costs and benefits of the overall 1997 FSI strategy and individual FSI projects; (2) finalizes the detailed project plan for the core financial management system (HUD Central Accounting and Program System) to establish the milestones, tasks, task dependencies, a critical path, and staffing requirements and demonstrate that it is cost-effective to meet the October 1999 scheduled implementation date called for in HUD's 2020 Management Reform Plan, and (3) finalizes detailed project plans for individual FSI projects (mixed systems) that establish the milestones, tasks, task dependencies and critical paths, and staffing requirements to complete the 1997 FSI strategy.</p>	<p>HUD agreed with these recommendations; however, this is a recently issued report and it is too early for HUD to have taken action.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>In order to strengthen FSI management and oversight and HUD's information technology investment management decisions, the Secretary of HUD should ensure that the department fully implements and institutionalizes a disciplined and documented process consistent with provisions of the Clinger-Cohen Act and the Paperwork Reduction Act, as well as GAO's and OMB's guidance for selecting, controlling, and evaluating information technology investments.</p>	<p>HUD agreed with this recommendation; however, this is a recently issued report and it is too early for HUD to have taken action.</p>
	<p>In order to strengthen FSI management and oversight and HUD's information technology investment management decisions, the Secretary of HUD should ensure that the department develops and uses defined processes for estimating FSI costs.</p>	<p>HUD agreed with this recommendation; however, this is a recently issued report and it is too early for HUD to have taken action.</p>
<p>RCED-98-65 March 27, 1998</p>	<p>So long as contractors are involved in providing asset management services for properties in HUD's single-family inventory, the Secretary of HUD should establish a process for monitoring the administration of such contracts at field offices and homeownership centers.</p>	<p>In a February 9, 1999, notice, HUD announced that while it would retain the flexibility to use a variety of property disposition approaches, it would, at least in the near future, rely on "management and marketing" contractors to dispose of single family properties. These contractors would be responsible for managing, marketing, and overseeing the sales closing of properties in HUD's inventory. HUD had tested a similar approach as part of a pilot in three locations with generally positive results. Under this approach, HUD</p>

GAO Report No. and Date	Recommendation	Agency Action
RCED-98-117 April 23, 1998	<p>To ensure that risk-sharing demonstration programs' managers have consistent and reliable data to meet their statutory and regulatory obligations, the Secretary of HUD should take steps to correct current flaws in the information systems supporting the programs.</p>	<p>HUD has taken action to upgrade its information systems infrastructure. Data systems used to administer the Risk Sharing Program are a part of a comprehensive departmentwide systems modernization effort. We will continue to monitor the development and implementation of the new management information systems.</p>
	<p>In correcting the flaws in the data system supporting the credit enhancement program, the Secretary of HUD should direct system designers and program managers to examine the near-term suitability of using spreadsheets and databases commonly contained in suite software within the context of the long-term data needs of a growing universe of projects, giving careful consideration to the requirements of all users of the system.</p>	<p>HUD has taken some action by having the primary manager for the Risk Sharing Program to maintain a desktop, personal computer-based program management information system for administering some aspects of the financial institution portion of this program. We will continue to monitor the evolution of this system.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of HUD should give priority to implementing a comprehensive monitoring system to ensure that HUD's risk-sharing partners are complying with the demonstration programs' procedures, regulations or risk-sharing agreements, including the requirements for timely reporting on the status of insured loans.</p>	<p>HUD has taken action by having its Quality Assurance Teams work with housing finance agencies to establish a more comprehensive risk sharing monitoring system. It has also drafted new monitoring procedure notices, which have been circulated within HUD for comment. However, no similar effort has begun for financial institution partnerships. We will continue to monitor HUD efforts to improve its risk sharing monitoring procedures across the board.</p>
<p>RCED-98-202 July 22, 1998</p>	<p>To improve HUD's oversight Section 8 project-based balances, the Secretary of HUD should require the Chief Financial Officer to revise the procedures used in HUD's annual review of unexpended balances to ensure that balances that are not needed are identified and deobligated in a timely manner.</p>	<p>HUD recently provided us with its action plan for this recommendation; however, based on information from other sources; it may not be enough to address this issue.</p>
<p>T-RCED-94-273 July 26, 1994</p>	<p>The Secretary of HUD should develop a comprehensive strategy to address the very poor physical conditions under which some families supported by Section 8 project-based assistance are living.</p>	<p>HUD has taken action by including in its 2020 Management Reform Plan a strategy to address the very poor physical conditions of properties supported by Section 8 project-based assistance. Actions taken include establishing a real estate assessment center, which has inspected over 4,200 multifamily properties as of December 1998. Physical inspections of public housing authorities are scheduled to begin during 1999. HUD also established an enforcement center to</p>

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		<p>investigate and take enforcement actions against troubled multifamily and public housing authority properties that do not comply with HUD's regulations. The enforcement center is operational and HUD anticipates that it will begin receiving referrals in April 1999. In addition, as of December 1998, the enforcement center was working on 200 multifamily property cases referred to it by housing staff.</p>
	<p>To the extent that budgetary or legislative constraints prevent HUD from addressing the very poor physical conditions of Section 8 properties, the Secretary of HUD should provide Congress with an assessment of the resources and legislative changes the Department needs.</p>	<p>HUD has taken action by developing two performance measurement-driven programs—Section 8 Management Assessment Program (SEMAP) and Public Housing Management Assessment Program (PHMAP).</p>

High-Risk Area: Student Financial Aid Programs

Description of high-risk area: The Department of Education is responsible for more than \$150 billion in outstanding student loans, and its data systems track approximately 93 million student loans and 15 million grants. For example, in fiscal year 1998, over 8.5 million students received over \$48 billion in federal student aid, but in 1997 Education also paid out over \$3.3 billion to make good on its guarantee on defaulted student loans. Education administered student financial aid programs are inherently vulnerable to waste, fraud, and abuse, and mismanagement, which puts a premium on effective management. But, Education's administration of these programs has contributed to exposure to mismanagement and abuses.

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GAO Report No. and Date	Recommendation	Agency Action
AFMD-93-20 March 16, 1993	The Secretary of Education should direct the Assistant Secretary Postsecondary Education to test billings from guaranty agencies and lenders as part of its internal reviews.	In 1998, the Department of Education's Guarantor and Lender Oversight Service (GLOS) improved its process for reviewing and resolving lender audits of interest subsidy billings and selecting lenders for review. As a result of this targeting and testing of lender billings, referrals have been made to the Office of Inspector General (OIG) aimed at improving the quality of lender audits. However, OIG reported guaranty agency

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		<p>Oversight as a material weakness in its audit of Education's fiscal year 1997 financial statements. The Department does not yet have effective controls over Guaranty agency (GA) billings.</p> <p>There is no evidence that GA audit reports were performed in accordance with the Department's August 1996 revised audit guidance (Compliance Supplement – Federal Family Education Loan Program – Guaranty Agencies). OMB also issued this audit guidance in OMB Circular A-133 Compliance Supplement. Audit reports under Circular A-133 were not available to the Department until FY 1998. Until this guidance has been fully implemented, audits of GAs will not provide sufficient information to verify the integrity of GAs' billings.</p> <p>The Department's corrective action plan indicates that it will compare data reported on the National Student Loan Data System (NSLDS) and data reported by GAs. The milestone date for corrective action is September 1999.</p>
	<p>The Secretary of Education should direct the Assistant Secretary for Postsecondary Education to require staff to follow up on questioned costs and other amounts owed based on reviews of guaranty</p>	<p>Although the Department of Education's Guarantor and Lender Oversight Service (GLOS) included, in its audit report, review procedures for a 6-month standard time frame for follow up on questioned costs and other</p>

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	<p>agencies and lenders within a designated period of time from the time findings are reported.</p>	<p>Amounts owed by GAs and lenders, the OIG reported that oversight and analysis of audits of postsecondary educational institutions needs improvement as a Reportable condition in its audit report on the fiscal year 1997 financial statements. The OIG stated that more timely resolution of audits of postsecondary institutions was required. OMB Circular A-50 requires the Department to resolve identified problems within 6 months of receipt of the audit report. The OIG reported that, for 86 percent of the audit reports reviewed, problems identified were not resolved with the institutions within 6 months, as required.</p> <p>The Department's corrective action plan indicates that its Institutional Participation and Oversight Service increased the number of staff that resolve audit findings, and that they are sending letters to institutions describing corrective action that must be taken—including reimbursement instructions for any misspending. As part of our annual review process of open recommendations, we will assess the Department's corrective action.</p>
	<p>The Secretary of Education should direct the Assistant Secretary for Postsecondary Education to establish and maintain subsidiary ledgers for GSLP (now the Federal Family Education Loan Program).</p>	<p>Although the Department of Education is adapting a commercial off-the-shelf software package to implement permanent Federal Family Education Loan Program (FFELP) subledgers, the OIG reported</p>

GAO Report No. and Date	Recommendation	Agency Action
		<p>Guaranty agency oversight as a material weakness in its audit report on the fiscal year 1997 financial statements. The Department's general ledger accounts for loans Receivable activity reported by GAs on an aggregate basis and subsidiary records by GAs are not maintained.</p> <p>The Department's corrective action plan states that it will implement a subsidiary ledger, which tracks GA activities (such as loans receivable and reserves held by GAs) for each GA. The Department's milestone date for corrective action is September 1999.</p>
	<p>The Secretary of Education should direct the Assistant Secretary for Management and Budget/Chief Financial Officer and the Assistant Secretary for Postsecondary Education to jointly develop procedures to ensure that the general ledger is periodically reconciled to subsidiary records maintained by Office of Postsecondary Education.</p>	<p>The Department of Education will develop and implement reconciliation procedures in concert with its plan for adapting the commercial off-the-shelf software package for FFELP. The Department's anticipated completion date is September 1999.</p>
	<p>As part of the study of the role of guaranty agencies in GSLP required by the 1992 Amendments, the Secretary of Education should direct the Assistant Secretary for Postsecondary Education to develop a comprehensive plan for revising the role of guaranty agencies and the manner in which they are</p>	<p>The student loan programs were recently reauthorized by the Higher Education Amendments (HEA) of 1998. Overall, this legislation revised a number of loan policies in an effort to further improve both the effectiveness and efficiency of program operations. Changes made by the HEA of 1998 will impact</p>

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	<p>compensated. This plan should provide a clear explanation of the structure of guaranty agencies in relation to Education and recommendations as to where changes or modifications are needed. It should also include clear limitations and restrictions on the terms and conditions of any business activities that the guaranty agencies may undertake.</p> <p>In addition, this plan should address and where possible include recommendations on: (1) revising the formula for reimbursing guaranty agencies from one that stresses the collection of defaulted loans to one that provides more effective incentives for prevention of defaults; (2) the need and benefits of the current number of guaranty agencies versus the benefits of consolidating the guaranty agencies; (3) the role of guaranty agencies in a direct loan program, if any; and (4) changes to current legislation that will allow Education to implement the plan and oversee the program effectively.</p>	<p>students, lenders, GAs, schools and the federal government. For GAs, changes include reducing reinsurance payment levels from 98 to 95 percent of new loans, reducing default collection retention from 27 to 24 percent, introducing voluntary flexible agreements, and establishing new default aversion fees while discontinuing supplemental pre-claims assistance.</p> <p>In addition, the Department of Education, building upon provisions in the HEA of 1998, included in its "Fiscal Year 2000-Justification of Appropriation Estimates to the Congress" proposals for several complementary initiatives designed to strengthen the management and tighten collection of defaulted loans. These initiatives include (1) changing the amount GAs may retain on default collections from 24 to 18.5 percent and (2) eliminating the provisions that allow Gas to recoup an added 5 percent "complement" from subsequent default collections.</p> <p>As part of GAO's annual review process on open recommendations, we will assess the status of the recommendation on the role and responsibilities of GAs by discussing with the Department corrective actions taken to date and the impact of (1) various legislation and (2) the Federal Direct Loan Program.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-93-33 Sept. 9, 1993</p>	<p>The Secretary of Education should direct the Assistant Secretary of Postsecondary Education and the Chief Financial Officer to coordinate efforts to develop a comprehensive strategy for determining the accuracy of information reported on lenders' quarterly billings which would include developing objective criteria for selecting and reviewing lenders participating in FFELP.</p>	<p>GLOS developed a model using Education Form 799, "Lenders Interest and Special Allowance and Report," to identify High-risk lenders. This information, coupled with reports received from the National Student Loan Data System (NSLDS), is used for selecting and reviewing lenders participating in the FFELP. However, the OIG reported guaranty agency oversight as a material weakness in its audit report on the fiscal year 1997 financial statements. Education does not yet have effective controls over Guaranty Agency (GA) billings. There is no evidence that GA audit reports were performed in accordance with Education's August 1996 revised audit guidance (Compliance Supplement – Federal Family Education Loan Program – Guaranty Agencies). OMB also issued this audit guidance in its OMB Circular A-133 Compliance Supplement. Audit reports under OMB Circular A-133 were not available to Education until fiscal year 1998. Until this guidance has been fully implemented, audits of GAs will not provide sufficient information to verify the integrity of GAs' billings.</p> <p>The Department's corrective action plan indicates that it will compare data reported in the National Student Loan Data System (NSLDS) with data reported by GAs. The Department's milestone date for corrective action is September 1999.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>The Secretary of Education should direct the Assistant Secretary of Postsecondary Education and the Chief Financial Officer to coordinate efforts to monitor and follow up with lenders whose quarterly billings fail to meet Education's internal automated edit checks and reasonability tests.</p>	<p>The Department of Education plans to develop reports to provide the GLOS with information on those lenders whose quarterly billings fail to meet the Department's internal automated edit checks and reasonability tests. The Department expects these reports to be produced beginning in fiscal year 1999.</p>
<p>AIMD-97-122 July 29, 1997</p>	<p>Given the importance, cost, and magnitude of student financial aid and the information systems structure needed to support this aid, the Secretary of Education should direct the Department's chief information officer to develop and enforce a Departmentwide systems architecture by June 30, 1998, that includes, but is not limited to: (1) a high-level description of the organization's mission, functional requirements, information requirements, systems, and information flows among systems; and (2) specific information technology and communications standards and approaches that address critical hardware, software, communications, data management, security, and performance characteristics.</p>	<p>Education is still developing systems architecture for student financial aid. As a result of changes in the 1998 reauthorization of the Higher Education Act, operations for student financial aid delivery has been placed in a Performance Based Organization (PBO), separate from the Department. The PBO is developing a systems architecture separately from other departmentwide information systems activities. Student financial aid delivery systems, the focus of our report, are following a methodology that includes 4 components:</p> <ul style="list-style-type: none"> - an architectural framework; - a current baseline; - a target architecture; and - a transition strategy. <p>According to the newly appointed Chief Operating Officer of the PBO, he expects to have a systems architecture plan completed by September 1999.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>Given the importance, cost, and magnitude of student financial aid and the information systems structure needed to support this aid, the Secretary of Education should direct the Department's chief information officer to ensure that the developed systems architecture addresses the title IV systems integration, common identifiers, and data standards deficiencies.</p>	<p>Completion of this recommendation is dependent on completion of the previous recommendation.</p>
	<p>The Secretary of Education should direct that as of July 1, 1998, the Department's information technology investments conform to the developed architecture and that funding for all projects be predicated on such conformance, unless careful, thorough, and documented analysis supports an exception.</p>	<p>Completion of this recommendation is dependent on completion of the previous recommendation.</p>
<p>HEHS-95-89 July 11, 1995</p>	<p>The Secretary of Education should take actions to improve the accuracy and completeness of student financial aid data, such as continuing to screen data entered into the National Student Loan Data System (NSLDS) to ensure that they are in a consistent format, and testing the accuracy and validity of data in NSLDS. Further, the Secretary should analyze student aid data more closely to identify patterns of noncompliance with federal requirements, such as following up on students</p>	<p>Education continues to work on responding to this recommendation. For example, it is reconciling NSLDS data with guaranty agency records to identify and delete duplicate records on loans and loans not being updated, as well as improving access to NSLDS to those entities that provided data, to more easily allow them to correct data anomalies. Education is analyzing Social Security number identifier conflicts, after which it will implement revised criteria for verifying data. Education Also established a work group that is comparing</p>

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	identified as ineligible in the data matches, and take appropriate corrective actions.	NSLDS data elements to similar elements in guaranty agency files and is taking corrective action as needed.

High-Risk Area: Farm Loan Programs

Description of high-risk area: Farm loan programs were placed on the high-risk list in 1990 because the programs (1) had an exceptionally high rate of defaults and (2) had become a continual source of subsidized credit for nearly half of the borrowers under these credit programs. In 1996, the Congress made fundamental changes to the programs and we subsequently reported that if these changes were properly implemented, the financial risk associated with the farm lending programs would be significantly reduced. Despite indications of improvement in the farm loan portfolio's financial condition, which we reported in 1998, the farm loan programs remain on the high-risk list. While there currently are no open recommendations related to USDA's farm loan programs, we continue to monitor certain key issues associated with this high-risk area. For example, USDA continues to carry a high level of delinquent debt and to write off large amounts of unpaid loans held by problem borrowers. Also, the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, eased some of the lending reforms initiated under the 1996 Farm Bill. In addition, we and USDA's Inspector General have both reported on continuing management problems with farm loan programs.

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High-Risk Area: Asset Forfeiture Programs

Description of high-risk area: Since 1990, we have monitored the asset forfeiture programs operated by the Department of Justice and the Department of the Treasury. Many improvements in property management have been made to these programs, which had assets totaling about \$1.8 billion dollars, as of September 30, 1997. For example, in 1998 we reviewed the U.S. Marshals Service controls over certain seized property in four locations and found no material weaknesses or deficiencies in the controls we tested. Nevertheless, the programs continue to have significant weaknesses, including (1) inadequate asset forfeiture information systems, (2) a disclaimer of opinion on Justice's asset forfeiture program fiscal year 1997 financial statements, and (3) material weaknesses in internal controls reported in the auditor's report on the Treasury Forfeiture Fund's fiscal year 1997 financial statements. In addition, the Departments of Justice and Treasury continue to operate two similar but separate seized asset management and disposal programs without plans for management consolidation.

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GAO Report No. and Date	Recommendation	Agency Action
GGD-91-97 June 28, 1991	The Departments of Justice and Treasury should consolidate the management and disposition of all noncash seized properties in order to reduce program administration costs.	The Departments of Justice and Treasury have stated that property management and disposition have not been consolidated because (1) doing so appears contrary to legislation that established two separate funds, and (2) the savings estimates that we used to support our recommendation are not valid today. Specifically, officials said that, in 1988, the Congress enacted section 887 of title 21, United States Code, that provided for

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		<p>development and maintenance of a joint plan for postseizure administration of property seized under title 21. From 1988 to 1992, a series of reports and hearings, as well as our field work in 1990, documented serious problems with asset management and disposal by the Customs Service. Agency officials noted that by June 1991, when we recommended that postseizure administration of all noncash assets be consolidated under the Marshals Service, the federal asset forfeiture program was more consolidated. Justice and Treasury officials stated that, in October 1992, the Congress appeared to reject our recommendation. The officials said that through the creation of a separate Treasury Forfeiture Fund, the Congress directed that the Justice and Treasury programs were to be managed and administered separately. Officials said that with separate financial, management, and contract structures, consolidation would be more difficult in today's environment than in 1991. However, we continue to believe that the consolidation of asset management and disposition functions could reduce program administration costs and we encourage both departments to identify areas of duplication and pursue options for consolidation. Moreover, the provision in the 1988 law, which requires that Justice and Treasury maintain a joint plan to coordinate and consolidate post-seizure administration of certain property, is still in effect.</p>

GAO Report No. and Date	Recommendation	Agency Action
AIMD-94-6 Nov. 22, 1993	<p>The Commissioner of Customs should direct the Assistant Commissioners for the Offices of Enforcement, Inspection and Control, Commercial Operations, and Management (the Chief Financial Officer), in consultation with each other and other program officials, to enforce existing policies and procedures for: (1) safeguarding seized property; (2) maintaining accurate financial data on seized property inventory; and (3) controlling special operations advances and safeguarding related documents.</p>	<p>Customs' plan for upgrading its storage facilities has been hindered by inadequate funding. To mitigate this problem, Customs officials indicated that the General Services Administration built one of the planned storage facilities and that Customs now leases it. In addition, Customs has now received partial funding for the installation of security devices, and has installed them at several locations. However, Customs is awaiting the final approval of funding for the remaining storage facilities and for the remaining funds needed to fully install the security devices.</p>
	<p>The Commissioner of Customs should direct the Chief Financial Officer to require that the independent external auditor's recommendations to improve accounting and control over special operation advances be promptly and fully implemented.</p>	<p>Customs' Office of Enforcement issued policies and procedures for controlling special advances and safeguarding related documents. In addition, Customs developed software to address some of these control weaknesses, pending the development of a module in the Automated Information Management System (AIMS) to support special operations. However, policies and procedures are not being fully adhered to and the Treasury OIG has continued to report that accountability controls over special operations need improvement.</p>
	<p>The Commissioner of Customs should direct the Chief Financial Officer to improve Customs Property Tracking System information so that all seized property, especially cash and drugs, are</p>	<p>System deficiencies hampered Customs' ability to implement this recommendation. Customs developed and implemented a new system to track seized assets called Seized Assets and Case Tracking System</p>

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	<p>timely and accurately reflected in Customs' inventory records and financial reports.</p>	<p>(SEACATS). However, during implementation of SEACATS, Customs experienced significant problems converting data from the old systems to SEACATS. Consequently, the OIG in its fiscal year 1997 audit report concluded that SEACATS could not be relied upon to maintain accountability or manage fines, penalties, or property seizure transactions.</p> <p>To address the problems, Customs had to develop post-conversion programs to process and correct erroneous data, conduct exhaustive case file reviews, and perform a complete physical inventory. On the basis of the preliminary results of work performed by the Treasury OIG for its audit of Customs' fiscal year 1998 financial statements, Customs appears to have corrected many of the early implementation problems it experienced with the property information in SEACATS. However, Customs officials acknowledged that additional enhancements to SEACATS are necessary for the system to perform as originally envisioned. For example, Customs must still obtain currency information from outside the system to compile financial statement disclosures.</p> <p>In addition, the Treasury OIG reported that although improvements to computer controls have been made during fiscal year 1997, controls for the computer</p>

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		<p>application system for law enforcement activities showed that this system continued to be vulnerable to unauthorized access. Since the law enforcement system is a source of key data to seizure activity recorded in SEACATS, this vulnerability could affect the reliability of information in SEACATS. Customs recently contracted for a review of electronic data processing controls for SEACATS, which upon completion will be reviewed by the Treasury OIG.</p>

High-Risk Area: The 2000 Census

Description of high-risk area: The decennial census is the nation's most comprehensive and expensive statistical data-gathering program. Accurate results are critical because, as required by the Constitution, decennial census data are used to reapportion seats in the House of Representatives. Countless decisions affecting governments, businesses, and private citizens also depend on census data.

The Bureau of the Census has made progress in addressing some of the problems that occurred in the 1990 Census. While we currently do not have any open recommendations in this high-risk area, we are continuing to monitor a number of formidable challenges facing the Bureau in achieving a cost-effective, accurate, and complete census. These challenges include uncertainties over the Bureau's ability to build a complete and accurate address list and secure an acceptable mail response rate. Further, demographic, attitudinal, and other factors that adversely affected the cost and accuracy of the 1990 Census, such as concerns over privacy, may present an even greater challenge for the Bureau in 2000. In January 1999, the Supreme Court ruled against the Bureau's planned use of statistical sampling for purposes of congressional reapportionment. As a result, with barely a year's time until Census Day 2000, the Bureau must now change plans and quickly prepare for and implement coverage improvement enhancements to ensure the most accurate count possible without the use of sampling.

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High-Risk Area: Defense Inventory Management

Description of high-risk area: DOD uses its secondary inventory—spare and repair parts, clothing, medical supplies, and other items—to support its operating forces. In September 1995, DOD reported that it had a secondary inventory valued at \$69.6 billion. Based on DOD data, we estimated that about half of the inventory includes items that are not needed to be on hand to support DOD war reserve or current operating requirements. As a result of the lack of progress in implementing some of the key inventory management initiatives, it has become increasingly difficult for inventory managers to manage DOD's multibillion-dollar inventory supply system efficiently and effectively. Large amounts of unneeded inventory, inadequate inventory oversight, overstated requirements, and slowness to implement modern commercial practices are evidence of the lack of progress.

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GAO Report No. and Date	Recommendation	Agency Action
NSIAD-98-29 Dec. 22, 1997	<p>To improve the management of suspended items, the Secretary of Defense should direct the Secretary of the Air Force to ensure that, at Warner Robins: (1) suspended inventory is properly identified, monitored, inspected, and classified within established DOD timeframes; and (2) suspended items receive adequate visibility at all management levels, up to and including the service headquarters, through targeting suspended inventory problems as an issue for review in the Federal Managers' Financial Integrity Act assessments.</p> <p>The Secretary of the Air Force should direct Warner Robins ALC to establish explicit guidance on responsibility and accountability for resolving suspended inventory status, carry out necessary actions, and follow up to make sure that the actions have been promptly and correctly taken.</p> <p>The Secretary of the Air Force should conduct assessments of suspended inventory practices at the four other ALCs to determine the need for similar remedial actions and direct any affected ALC to take such actions.</p>	<p>DOD is in the process of ensuring that suspended inventory is properly identified, monitored, and inspected within established DOD timeframes. DOD is updating the current policy on timely processing of suspended items. The new policy will include the requirement for reporting a number of measurements on inventory in the suspended category. When complete, these measurements should provide visibility to senior management for controlling suspended inventories.</p>

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<p>NSIAD-98-47 Jan. 20, 1998</p>	<p>To encourage DLA and the services to more aggressively apply best practices to its operations, the Secretary of Defense should direct the Director, DLA, and the secretaries of each military service to establish a test of the integrated supplier concept at one or more repair depots. DLA and the military services should: (1) establish aggressive milestones for testing and implementing the prime vendor and integrated supplier programs so as not to delay implementing such programs if the tests find them to be feasible; and (2) develop the means to expeditiously measure the total costs and benefits under the prime vendor and integrated supplier programs to compare them to the total costs and benefits incurred under the traditional system.</p>	<p>On December 15, 1997 the Acting Deputy Under Secretary of Defense (Logistics) requested the Army identify a maintenance depot to test the prime vendor and integrated supplier concept. At that time, the secretary also requested that the Army, Navy, and Air Force identify operating bases to test the prime vendor concept. In response to the secretary's request, the Army identified Anniston Army Depot and Fort Riley as sites to test the prime vendor and integrated supplier concepts. The Navy identified Naval Aviation Depot North Island, Naval Aviation Depot Cherry Point, and Naval Aviation Depot Jacksonville as test sites. Finally, the Air Force identified Warner Robins Air Logistics Center as its test site for the concepts. The military services are in the process of establishing milestones and plans for testing the concepts. Also, as part of the test, DLA, in conjunction with the services, is developing an approach for assessing the costs and benefits associated with the prime vendor and integrated supplier concepts.</p>

High-Risk Area: Defense Weapon Systems Acquisition

Description of high-risk area: While DOD has produced many of the world's most capable weapon systems, its weapon system acquisition processes have often proved costly and inefficient, if not wasteful. Although DOD has many acquisition reform initiatives in process, pervasive problems persist regarding (1) questionable requirements and solutions that are not the most cost-effective available; (2) unrealistic cost, schedule, and performance estimates; (3) questionable program affordability; and (4) the use of high-risk acquisition strategies. Further, we have reported that (1) the underlying cause of these persistent and fundamental problems was a prevailing culture dependent on continually generating and supporting the acquisition of new systems; (2) inherent in this culture are powerful incentives and interests that influence and motivate the behaviors of participants in the process—including components of DOD, the Congress, and industry; and (3) it is not unusual for these interests to override the need to satisfy the most critical weapon requirements at minimal cost.

GAO has made many recommendations for addressing specific problems on individual weapon programs and on the acquisition process itself. Currently there are 41 open recommendations in the DOD weapon systems acquisition area. Some of the most important open recommendations are discussed below.

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GAO Report No. and Date	Recommendation	Agency Action
NSIAD-95-59 April 19, 1995	To minimize commitments to production of F-22 until after successful completion of independent operational test and evaluation, the Secretary of Defense should limit low-rate initial production	Although DOD initially disagreed with the recommendations, it made changes to the F-22 program in 1997 that reduced the degree of concurrency and the planned commitments to low-rate initial production.

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	<p>quantities to that which can be produced using the first set of hard tooling, about 6 to 8 aircraft a year. Also, the Secretary of Defense should reduce the degree of concurrency in the program because: (1) independent testing of technology advances will not be completed before significant commitments are made to produce F-22 aircraft; (2) the percentage of planned F-22 to be committed to production before completion of independent operational test and evaluation is higher than most recent fighter programs; and (3) the need for the F-22 is not urgent.</p>	<p>However, the reductions in the planned commitments did not minimize the commitments to 6-8 aircraft a year as we recommended.</p>
<p>NSIAD-96-45 June 28, 1996</p>	<p>The Secretary of Defense should conduct comprehensive cross-service assessments of overall joint close support mission needs, existing close support systems, and planned enhancements on a routine basis to determine whether and which proposed enhancements to close support systems should be funded, and in what quantities and priority. Such assessments might be made within the context of the joint warfighting capabilities assessment process although alternative mechanisms might be explored.</p>	<p>DOD stated that an assessment of what was needed for close support was to be done as part of the Land and Littorial Joint Warfare Capabilities Assessment, but that has not been completed or approved. Moreover, the acquisition process continues to endorse the development of new weapons without a realistic assessment of available alternatives.</p>
<p>NSIAD-96-190 Sept. 11, 1996</p>	<p>The Secretary of the Army should defer or restrict the purchase of Land Warrior systems until the</p>	<p>The recommendation had not been implemented in early 1998 when the contractor delivered prototypes to the</p>

GAO Report No. and Date	Recommendation	Agency Action
NSIAD-97-121 June 6, 1997	<p>Army: (1) determines the Army acquisition objective; (2) resolves critical technical and human factor problems; (3) demonstrates successful digital battlefield integration with prototype systems; and (4) ensures that Land Warrior equipped soldiers will outperform standard equipped soldiers in head-to-head testing.</p> <p>To minimize the risk of prematurely entering production, the Secretary of Defense should direct the Secretary of the Army to establish criteria specifying, at a minimum, that the Crusader system demonstrate that it meets all key requirements and is on schedule for meeting its reliability requirement before entering low-rate initial production and is operationally effective and suitable before entering full-rate production. If, at either point, the Crusader system does not demonstrate that it meets its requirements, then the Secretary of the Army should determine whether an alternative artillery system may be a better way to improve the Army's artillery capabilities.</p>	<p>Army that failed several required tests. The Army subsequently rejected the prototypes because of poor quality. Presently, the program is being restructured—it is likely that fielding will be postponed. However, the Army is still struggling with technical problems and has not successfully demonstrated digitized battlefield integration.</p> <p>DOD's response indicated that it was not required to establish such criteria until the program was at Milestone II of the acquisition process. That milestone is scheduled for October 2000.</p>
NSIAD-97-172 Sept. 18, 1997	<p>The Secretary of Defense should determine the appropriate attrition rates and mission capable rates to calculate Joint Primary Aircraft Training System requirements, taking into account the planned</p>	<p>DOD stated that there was no need to recalculate JPATS requirements and cited how its interpretation of historical data supported the current requirements.</p>

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	improvements in JPATS safety, reliability, and maintainability, and recalculate the requirements as appropriate.	
NSIAD-98-38 April 30, 1998	To avoid spending funds on construction from a design that may require costly modifications to meet requirements, the Secretary of Defense should require the Secretary of the Navy to conduct survivability modeling to assess the impact that reduced capabilities of various subsystems have on the survivability when integrated into the overall New Attack Submarine design.	The Navy believes its design is adequate and does not agree that survivability modeling is needed.
NSIAD-98-56 Feb. 24, 1998	To close the gap between policy and practice, the Secretary of Defense should take steps to ensure that sound standards for the timing and quality of production-related knowledge are applied to individual weapon system programs and used as a basis for assessing production risks and for making tradeoffs.	DOD concurred with this recommendation and has taken some policy-level steps toward implementing it. For example, our report has been added to DOD's acquisition deskbook, an electronic reference system for the acquisition workforce. However, DOD has found it difficult to overcome the pressures to approve individual weapon system decisions, such as on the F-22. We have reported that this system is proceeding into production with only a small amount of testing completed.
NSIAD-99-4 Oct. 15, 1998	The Secretary of Defense should clarify the Advanced Concept Technology Demonstration program guidance to (1) ensure the use of mature technology with few, if any, exceptions; and (2)	DOD revised its guidance on the use of mature technology but included language that allows for multiple exceptions. Although the use of mature technology is a hallmark of the program and a key

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<p>NSIAD-99-28 Nov. 19, 1998</p>	<p>describe when transition to the development phase of the acquisition cycle is necessary and the types of development activity that may be appropriate.</p> <p>To ensure that the Army considers all its options before it starts to develop a second production source for the FMTV, the Secretary of Defense should direct the Secretary of the Army to delay the Army's plans for developing a second source to produce FMTV trucks until the Army completes an analysis that compares the costs and benefits of its plans with those of other alternatives and to pursue the alternative that is most beneficial to the government.</p>	<p>determinant of its success, DOD has indicated that it does not want to unnecessarily restrict itself in all cases.</p> <p>The Army is conducting, per Congressional direction, an FMTV second source contractor cost and benefit analysis. However, although other alternative acquisition approaches exist, the Army plans to compare the costs and benefits of only two alternatives. We continue to believe that the Army should pursue the approach that is the most cost beneficial to the government.</p>
<p>NSIAD-99-32 Dec. 9, 1998</p>	<p>The Secretary of Defense, in conjunction with the Chairman, Joint Chiefs of Staff, and the Secretaries of the Army, Navy, and the Air Force, should reevaluate the planned guided weapons acquisition programs in light of existing capabilities and the current budgetary and security environment to determine whether the procurement of all planned guided weapon types and quantities: (1) is necessary and cost-effective in the aggregate; and (2) can clearly be carried out as proposed within realistic long-term projections of procurement funding.</p>	<p>DOD has not committed itself to the analyses of expected threats and current aggregate capabilities, which would provide support for making tough decisions about the number and type of guided weapons that, are needed. Without such analyses as well as sound and disciplined military and business judgment, DOD is unlikely to be able to pursue the curtailment or cancellation of one or more guided weapons programs.</p>

High-Risk Area: Defense Contract Management

Description of high-risk area: The need for DOD to achieve effective control over its payment process remains an imperative. If it does not, DOD continues to risk erroneously paying contractors millions of dollars and perpetuating other financial management and accounting control problems. While DOD is taking steps to improve its payment process and controls, it will likely take an extended period of time to get its payment problems under control. DOD is also exploring using outside contractors to identify overpayments. DOD's implementation of health care management programs, particularly the TRICARE Program, further illustrates DOD's difficulty in managing contracts.

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GAO Report No. and Date	Recommendation	Agency Action
NSIAD-97-37 Apr. 10, 1997	<p>Explore options to reduce the amount of detail accounting placed on the payment center.</p> <p>Close out existing contracts that cannot be reconciled because accurate and complete data are lacking.</p> <p>Explore opportunities for using best practices, including streamlined payment techniques, such as purchase cards.</p>	<p>DOD is aware of many of its payment problems and has a number of efforts underway to address them. It is attempting to strengthen its use of automated systems, ensure that these systems are integrated, and adopt best practices. However, these and other actions will take time to fully implement, in part, because of the complexity of the problems. Some payment problems involve more than one organization; others involve replacing old computer systems with new systems, which have yet to come online.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>NSIAD-99-12 Dec. 3, 1998</p>	<p>Evaluate the pricing structure that DFAS Columbus uses to charge its customers for accounting services.</p> <p>Focus future audit recovery efforts on the most recent purchases.</p> <p>Critically review the recovery auditing contractor's recommendations and implement those that are cost-effective.</p> <p>Consider the extent to which it may be cost-effective to undertake moderate internal efforts to identify overpayments before turning audit recovery efforts over to an external group.</p> <p>Establish a process for dealing with overpayments due other agencies.</p>	<p>This report was issued in December 1998, and DOD has not had the time to fully implement the recommendations. However, DOD said it concurs with our recommendation, has reviewed the contractor's recommendations, and is in the initial stages of efforts to implement them. Further, in response to an August 1998 DOD memorandum encouraging the use of recovery auditing, other DOD activities said they are developing plans to use recovery auditing or are considering its use. The extent to which these efforts will implement our recommendations remains to be seen.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>AIMD-98-274 Sept. 28, 1998</p>	<p>Strengthen payment processing controls by separating organizational responsibilities for entering (a) obligations and contract information; (b) invoice and receiving report information; and (c) changes in remittance addresses.</p> <p>Revise vendor payment system access levels to correspond with the segregation of organizational responsibilities recommended above.</p> <p>Reduce the number of employees with vendor payment system access by (a) identifying the minimum number of employees needing on-line access to specific functions; (b) determining whether the access levels given to each user are appropriate for the user's assigned duties; and (c) remove access from employees who are no longer assigned to these functions.</p>	<p>DFAS initiated a comprehensive review of the organization's internal controls in August 1998. The findings from this review were to be used to determine where separation of duties was inadequate and to develop and implement an action plan to improve separation of duties. Where the ability to adequately separate duties is limited by current systems configurations, an assessment is to be made to determine the most effective compensating internal controls. Within the DFAS-Denver Center network (which supports the Air Force), monitoring system access and vendor pay input is to undergo a third party review. Access to DFAS systems is to be reduced to the minimum number of personnel needed to successfully conduct business. DFAS indicated that the number of personnel with access to systems within the DFAS-Denver Center network for vendor pay was initially reduced by 1,109, or 48 percent. DFAS plans to continue to review its systems to ensure that employee access is limited to those functions necessary for the applicable employee to perform his or her duties without compromising the desired level of duty separation. The target date for completing corrective actions is September 30, 1999.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>Correct the system security control weaknesses in the operating system (mainframe) on which DFAS Denver's vendor payment system applications run.</p> <p>Assess the costs and benefits of implementing technological and/or administrative controls over user Ids and passwords.</p>	<p>DOD indicated that a corrective action plan was being developed to ensure that corrective actions are completed by September 30, 1999. For example, in response to the DISA Security Readiness Review of the Defense Megacenter at the DFAS-San Antonio Operating Location, performed at our request, the Megacenter developed a resolution plan with milestones to address each vulnerability.</p> <p>Due to the severity of the finding regarding unsecured password files, DISA took immediate action to secure password files. In addition, DFAS is working with DISA to evaluate, document, and correct other system control weaknesses identified during our field work. Corrective actions are targeted for completion by September 30, 1999.</p>
<p>AIMD-97-36R Feb. 20, 1997</p>	<p>Report in-transit transactions, in accordance with DOD's 60- and 120-day criteria, along with unmatched disbursements and negative unliquidated obligations in the monthly problem disbursement reports.</p>	<p>DOD agreed to prepare a separate report on in-transit problem disbursements. However, DOD has continued to understate the magnitude of its problem disbursements by netting or excluding problem in-transits from problem disbursement information that it provides to the Congress, such as testimony and annual reports. In addition, in February 1999, DFAS officials told us that DOD plans to discontinue reporting certain problem suspense transactions, which totaled about \$1 billion. As of October 1998, DOD reported to us that the absolute value of its problem disbursements totaled \$18.1 billion, an increase of \$.8 billion over the total DOD reported to us for September 1998.</p>
<p>HEHS-97-141 July 14, 1997</p>	<p>Continue the high-level management attention focusing on implementing change order process improvements.</p>	<p>DOD has initiated several actions to improve the change order process, including obtaining independent government cost estimates for the orders, and</p>

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		<p>establishing a change order team to expedite change order settlement. However, indications are that change order problems are continuing.</p>

High-Risk Area: DOE Contract Management

Description of high-risk area: DOE relies on contractors to perform about 90 percent of its work. Recently, it has significantly increased its use of competition in selecting contractors to manage and operate its major facilities, but it should do more. In addition, it is still not competitively awarding contracts for environmental restoration work at its national laboratories, even though it does so at other facilities. Although DOE originally planned to shift risk from the federal government to private contractors as a means of enhancing their performance, it now considers risk-sharing more appropriate. At its Hanford site in Washington State, for example, DOE assumed much of the risk that it initially planned to shift to the contractor.

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GAO Report No. and Date	Recommendation	Agency Action
RCED-94-202 Aug. 25, 1994	Ensure that the Departments new policies for nonprofit M&O contractors apply to the largest DOE non-profit contractors.	One of DOE's FY 1999 performance measures was to issue a new contractor fee policy by December 1998; however the policy was not issued until March 1999.

GAO Report No. and Date	Recommendation	Agency Action
	<p>Ensure that the fees paid to contractors for incurring increased financial risks are cost-effective by developing criteria for measuring the costs and benefits to the government of this approach.</p>	<p>In 1994, DOE began incorporating performance-based incentives in its management and operating contracts to better link contractors' fees to the satisfactory accomplishment of specific tasks. In 1997 and 1998, DOE's Inspector General found problems in the Department's implementation of these incentives, and in 1997, a department-wide assessment identified other concerns, such as limited guidance on developing and administering the incentives. Our July 1998 report indicated that DOE had taken steps to correct these problems, including issuing guidance, conducting training, and incorporating lessons learned into the fiscal year 1998 incentives. However, it was too early to assess the effectiveness of these incentives because DOE's technical, financial, and contracting personnel had not yet completed their reviews, which they performed at the end of the fiscal year. Moreover, as we reported in April 1998, DOE incorporated performance-based incentives for fiscal year 1998 in 16 of the 20 contracts we reviewed after the contractors had started their work. Thus, the incentives were less effective than they might have been in guiding and enhancing the contractors' performance.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>Require the University of California to obtain DOE advance approval for any research projects the University sponsors at the laboratory.</p>	<p>DOE partially agreed with the recommendation, and negotiated a change in the University of California's contract, effective May 30, 1995, that requires the University to provide information to DOE on any projects that the University sponsors at the Laboratory. While acknowledging that the University-directed research and development must be performed on a non-interference basis with any DOE directed and funded work the contract provision specifically states that the work does not require DOE approval.</p>
	<p>Review the instances in which DOE has less authority under the University of California contracts than is provided in the standard clauses and determine whether the basis for allowing the deviations are sound and whether DOE should use its authority to propose contract modifications to better protect the government's interests.</p>	<p>In late 1997, DOE issued its revised contract with the University of California to eliminate many of the nonstandard clauses. We have not yet reviewed DOE's actions, but because of congressional interest, we anticipate doing so in the near future.</p>
<p>RCED-95-10 Jan. 27, 1995</p>	<p>Evaluate alternatives for managing the laboratories that more fully support clear missions, achieve results by linking the laboratories' activities to DOE missions, and maximize the laboratories' resources.</p>	<p>DOE created the Laboratory Operations Board in April 1995 to provide leadership and management direction for the national laboratories. The Board developed a strategic laboratory missions plan and has produced several reports, some of which mirror our findings. More mission plans are expected. DOE has also strengthened its R&D Council and is using technology roadmaps, which are mini-strategic plans for specific</p>

GAO Report No. and Date	Recommendation	Agency Action
RCED-97-18 Dec. 10, 1996	<p>Should require that the goals written into the M&O contracts be clearly linked to DOE's strategic plan and annual performance goals.</p> <p>Continue reforms that are aimed at placing more cost risk on its contractors through use of cost incentives and in a further effort to bring M&O contracting into the mainstream of federal contracting.</p> <p>Require that a mandatory standards contract clause be included in all M&O contracts that gives DOE exclusive authority to set contract goals and incentives that support the strategic plans and missions of the Department.</p>	<p>program areas, as a way to focus laboratory missions and improve their management. However, evaluating how these actions will provide more laboratory focus and management improvement is difficult because they do not trace the progress of its initiative, nor do they measure the effectiveness of its actions.</p> <p>On June 27, 1997, DOE revised its acquisition regulations to require that contract performance and expectations be consistent with DOE's strategic goal and objectives. We have not yet evaluated DOE's progress in revising its contracts, but because of congressional interest, we anticipate doing so in the near future.</p> <p>DOE is preparing a new policy to accomplish this recommendation.</p> <p>DOE is preparing a new policy to accomplish this recommendation.</p>

GAO Report No. and Date	Recommendation	Agency Action
<p>RCED-97-63 March 14, 1997</p>	<p>Ensure that the Fernald Area Office strengthens its oversight at Fernald in order to correct the project management, safety and health programs, and performance and financial system weaknesses.</p>	<p>In response to our report, DOE implemented several site-wide activities to strengthen project management skills and improve communications between project managers and contractor officials. At this time we have not yet evaluated these efforts. However, we will look at these issues in future human capital audits at DOE</p>
<p>RCED-98-94 April 14, 1998</p>	<p>Ensure that contract reform initiatives that DOE has undertaken are fully integrated into the Fernald contract.</p>	<p>As of our latest update, DOE had not indicated its response to this recommendation.</p>
	<p>Modify the agency's contracting process to ensure adequate time is available to incorporate performance goals and fees in contracts for the start of the fiscal years work.</p>	<p>During fiscal year 1998, DOE established procedures that are intended to get the incentives approved by the beginning of fiscal year 1999. We have not yet reviewed DOE's actions. Future reviews will depend upon the results of DOE's self assessment of its progress.</p>

High Risk Area: Superfund Program Management

Description of high-risk area: Since EPA's Superfund program began in 1980, tens of thousands of waste sites have been discovered, including many federally-owned, and cleaning them up has proven far more complicated and costly than anticipated. Estimates are that cleanups could cost the federal government more than \$300 billion and the private sector billions more. Given this backlog of sites, federal agencies must use the limited cleanup funds available each year as efficiently as possible. Beginning in 1990, we identified certain Superfund management challenges that put the program at risk. First, EPA did not have systems in place that allowed the agency to fund the worst sites first—that is, to give funding priority to those sites that posed the highest health and environmental risks. Second, EPA lost the opportunity to recover billions in cleanup costs from those parties responsible for the contamination at waste sites because it did not assess them for certain costs of operating the Superfund program or effectively monitor its cost-recovery performance. Finally, EPA had problems in controlling the costs of contractors that is used to conduct cleanups, which is especially significant, given that EPA spends about half of its annual budget of up to \$1.5 billion on contractors.

In addition to the recommendations below, we plan to soon issue a report on Superfund program management issues, including an analysis of progress in correcting problems identified in prior High-Risk reports. We plan to recommend that (1) EPA and states work together to determine how best to share information on states' cleanup progress at greatest risk sites, (2) DOD work with the Forest Service to identify sites where prior DOD activities may pose human health and environmental risks, (3) Interior instruct its agencies to identify potential hazardous waste sites and develop a comprehensive cleanup strategy, (4) EPA apply their new indirect cost rate to cost recovery settlements, (5) EPA design methods to periodically review whether regions have implemented actions recommended by the Army Corps of Engineers and improve the accuracy and use of cost estimates to set the best contract price for the government, (6) EPA identify a cost-effective method of providing estimators access to detailed site-specific historical cost data they need to generate more accurate estimates, (7) EPA complete a review of the number of Superfund contracts that it needs, and (8) EPA ensure that the Contracts 2000 initiative results in a comprehensive strategy for improving contract management practices.

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GAO Report No. and Date	Recommendation	Agency Action
RCED-94-196 Sept. 28, 1994	To ensure maximum recovery of EPA's cleanup costs from the parties responsible for these costs, we recommend that the Administrator of EPA expedite the issuance of the regulation on indirect costs.	In 1992, EPA proposed a rule to expand the types of indirect costs that it seeks to recover. After receiving negative comments on the rule, EPA did not issue a final rule. Currently, to comply with federal cost accounting standards, the agency is developing a new indirect cost rate to better account for the agency's costs, which could increase the costs charged to responsible parties. Before EPA implements the new rate, EPA's cost recovery managers are waiting for the methodology used to develop the new rate to be approved by the Department of Justice, which litigates cost recovery cases, and EPA, which the agency expects to occur in mid-1999.
RCED-94-196 Sept. 28, 1994	To ensure maximum recovery of EPA's cleanup costs from the parties responsible for these costs, we recommend that the Administrator of EPA establish goals for early action on cases and for the percentage of costs to be recovered.	According to EPA, the agency has not established goals for early action on cases because it wants to give the regions discretion as to when they can address cases. Also, EPA has not created a goal for a percentage of costs to be recovered since it is concerned that if it publicizes such a percentage, responsible parties would not agree to pay a higher percentage during settlement negotiations.

GAO Report No. and Date	Recommendation	Agency Action
AIMD-95-177 Aug. 25, 1995	To improve EPA's ability to recover costs associated with cleaning up hazardous waste sites, we recommend that the Administrator of the Environmental Protection Agency take steps to ensure that cost recovery data and supporting documentation are complete and accurate by improving the documentation of financial systems' application controls to help ensure accurate data input, processing, and output.	EPA believes (1) it has sufficient documentation of application controls and (2) creating further application control documentation for its integrated financial management system would not be beneficial since EPA has stated that it plans to replace the current financial management system with a new system. We continue to take the position that until EPA implements the new system and documents its application controls, the agency cannot ensure that data input, processing, and output to support cost recovery are accurate.
RCED-99-8 Nov. 30, 1998	Because of the need for current and accurate information on the risks posed by 1,789 sites that are potentially eligible for the National Priorities List in order to set cleanup priorities and delineate cleanup responsibilities, we recommend that the Administrator, EPA, in consultation with each applicable state, develop a timetable for EPA or the state to characterize and rank the risks associated with the potentially eligible sites.	EPA is currently in the process of drafting a response to our recommendations. Preliminary indications are that the agency will (1) target high risk sites awaiting listing decisions for possible removal action, if needed, and (2) accelerate the pace of listing sites on the National Priorities List.

GAO Report No. and Date	Recommendation	Agency Action
	<p>Because of the need for current and accurate information on the risks posed by 1,789 sites that are potentially eligible for the National Priorities List in order to set cleanup priorities and delineate cleanup responsibilities, we recommend that the Administrator, EPA, in consultation with each applicable state, establish interim cleanup measures that may be appropriate for EPA and the state to take at potentially eligible sites that pose the highest risks while these sites await either placement on the National Priorities List or state action to fully clean them up.</p>	<p>EPA is currently in the process of drafting a response to our recommendations in this report. Preliminary indications are that the agency will (1) target high risk sites awaiting listing decisions for possible removal action, if needed, and (2) accelerate the pace of listing sites on the National Priorities List.</p>

GAO Report No. and Date	Recommendation	Agency Action
	<p>Because of the need for current and accurate information on the risks posed by 1,789 sites that are potentially eligible for the National Priorities List in order to set cleanup priorities and delineate cleanup responsibilities, we recommend that the Administrator, EPA, in consultation with each applicable state, develop a timetable for determining whether EPA or the state will be responsible for cleaning up individual sites.</p>	<p>EPA is currently in the process of drafting a response to our recommendations in this report. Preliminary indications are that the agency will (1) target high risk sites awaiting listing decisions for possible removal action, if needed, and (2) accelerate the pace of listing sites on the National Priorities List. In our current draft report on Superfund program management, scheduled for release in late April, we reiterate EPA's need to work with the state to determine whether EPA or the state will be responsible for cleaning up sites and recommend further that EPA work with the state on how to share information on state cleanups at high risk sites.</p>

High-Risk Area: NASA Contract Management

Description of high-risk area: While there currently are no open recommendations related to NASA's contract management, we continue to monitor certain key issues associated with this high-risk area. NASA's contract management was designated as a high-risk area in 1990. The agency had ineffective systems and processes for overseeing contractors' activities and NASA field centers had failed to comply with contract management requirements. As recently as July 1998, we reported that NASA had delayed implementation of its integrated financial management system, had not completed its field centers' procurement activities based on international performance, and had not yet completed an initiative to evaluate its field centers' procurement activities based on international quality standards and its own procurement surveys. Until its financial management system is developed and operational, performance assessments relying on cost data may be incomplete. Because of the delay in implementing the financial management system, NASA's contract management will remain a high-risk area.

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