

GAO

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

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January 1997

# STATUS OF OPEN RECOMMENDATIONS

## Improving Operations of Federal Departments and Agencies



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G A O  
**75** *years*  
1921 - 1996

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

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**Comptroller General  
of the United States**

B-205879

January 24, 1997

The Honorable Ted Stevens  
Chairman  
Committee on Appropriations  
United States Senate

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

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

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

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

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

A handwritten signature in black ink that reads 'James F. Hinchman'. The signature is written in a cursive style with a large initial 'J'.

James F. Hinchman  
Acting Comptroller General  
of the United States

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B-205879

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# Preface

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Each year, GAO's work contributes to many legislative and executive branch actions that result in significant financial savings and other improvements in government operations. Some, but not all, are identified through GAO's system for periodically following up to determine the status of actions taken on the recommendations made in its audit and evaluation reports. About 70 percent of the recommendations made over the past 5 years have been implemented.

This report includes summaries highlighting the impact of GAO's work and associated key open recommendations—those recommendations which have not been fully implemented. It also includes a set of computer diskettes with details on all open recommendations. This information should help congressional and agency leaders prepare for upcoming appropriations and oversight activities and stimulate further actions to achieve the desired improvements in government operations.

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

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

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**Abbreviations**

ADP	automatic data processing
AFDC	Aid to Families With Dependent Children
AID	Agency for International Development
AOUSC	Administrative Office of the U.S. Courts
ATF	Bureau of Alcohol, Tobacco, and Fire Arms
BIF	Bank Insurance Fund
CBO	Congressional Budget Office
CDC	Centers for Disease Control
CDR	continuing disability reviews
CFO	Chief Financial Officers
CIO	Chief Information Officer
CPA	certified public accountant
CTR	cooperative threat reduction
DEA	Drug Enforcement Agency
DFAS	Defense Finance and Accounting Service
DI	Disability Insurance
DLA	Defense Logistics Agency
DOD	Department of Defense

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**Contents**

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DOE	Department of Energy
DOL	Department of Labor
DOT	Department of Transportation
EEOC	Equal Employment Opportunity Commission
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FASAB	Financial Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FDA	Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FHWA	Federal Highway Administration
FRA	Federal Railroad Administration
FRF	Federal Savings and Loan Insurance Resolution Fund
FTA	Federal Transit Administration
GAO	General Accounting Office
GNMA	Government National Mortgage Association
GPR	Government Performance and Results Act
GSA	General Services Administration
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HMO	health maintenance organizations
HUD	Department of Housing and Urban Development
IG	Inspector General
INS	Immigration and Naturalization Service
IRM	information resources management
IRS	Internal Revenue Service
IT	Information Technology
JOBS	Job Opportunities and Basic Skills Training Program
JTPA	Job Training Partnership Act
MRI	magnetic resonance imaging
NASA	National Aeronautics and Space Administration
NHSC	National Health Service Corporation
NHTSA	National Highway Traffic Safety Administration
NIH	National Institutes of Health
NPR	National Performance Review
NSF	National Science Foundation
NSLDS	National Student Loan Data System
OBRA	Omnibus Budget Reconciliation Act of 1993
OCC	Office of the Controller of the Currency



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**Contents**

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OCSE	Office of Child Support Enforcement
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
PASS	self-supporting program
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SAMSA	Substance Abuse and Mental Health Services Administration
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SES	Senior Executive Service
SRO	self-regulating organizations
SSA	Social Security Administration
SSI	Supplemental Security Income
STARS	Standard Accounting and Reporting System
TSM	Tax Systems Modernization
TVA	Tennessee Valley Authority
USDA	United States Department of Agriculture
USPS	United States Postal Service
USTF	Uniformed Services Treatment Facilities
VA	Department of Veterans Affairs

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# Improving National Security and International Affairs Programs

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## Defense Acquisitions Issue Area (Budget Function 050)

GAO Contact: Louis Rodrigues, 202/512-4841

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### Impact of GAO's Work

The Department of Defense's (DOD) planned acquisitions and modernization of weapon systems will require a significant investment over the next several years and will have to be done under the pressure of reduced budgets. DOD and defense industries have undertaken efforts to streamline and simplify acquisition processes with the goal to reduce acquisition costs and at the same time ensure technological leadership and a strong, competitive industrial and technology base. Similar efforts are underway for National Aeronautics and Space Administration programs.

During fiscal year 1996, we evaluated the development and production of individual systems and their associated budgets to determine the extent to which the systems are needed in the current environment and are being acquired efficiently and effectively. We evaluated the degree to which acquisition reforms are being implemented and are contributing to reduced costs while enhancing U.S. competitiveness and technological leadership. We also began a series of jobs to determine best acquisition practices and have reviewed several aspects of the acquisition infrastructure. In addition, to assist the Senate and House Appropriations Committees, the Senate Armed Services Committee, and the House National Security Committee, we did specific budget analyses that identified about \$3.7 billion in potential reductions and rescissions in the fiscal year 1997 and prior-year budgets for procurement and for research, development, test, and evaluation.

We continued our reviews of major weapon systems such as the B-2, F/A-18E/F, C-17, and F-22 aircraft and unmanned aerial vehicles. We also continued our work on DOD's development of space systems.

On many occasions, we provided the Congress with information on these reviews to assist in its oversight of these programs. For example, we identified \$22 million in specific reductions in the C-17 budget for initial spare parts, and we found that DOD could reduce its planned C-17 purchase and still meet airlift needs. With this reduction, DOD could reduce costs as much as \$7.5 billion.

During our work on unmanned aerial vehicles, we found that the Hunter system had poor system reliability and performance problems and did not

meet performance requirements. As a result of our findings, DOD cancelled the Hunter system and reduced costs by \$1 billion. Also, as a result of our work on space systems, the Congress restricted DOD from procuring additional Titan IV launch vehicles, which resulted in cost reductions of \$2 billion.

Our work on the federal acquisition infrastructure resulted in a recommendation to reduce the number of personnel involved in acquisition functions by 25 percent over 5 years. When implemented, this reduction will reduce the workforce associated with DOD's acquisition organizations by approximately 90,000 and provide cumulative cost reductions of \$5.5 billion over 5 years.

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Key Open  
Recommendations

In August 1994, we reported that nine contractors had unresolved payment discrepancies totaling about \$118 million—\$30.3 million in overpayments and \$87.7 million in underpayments. These overpayments and underpayments result in significant unnecessary costs to the government. Overpayments increase the government's interest costs because funds are needlessly disbursed, and underpayments increase costs because of the interest to be paid on overdue amounts. We recommended that DOD make available contract, financing, and audit resources to identify, verify, and correct payment discrepancies identified in contractors' records. (GAO/NSIAD-94-245)

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

Our work on the F/A-18E/F program showed that (1) the operational deficiencies in the F/A-18C/Ds the Navy cited in justifying the F/A-18E/F either have not materialized as projected or could be corrected with nonstructural changes to the C/D and (2) the next generation fighter aircraft's—Joint Strike Fighter—operational capabilities were projected to be equal or superior to the F/A-18E/F at a lower unit cost. We recommended DOD fully examine the alternatives to the E/F program. (GAO/NSIAD-96-98)

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**Chapter 1**  
**Improving National Security and**  
**International Affairs Programs**

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In March 1996, we reported that the inconsistent selection of a particular instrument (e.g., cooperative agreements or other transactions) and treatment of specific clauses could increase confusion for government and industry users and could hinder their effective use to support or acquire research. We recommended DOD ensure that its revised guidance on the use of cooperative agreements and other transactions promote increased consistency among DOD components on the selection and structure of these instruments. (GAO/NSIAD-96-11)

See also chapter 5, Financial and Information Management Programs, Defense Financial Audit Issue Area.

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**Defense Management  
Issue Area (Budget  
Function 050)**

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

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**Impact of GAO's Work**

DOD managers face many challenges as they strive to streamline operations, control cost growth in high interest programs, manage existing infrastructures, and accomplish their missions.

Our overall strategy for Defense Management issues is to identify innovative, efficient, and cost-effective approaches to improve DOD management and reduce infrastructure costs. We focus on encouraging the reengineering and streamlining of Defense operations through new processes and best management practices and, where appropriate, the privatization of functions and activities. Our goal is to identify opportunities to save money, achieve management efficiencies, and improve results.

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

In fiscal year 1996, we assessed the transition of former military bases to civilian use, depot maintenance workloads, inventory management, and opportunities to save money and achieve management efficiencies by implementing best management practices. We also addressed DOD's unfunded liabilities, including environmental cleanup costs at bases being closed and the disposal of the chemical weapons stockpile.

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**Key Open  
Recommendations**

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

As part of our best practices work, we recommended that the Navy, working with the Defense Logistics Agency (DLA), develop a demonstration project to determine the extent to which the Navy could apply best practices to its logistics operations, using the specific practices highlighted in our report. We recommended that the practices be tested in an integrated manner to maximize the interrelationship that many of these practices have with one another, to quantify the costs and benefits, and to serve as a means to identify and alleviate barriers or obstacles that may inhibit their expansion. (GAO/NSIAD-96-156)

To build on Air Force reengineering efforts and achieve major logistics system improvements, we recommended that top-level DOD managers support and lead Air Force reengineering efforts to ensure success. (GAO/NSIAD-96-5)

To enhance its reengineering efforts, we recommended that the Air Force incorporate additional leading-edge logistics concepts into the Lean Logistics Program, report on its strategy to adopt these leading practices, and expand the reengineering program Air Force-wide. We recommended that the Secretary of Defense use our report to set forth actions and milestones to alleviate any barriers or obstacles, provide the appropriate resources, and ensure collaboration between the Air Force and other DOD components. We recommended that once these steps are taken, the Air Force institutionalize a reengineering effort that is consistent with successful private sector reengineering efforts. (GAO/NSIAD-96-5)

We recommended that the Secretary of Defense direct that defense transportation reengineering efforts simultaneously address process and organizational structure improvements. (GAO/NSIAD-96-60)

See also chapter 5, Financial and Information Management Programs, Defense Financial Audit Issue Area.

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International  
Relations and Trade  
Issue Area (Budget  
Function 150)

GAO Contact: Benjamin Nelson, 202/512-4128

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Impact of GAO's Work

Managing foreign policy interests efficiently at a time of overall discretionary spending reductions continues to be a dominant theme of our work. Global change and federal budget constraints required reassessments of the extent to which foreign affairs agencies, policies, and programs serve U.S. security, political, economic, and other interests. To assist the Congress in its oversight responsibilities and make a significant impact on major international relations and trade issues, we conducted extensive work on the structure, functions, and size of the U.S. government and international organizations that receive U.S. funding. We also reviewed the progress and costs of U.S. programs and activities in selected regions around the world and the management and effectiveness of policies and programs targeting key U.S. objectives.

We conducted several extensive reviews at the foreign affairs agencies and suggested cost reduction options that could be considered if funding is reduced. We pointed out that the U.S. Information Agency has undertaken significant reforms to accommodate reduced appropriations but could make additional cuts and continue to protect U.S. interests, if fiscal conditions require. For example, the agency could reduce its overseas presence and activities, the size of exchange programs, and the scope of international broadcasting. Some of these activities may no longer retain the importance they had when they were first funded decades ago. We reported that the State Department had done relatively little to implement reforms and was not prepared to cope with potential funding reductions. Given the likely decline in discretionary spending in the federal budget and the various proposals for reductions in State's budget, we concluded that State needed to (1) plan how it could become a smaller, more efficient, and less expensive organization and (2) conduct a fundamental rethinking of functions, locations, and practices to determine what is essential and affordable to support U.S. interests. In addition, we reported that State could generate millions of dollars of proceeds by selling unneeded real estate at its overseas locations. We have identified several management tools that could help State adjust to today's fiscal conditions. At the Agency for International Development (AID), we examined reform efforts

and analyzed current and planned uses of operating expenses to assist congressional deliberations on funding.

In the multilateral arena, we examined the World Bank's role in enhancing the flow of international private investment capital to developing countries, the extent to which Bank projects achieved their developmental objectives, the Bank's progress in reforming its operations to improve effectiveness, and the extent to which the Bank supported U.S. foreign policy goals. This study provided critical information to help the policy debate and assist the Congress in deciding to what extent continued U.S. participation in the World Bank serves U.S. interests. We also assessed U.S. involvement in many other international organizations and U.S. participation in multilateral peacekeeping efforts in Bosnia, Cambodia, Haiti, and elsewhere. This work has been useful to Congress in its oversight, helping form the basis for hearings on the situation in Bosnia and a resolution regarding human rights in Cambodia.

In the trade area, we reviewed U.S. programs to advance U.S. interests through export promotion and better market access. We reported that the interagency Trade Promotion Coordinating Committee had made some progress in its efforts to coordinate federal export promotion and financing activities, establish governmentwide export promotion priorities, and develop a unified export promotion budget. We suggested ways to strengthen the Coordinating Committee's most visible output—a nationwide network of export assistance centers to provide one-stop services to exporters. We also provided to the Congress critical information and analyses on foreign trade practices and multilateral trade agreements that affect U.S. businesses' ability to compete in world markets. For example, we reported on the potential ability of foreign State trading enterprises to enjoy unfair advantages in competition with U.S. firms. We also monitored the many issues associated with implementation of the World Trade Organization to ensure that the economic gains expected by the United States were being achieved in agricultural, service, and other areas. We proposed to the Congress various actions to improve its oversight and increase the transparency of actions taken by the U.S. Committee for the Implementation of Textile Agreements in administering the U.S. textile program. We also reviewed the nature and extent of counterfeiting of U.S. currency abroad. This review served as a basis for hearings on U.S. enforcement efforts. Finally, we evaluated the 1994-95 Mexican financial crisis, including its origins, the advice U.S. government and International Monetary Fund officials provided to Mexico, the



multilateral financial assistance provided to Mexico, and Mexico's initial recovery efforts.

In the arms control area, we examined efforts to reduce the threat from weapons of mass destruction through the dismantling of nuclear weapons in the former Soviet Union, better international accountability for nuclear materials, and effective export controls. Acting on a suggestion in our 1995 report on DOD's Cooperative Threat Reduction (CTR) Program, the Congress cut funding by \$31 million because of the questionable need for the full amount requested by the executive branch. The Congress and DOD also acted on our 1994 recommendation concerning the need for a long-range CTR planning process. DOD agreed to our 1996 recommendations that should further improve CTR planning and prevent DOD from obligating funds for constructing a multimillion-dollar chemical weapon destruction plant in Russia until costs are better defined. DOD has also agreed to our recommendations that should improve the quality of DOD's annual CTR audit report to Congress. Using our 1996 report, the Congress passed legislation designed to strengthen nuclear material control systems in Russia, counter the smuggling of nuclear materials, and establish response teams to deal with terrorist attacks involving weapons of mass destruction.

In the international drug control area, we issued a series of reports and testimonies on the nature of the drug threat to the United States, the U.S. international drug control strategy and programs designed to address this threat, the adequacy of drug sources' and transit nations' drug control efforts, and major obstacles that prevent effective implementation of U.S. programs.

We reported on U.S. efforts to control heroin coming from Southeast Asia, U.S. interdiction activities in the Caribbean, and U.S. counternarcotics programs in Mexico. Our work provided critical assistance to congressional committees that were attempting to determine the overall effectiveness of the U.S. international drug control strategy. Our products assisted the Congress in returning the U.S. overall drug control policy to the forefront of debate, and they received extensive media coverage.

We provided detailed information on U.S. programs in the former Soviet Union, including our observations on the effectiveness of assistance projects. As a result of our recommendations, the Agency for International Development plans to (1) focus future projects on the achievement of systemic Russian government reforms, (2) obtain more support for

projects from the Russian government, and (3) improve project implementation in Russia by stationing contractors there.

We also responded to requests of congressional committees and members with information and observations on a wide range of issues, including U.S. broadcasts to Cuba, travel by executive branch officials, controls over funds provided for the benefit of the Palestinian Authority, and food supplies in Sub-Saharan Africa.

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**Key Open**  
**Recommendations**

In 1994, we recommended that the State Department develop a fully integrated, objective, quantifiable methodology to help ensure a sound basis for allocating personnel in line with U.S. interests overseas. State hopes to have sufficiently developed such a methodology for use in formulating its budget submission for fiscal year 1998. Because stationing staff overseas is costly, State must be able to ensure that it stations no more staff than are needed at each of its 252 overseas posts. The budget austerity State faces reinforces the importance of implementing this recommendation. (GAO/NSIAD-94-228)

In 1996, we recommended that the Secretary of State take a number of actions to better identify unneeded properties, sell or otherwise dispose of these properties, and ensure optimal use of the sale proceeds. For example, we recommended that the Secretary establish an independent panel to make recommendations regarding the sale of excess real estate to reduce the current inventory of property. Actions have not been taken on these recommendations. However, consistent with our recommendation, the Senate Appropriations Committee has directed State to establish an advisory board on real property management to review properties proposed for sale and submit its recommendations to the Under Secretary for Management. (GAO/NSIAD-96-36)

In 1995, we recommended that the Congress terminate the Agency for International Development's Housing Guaranty Program. The Congress included language to terminate the program in its 1996 foreign assistance authorization legislation, but the President vetoed the bill. (GAO/NSIAD-95-108)

In 1996, we recommended that the Director, Office of National Drug Control Policy, develop a regional action plan focused on the Caribbean transit zone for cocaine coming to the United States. This plan should determine resources and staffing needed and delineate a comprehensive strategy to improve host nation capabilities and commitment to

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**Chapter 1**  
**Improving National Security and**  
**International Affairs Programs**

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counternarcotics interdiction. The Office of National Drug Control Policy is considering our recommendation as part of an ongoing evaluation of the entire drug control strategy. (GAO/NSIAD-96-119)

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

GAO Contact: Mark Gebicke, 202/512-5140

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**Impact of GAO's Work**

During fiscal year 1996, we completed several reviews on military operational budget issues, identifying areas where program savings were possible or improved management practices were needed. We also provided important trend data regarding the readiness of U.S. military forces, pointing out some continuing limitations in the data; highlighted areas where improvements in operational capabilities were needed; and continued to examine personnel management issues related to DOD's downsizing.

During our review of DOD's operations and maintenance budget requests, we found that proposed uses of the requested funding might not always reflect how funds received are obligated. For example, we found that the Army has historically requested more funds than it obligates for its combat forces and often obligated more for infrastructure and management activities than it requested. We identified similar trends in Air Force operations and maintenance funding. In two reviews of the services' budgeting for spare and repair parts, we found weaknesses in the services' policies and procedures for determining requirements and budgets for spare parts. These weaknesses were leading to erroneous estimates of inventory requirements, causing budget requests to be overstated. For example, we found that the Air Force and Navy budgeted \$132 million more than needed for aviation spare parts. During our review of retention bonuses paid to service members, we found that DOD needed to be more involved in directing and overseeing (1) retention bonuses, to minimize their award to soldiers in skill areas already having high retention rates, and (2) separation incentives, to minimize their award to soldiers in the same skill areas as those being awarded retention bonuses.

We identified significant funding and other problems associated with DOD's management of its ammunition stockpile—problems that if left unattended will get worse. The ammunition stockpile is worth about \$80 billion; about \$31 billion is excess—including \$22 billion that was still usable. Much of the ammunition exceeds the services' needs in varying quantities, some over 50 times their stated needs. While there are shortages of some specific ammunition types, overall the services generally have enough

ammunition to meet their wartime and peacetime requirements. The services could share their excess ammunition, avoiding \$19 million in ammunition purchases annually. The condition of some ammunition is unknown because of delays in inspections and testing, which are important to ensure that war reserve items are usable, and properly classified as to condition and safety. At the same time, the volume of stockpiled ammunition awaiting disposal continues to grow due to an inability to meet existing demands for disposal.

In our examination of readiness indicator data developed by the military services from January 1990 to March 1995, we found that the percentage of military units with the ability to undertake all or major portions of their assigned missions remained generally stable during that time. However, readiness declined below service goals in 20 percent of the units we examined; drops in five of these units were for fairly short periods of time due to participation in contingency operations. In remaining units, readiness reductions were caused primarily by personnel or equipment shortages and difficulty in obtaining training in certain occupations. An update of that data for selected units for the period April 1995 to March 1996 found an improvement of 12 percent over the prior period, with 92 percent of the units meeting service goals for readiness.

A separate report, dealing with the increased frequency of personnel being deployed for contingency operations in recent years, noted that the services' traditional readiness reporting data does not capture all of the factors DOD considers critical to a comprehensive readiness analysis, such as operating tempo and personnel morale. DOD lacks adequate guidance and definitions associated with deployments to accurately and consistently track and measure the extent of increased deployments on individuals or the impact on readiness. A clear policy is needed to guide management of frequently deployed units.

During our work examining chemical and biological defense issues, we found that units designated for early deployment today continue to face many of the same problems experienced by U.S. forces during the Gulf War. DOD activities undertaken since the war are improving the readiness of U.S. forces to operate in a chemically or biologically contaminated environment. However, equipment, training, and medical shortcomings persist and require greater emphasis to reduce the potential for needless casualties and a degradation of US. war-fighting capability.

The Gulf War highlighted major weaknesses in the Navy's capability to detect and disarm enemy mines. Critical areas in the Navy's mine countermeasures capabilities remain unmet, and the Navy is pursuing several different projects to address these areas. However, it has not established clear priorities among all of its mine warfare programs to sustain the development and procurement of its most needed systems. Consequently, the Navy has experienced delays in delivering new systems to provide necessary capabilities. A long-range plan is needed to identify the gaps and limitations in the Navy's mine countermeasures capabilities and establish priorities among the competing projects and programs, including those in research and development.

We have maintained a focus on DOD's personnel reductions during its downsizing. As the downsizing has progressed, some concerns have been registered about the impact of civilian downsizing on mission accomplishment and readiness. During our 1996 review of civilian downsizing, we found that while the downsizing had some impact on operations, such as the amount of time it takes to accomplish some work, it had not adversely affected military readiness at the installations we visited. However, some concerns were voiced that future civilian reductions could adversely affect military readiness if the process is not managed carefully.

The Office of the Secretary of Defense and the military services continue to have differences of opinion about wartime medical personnel requirements, and their respective studies produce conflicting requirements. Further study to resolve the issue has been delayed due to lack of agreement over study assumptions. Meanwhile, absent any change in requirements, overall DOD active duty end strengths are expected to decline by twice the rate of decline in medical forces from fiscal year 1987 to fiscal year 1999.

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**Key Open**  
**Recommendations**

We reported in October 1994 that substantial savings and other operational benefits could accrue if DOD were to identify and replace military support positions with civilians. We identified major differences among the services in the percentage of positions in specific support fields that were filled by civilians. In a mandated report to the Congress, DOD reported on an occupational analysis of its workforce and concluded, as we did, that civilians could be used for many positions. However, DOD does not plan to make such conversions until the downsizing is completed on the grounds that it would be counterproductive to increase civilian

positions while the total workforce continues to decline. We believe that our recommendation remains valid and should be acted upon by DOD. We are nearing completion of additional work that identifies several thousand officer positions in the Army, Navy, and Air Force that civilians may be able to fill at lower cost and potentially greater long-term productivity because of less frequent personnel rotations involving civilian personnel. (GAO/NSIAD-95-5)

We made several recommendations to the Secretary of Defense to address the weaknesses we identified in 1996 in the chemical and biological defense area. Among them was a recommendation that the Secretary reevaluate the priority and emphasis given to this area throughout DOD. Also included was a recommendation that the Secretary consider modifying the services' readiness reporting requirements so that unit reports would more directly capture the units' chemical and biological readiness status and more accurately reflect shortcomings in their abilities to meet existing chemical and biological training standards. (GAO/NSIAD-96-103)

We have also made several recommendations to the Secretary of Defense to address the need for more complete data on the impact of frequent deployments on personnel and units. Among them was a recommendation that the Secretary identify key indicators to provide the best measures of deployments' impact on personnel readiness. Also included was a recommendation that the Secretary of Defense issue regulations to guide the services' management of personnel tempo by defining minimum data that each service must collect and maintain on the subject. (GAO/NSIAD-96-105)

See also chapter 5, Financial and Information Management Programs, Defense Financial Audit Issue Area.

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

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

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**Impact of GAO's Work**

DOD faces difficult policy, programmatic, and budgetary decisions as it seeks to support the national security strategy in a world characterized by diverse and changing threats. To meet this challenge, DOD must maintain its forces in a high state of readiness and capability and must continue to modernize in a time of tight budgets and shrinking military end strength. Our reports and testimonies have been used extensively by the Congress in its oversight of budget, force structure, modernization, peacekeeping, and intelligence issues.

To help the Congress evaluate the defense budget, we analyzed DOD's Future Years Defense Program and reported that anticipated infrastructure savings were unlikely to materialize. This conclusion is critical, since the Secretary of Defense has stated that infrastructure savings would be used to pay for billions in projected costs for force modernization initiatives. We also warned the Congress of potential increases in infrastructure costs from 1997 to 2001 and identified infrastructure activities that could be consolidated and streamlined to gain more efficiency.

Building on our work from prior years, we suggested less costly ways to manage the military force structure. For example, we suggested that the Army use or convert National Guard forces to support units to meet shortfalls. DOD agreed with our suggestion, and the Secretary of the Army is taking actions to reduce the shortfall of support spaces.

We also helped the Congress evaluate DOD's downsizing plans by analyzing assumptions underlying certain force structure decisions. For example, we examined the key assumptions underlying DOD's NIMBLE DANCER war game that assessed the ability of the Bottom-Up Review force to execute the stated military strategy. We reported that DOD continues to use many of the same favorable assumptions contained in guidance implementing the Bottom-up-Review. We further reported that, although DOD had planned to test the sufficiency of certain key assumptions, this type of analysis in some cases was not done, and in other cases its scope was limited.

We assisted the Congress in its efforts to evaluate DOD's modernization plans, focusing principally on aviation modernization and affordability



issues. In the area of airpower, we reported that DOD has not sufficiently assessed joint mission requirements and aggregate capabilities and is therefore not well-positioned to determine the need for and priority of planned investments. Consequently, major force structure and planning decisions have been made without complete analysis of the services' combined requirements and capabilities. We also reported that DOD's current process for assessing joint warfighting capabilities has had little impact on identifying unneeded overlaps and duplication in existing capabilities or in weighing the relative merits of alternative ways to recapitalize U.S. airpower forces.

We continued to provide the Congress with first-hand reporting on U.S. participation in peacekeeping missions. The Congress used this information to mandate that DOD report its justification for understating manning requirements for highly deployable support units. Our work on the costs of contingency operations led DOD to reduce its reprogramming request for Bosnia and other contingency operations by more than \$130 million.

Finally, our work on the National Intelligence Estimate regarding the foreign missile threat to the United States contributed to the congressional debate, and as a result, the Fiscal Year 1997 Defense Authorization Act established an independent commission to undertake further evaluation of this crucial topic.

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## Key Open Recommendations

A key recommendation stemming from our work on combat airpower capabilities calls for the Secretary of Defense, along with the Chairman of the Joint Chiefs of Staff, to develop an assessment process that yields more comprehensive information in key mission areas. (GAO/NSIAD-96-177)

In our report dealing with the Air Force's bomber aircraft, we recommended that the Secretary of Defense consider options to retire or reduce the B-1B bomber force as part of DOD's ongoing study to determine the most cost-effective mix of systems needed for deep attack missions. Reducing the size of DOD's B-1 bomber force could provide DOD with as much as \$5.9 billion in cost reductions over the next 5 years. (GAO/NSIAD-96-162)

To ensure that planned investments are both fully justified and affordable, we recommended that the Secretary of Defense (1) direct the Air Force to develop and use sound criteria when justifying current inventories and

future procurement requirements for backup aircraft, (2) prioritize funding for combat airpower interdiction assets to acquire those capabilities that contribute most to meeting joint operating requirements, and (3) conduct cross-service assessments to prioritize joint close support mission needs before making funding decisions on future force enhancements.

(GAO/NSIAD-95-180, GAO/NSIAD-96-72, GAO/NSIAD-96-45)

To improve the use of military personnel, we recommended that the Army reexamine whether high priority support units should continue to be staffed in peacetime at less than their fully authorized strength. We also recommended that the Army consider making greater use of reserve forces to meet the personnel needs of some Army active force units.

Implementation of these recommendations would provide additional personnel spaces to round out active divisions and add more reserve support units to the Army's force. (GAO/NSIAD-95-51, GAO/NSIAD-93-80)

See also chapter 5, Financial and Information Management Programs, Defense Financial Audit Issue Area.

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**Special Studies and  
Evaluations (Budget  
Function 090)**

Contact: Kwaicheung Chan, 202/512-3092

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**Impact of GAO's Work**

Congressional committees require evaluative information on federal government programs and issues, and they look to the congressional agencies, including GAO, to provide it. Sound program evaluations are also valuable tools for better management in government. To help improve the quality of evaluative information available to the Congress and to federal agencies, we evaluate various agencies' programs, usually at the request of congressional committees. These studies generally fall into one of three areas - (1) program effectiveness or quality, (2) government evaluation capability and performance, (3) methodology development and review. Our report on Operation Desert Storm was one such evaluation.

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**Key Open  
Recommendations**

Our report addressed the possibility that U.S. veterans of the Persian Gulf War may be experiencing reproductive dysfunction as a result of their service in the war. Steps taken before, during and after the war did not identify various potential reproductive toxins we found to be present during the war, and the activities undertaken to monitor servicemen and servicewomen for reproductive dysfunction after the war have major shortcomings. Therefore, we recommended that the Secretary of Defense undertake actions to make additional scientific inquiry into possible causes of the problem, collect additional baseline data to help identify the existence of potential current and future problems and develop procedures to better inform and protect U.S. servicemen and servicewomen in the future. (GAO/PEMD-94-30)

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**Chapter 1**  
**Improving National Security and**  
**International Affairs Programs**

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# Improving Resources, Community, and Economic Development Programs

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## Energy, Resources and Science Issue Area (Budget Functions 250, 270, 300)

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

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### Impact of GAO's Work

This issue area reviews programs of a broad and diverse group of agencies ranging from the Department of Energy (DOE) and related agencies, such as the Nuclear Regulatory Commission and the Tennessee Valley Authority (TVA); to various land management and natural resources agencies, including the Department of the Interior, the Forest Service within the Department of Agriculture, the National Marine Fisheries Service, and the Army Corps of Engineers; and to an array of science and technology-related agencies, such as the National Science Foundation, the Department of Commerce's National Institute of Standards and Technology, Patent and Trademark Office, and National Oceanic and Atmospheric Administration. Spending outlays for these agencies total well over \$40 billion a year and generate revenues to the Treasury exceeding \$10 billion. But, more importantly, the activities of these agencies pose significant implications for our nation's security, environment, and economic well-being.

Our primary objective is to assist the Congress in examining the role of government in this broad area of responsibility, with particular emphasis on finding ways to promote a more efficient and cost-effective government. Our efforts this past year have gone a long way in contributing to this objective and many of our key open recommendations are intended to help focus the debate on some difficult choices that still need to be made.

Examples of our contributions this past year include helping the Congress:

- consider how to restructure the DOE, as well as frame the debate for the broader restructuring of government,
- better ensure that the government will receive a fair price in the planned sales of the U.S. Enrichment Corporation and the Naval Petroleum Reserves at Elk Hills,

- deliberate on the potential privatization of DOE's five power marketing administrations,
- continue in its search for finding an acceptable alternative for disposing of nuclear waste,
- become aware of the construction status and safety implications of Cuban nuclear reactors as part of its deliberations on the need for economic sanctions over Cuba,
- determine the need for aid to the Former Soviet Union based on our report on the need to improve controls over nuclear materials,
- leverage use of "carry-over" balances and find other ways to reduce DOE's, Nuclear Regulatory Commission's and Commerce's budgets by over \$1.1 billion,
- introduce legislation implementing our recommendations related to hardrock mining on federal lands, below-cost timber sales, and federal water subsidies—which, if enacted, would generate up to \$300 million a year in increased revenues or decreased spending,
- consider the implications of borrowing from a federal fund set up for reforestation to cover the costs of fighting forest fires, and
- enact legislation creating greater incentives for federal scientists to patent their inventions and transfer technology to the private sector.

Other recommendations led to administrative actions to improve government programs. For example, based on our work:

- the Nuclear Regulatory Commission improved its oversight of nuclear materials,
- an interagency committee has been formed to reach consensus and adopt consistent guidance and standards on acceptable levels of radiation risk to workers and the public,
- DOE took action to ensure the independence of its environmental, safety, and health functions at its nuclear facilities,

- the Forest Service and Bureau of Land Management implemented a new fee system that ensures a fairer return for use of their communication sites by private parties.
- a White House task force identified barriers to governmentwide implementation of ecosystem management and took specific steps to address them,
- the Bureau of Land Management issued new procedures to better target parties whose oil and gas lease holdings are approaching or exceeding federal acreage limitations,
- the Department of Agriculture improved animal damage control program guidance for protecting livestock from predators, and
- the National Park Service took aggressive action to correct erroneous financial information and made significant progress in its financial reporting.

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## Key Open Recommendations

### Nuclear Weapons Complex Cleanup

In March 1995, we recommended that in order to enable DOE to target its limited resources on cleaning up the sites that represent the greatest risks, the Secretary of Energy (1) set national priorities for cleaning up the Department's contaminated sites using data gathered during DOE's ongoing risk evaluation as a starting point, and (2) initiate discussions with regulators to renegotiate milestones that no longer reflect national priorities. Faced with increasingly limited resources, DOE is reevaluating its cleanup priorities, although a complete reordering based on risk to public health and safety has not been completed. DOE has, however, begun to renegotiate agreements with its regulators in the face of new budget realities. (GAO/RCED-95-1)

### National Laboratories

In January 1995, we recommended that the Secretary of Energy evaluate alternatives for managing the laboratories that more fully support the achievement of clear and coordinated missions, including strengthening the Department's Office of Laboratory Management. If DOE is unable to refocus the laboratories' missions and develop a management approach consistent with these new missions, we suggested that the Congress may wish to consider alternatives to the present DOE-Laboratory relationship.

Such alternatives might include placing the laboratories under the control of different agencies or creating a separate structure for the sole purpose of developing a consensus on the laboratories' missions. DOE's Laboratory Operations Board has begun to develop a strategic vision for the national labs as well as an action plan to implement most of the recommendations made by the Galvin Task Force, an independent panel created by DOE to recommend better ways to manage the national labs. Many of the Task Force's recommendations address issues raised in our report. Meanwhile, various bills have been introduced in the Congress calling for restructuring the laboratories. (GAO/RCED-95-10)

#### Nuclear Cleanup

In August 1994, we suggested that the Congress consider amending the Comprehensive Environmental Response, Compensation, and Liability Act to provide more specific direction about incorporating future land uses when determining cleanup levels and selecting remedial actions. Various bills, which included provisions for land use, were introduced in the 104th Congress. (GAO/RCED-94-144)

#### Contracting for Laboratory Analyses

To realize cost savings inherent in centrally procured laboratory analyses and to eliminate other related inefficiencies resulting from decentralized procurement, in May 1995, we recommended that DOE centralize its procurement of commonly-used laboratory analyses for environmental contaminants in the cleanup of its nuclear facilities. In doing so, the department should also identify and eliminate contractor resources that will no longer be needed under a centralized procurement system. In early 1996, the Assistant Secretary for Environmental Management issued an order directing that management of laboratory analysis programs at DOE field offices be consolidated at either one federal or contractor organization. This action, while a positive step, would result in centralizing fragmented programs at the field office level rather than more comprehensively at the department level as we had intended. DOE officials were not aware of the status of action to centralize activities at the field level and have yet to determine the savings to be gained from such centralization. (GAO/RCED-95-118)

#### Safety of Nuclear Materials

In April 1993, we reported that the Nuclear Regulatory Commission should establish specific criteria and procedures for suspending or revoking agreements whereby states, rather than the Nuclear Regulatory Commission, regulate and monitor radioactive materials within their borders (agreement-state programs). The purpose was to eliminate the inconsistent way in which the Commission was evaluating the effectiveness of its two nuclear materials programs in achieving the goal of



adequately protecting the public from radiation. In June 1995, the Commission approved a Final Statement of Principles and Policy for the agreement-state program and requested submittal of implementing procedures for final commission approval by late 1996. (GAO/RCED-93-90)

## Nuclear Regulation

In May 1994, we reported that the Nuclear Regulatory Commission should determine what actions may be needed to better control the spread of radioactivity-contaminated sludge, ash, and related by-products from sewage treatment plants that receive radioactive materials from Nuclear Regulatory Commission licensees. The Commission is working with the Environmental Protection Agency (EPA) and other interested parties to develop a national approach to ensuring the protection of treatment workers and the public. EPA plans to conduct a pilot survey in the fall of 1996 to assess the extent of the radioactive contamination. The Nuclear Regulatory Commission and EPA plan to issue draft guidance in 1997 regarding the acceptable levels of radioactivity in sludge and ash. (GAO/RCED-94-133)

## Contract Management

In August 1994, we recommended that DOE, in contracting with the University of California for the management of three national laboratories, (1) adopt standard contract clauses where there is not a sound basis for deviating from them, (2) require advance DOE approval for University-sponsored research projects at the laboratories, and (3) ensure that fees paid to contractors for increased financial risks are cost-effective by developing criteria for measuring their costs and benefits. DOE has reviewed the non-standard clauses in the contracts with the University of California and has identified the relevant changes that are needed. On May 15, 1996, the Secretary of Energy announced a 5-year extension of the University's management contracts with Lawrence Livermore, Lawrence Berkeley, and Los Alamos National Laboratories. Accordingly, DOE is in the process of negotiating changes for the new contracts. Modifications have also been made to the contracts requiring that information regarding university-sponsored research be submitted to DOE for review. DOE is also developing a new fee policy for profit and nonprofit management and operating contractors which relates fees to anticipated risk. The new policy is scheduled to be submitted to the Office of Management and Budget (OMB) for rulemaking by early 1997. (GAO/RCED-94-202)

## Nuclear Waste Disposal

In September 1991, we recommended that DOE plan for the increasing likelihood that it might not be able to accept utilities' nuclear waste for storage or disposal beginning in 1998. We also suggested that the Congress explore whether additional legislation is desirable to address the

likelihood that DOE will be unable to begin accepting the waste by that year. Recently, a federal circuit court of appeals ruled that DOE is obligated to begin accepting nuclear waste in 1998. Also, the Congress has been considering legislative proposals that would, among other things, authorize and require DOE to store utilities' nuclear waste at a federal facility until DOE completes a facility for permanent disposal of the waste. (GAO/RCED-91-194)

#### Uranium Enrichment

In September 1995, we recommended that the Congress require the Secretary of the Treasury, not the Board of Directors of the United States Enrichment Corporation, take the lead role on behalf of the Nation's taxpayers throughout the privatization process for the Enrichment Corporation. Our September 1995 report also suggested that the Secretary of Treasury consider options to ensure that the government obtains a fair price for the corporation if it is privatized. In April 1996, the Congress passed legislation requiring the Secretary to lead the privatization process. Corporation officials told us in August 1996 that the administration is considering these issues prior to beginning the privatization process. (GAO/RCED-95-245)

#### Nuclear Weapons Stockpile Surveillance

In July 1996, we recommended that the DOE develop contingency plans at its various facilities for dismantling and testing nuclear weapons components in the event that a testing facility is shut down for an extended period of time. In the absence of underground testing, the stockpile surveillance program, which includes flight tests as well as testing of weapons components, provides one of the few ways of ensuring the reliability and safety of weapons in the Nation's nuclear weapons stockpile. However, if one or more of the testing facilities is shut down for an extended period of time, the Department has no plan to carry out these functions. Contingency plans that delineate where testing functions would be transferred and how the transfer should proceed would minimize the impact of any shutdown. (GAO/RCED-96-216)

#### Technology Investment

In June 1996, we recommended that the Secretary of Energy develop and implement a Department-wide policy for requiring repayment of the federal investment in successfully commercialized cost-shared technologies. The policy should provide criteria and flexibility for determining which programs and projects are appropriate for repayment. (GAO/RCED-96-141)

#### Peer Review of Grant Proposals

We examined grant selection in three federal agencies that use peer review - the National Institutes of Health, the National Science Foundation (NSF)

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

#### Fair Market Value

We reported that the Forest Service is not receiving fair market value for right-of-way fees on Forest Service lands and has little assurance that it is collecting fair market fees from ski area operators. We recommended that appropriate fee systems be implemented in both cases. Both the Forest Service and major industry groups, representing private companies that have rights-of-way to operate powerlines, pipelines, and communications lines across Forest Service lands, agree on the need for a new fee system. However, a system has not yet been developed. The Forest Service has proposed a new system charging fees for skiing activities based on site-specific appraisals. However, bills introduced in both the House and the Senate would not ensure that the government receives ski fees based on fair market value. (GAO/RCED-96-84, GAO/RCED-93-107)

#### Below-Cost Timber Sales

In April 1991 testimony, we stated that the federal government was not recovering timber sale preparation and administration expenses, resulting in below-cost timber sales, and recommended that the Forest Service recover these expenses. We also made three additional recommendations for protecting the federal government's financial interests. The Chief of the Forest Service is scheduled to make recommendations to the Under Secretary of Agriculture early in 1997. (GAO/T-RCED-91-42)

#### National Park Service Employee Housing

While the Park Service has a long-standing tradition of providing housing to some of its employees, the backlog of housing repair, rehabilitation, and replacement needs, currently estimated at more than \$500 million, and a tight federal budget dictate that the Park Service examine options to deal with its housing needs. In an August 1994 report, we made recommendations that, if implemented, would (1) better define the Park Service's housing needs and identify opportunities for reducing its inventory and (2) obtain nonfederal funds to help the Park Service meet its housing needs. The Park Service has assessed its housing needs at 44 park units and plans similar assessments at other units. In addition, the Park Service is currently reviewing the scope of its employee housing program

and is exploring ways to increase private sector involvement at eight units and has drafted legislation that would allow it to lease land to developers to construct housing. (GAO/RCED-94-284)

### Oil and Gas Royalties

The federal government receives royalties from offshore oil and gas leases, calculated using the volume and price of the oil and gas sold and a royalty rate. It is essential that oil and gas production be verified to help ensure accurate determination of royalties. In an August 1990 report we concluded that Interior's Minerals Management Service had been slow in verifying offshore oil and gas production, and we recommended that the agency implement an ongoing production verification program. The Service conducted a pilot program and now plans to develop regulations for a permanent program, with a target for issuance of mid-1997. (GAO/RCED-90-193)

### Offshore Oil and Gas Lease Abandonments

Interior's Minerals Management Service is responsible for protecting the federal government from incurring offshore oil and gas lease abandonment expenses that are the responsibility of the lessee companies. However, as of March 1993, leases in the Gulf of Mexico with \$4.4 billion in estimated abandonment costs were covered by only \$68 million in bonds posted by the companies. In August 1993, the Service increased bond amounts but did not set a time limit for posting the higher bonds. In a May 1994 report we recommended that the Service set a time limit for obtaining new bond amounts. The Service is developing regulations to do this, with a target for issuance of 1997. (GAO/RCED-94-82)

### Federal Water Subsidies

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

In a September 1994 report, we (1) recommended that the Bureau examine ways in which federal revenues may be increased while retaining incentives for water transfers and (2) identified a matter for the Congress to consider that would allow the Bureau greater flexibility in recovering

the costs of federal water projects. Interior has directed the Bureau to adopt the recommendations in both our May 1994 and September 1994 reports. The Army intends to issue guidelines on the basis of the Bureau's policies, procedures, and requirements adopted in response to the recommendations in our May 1994 report. (GAO/RCED-94-164)

As we pointed out in our May 1994 report, another option for improving efficiency and encouraging conservation is increasing the water rates paid by federal water users. In an April 1994 report on the impact of higher irrigation rates on farmers in the Central Valley Project in California, we stated that if irrigators paid full-cost rates for water, federal revenues would be significantly increased. We also listed several factors that the Congress may wish to consider if it decides to pursue the issue of increasing the irrigation rates. The Congress has not acted on this issue to date. (GAO/RCED-94-8)

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## Environmental Protection Issue Area (Budget Function 300)

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

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### Impact of GAO's Work

Protecting the environment remains a priority for the nation. This issue first came to the forefront in the 1970s when the country faced acute environmental problems, such as seriously polluted waterways, increasing air pollution levels, and the open dumping and burning of wastes. Since then, the quality of the nation's air, water, and other resources has improved, despite increases in both population and levels of economic activity. These improvements, however, have imposed high and growing costs.

Annual environmental compliance costs that were \$64 billion in 1973 have grown to \$119 billion in 1993 and are expected to continue to increase to almost 3 percent of the nation's Gross Domestic Product. As a result, there is growing interest in finding more cost-effective ways to achieve environmental protection. This goal is especially challenging in light of the remaining unmet environmental protection needs, many of which will be very costly to remedy.

EPA's role for its first 25 years involved the development of standards and regulations to be used by states to carry out federal environmental laws. EPA has historically provided close oversight of state implementation of these laws to ensure they are properly carried out. However, as states increased their capacity to enforce environmental laws, EPA has been accused of not sufficiently tailoring its oversight, leading to state complaints that they are being micromanaged by EPA. This situation is further exacerbated as states and local governments are being asked to bear proportionately more of the costs associated with these programs. At the same time, industry has generally recognized that good environmental practices result in production efficiencies, reduced liabilities, and consumer approval. The confluence of these events has fostered a call for the adoption of an incentive- and performance-based approach to environmental protection to replace what is commonly called "command and control" regulation. At the same time, the federal government has emerged as a major polluter in its own right. Liabilities for cleaning up federal hazardous waste sites could total in the hundreds of billions of dollars.

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

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## Key Open Recommendations

### Air Quality

The Clean Air Act Amendments of 1990 established ambitious milestones for protecting and enhancing the quality of the nation's air. A key step in meeting these milestones—translating the act's statutory mandates into workable rules and regulations—requires the EPA to develop and issue rules at an unprecedented rate. At the time of the act's passage, EPA's rulemaking process averaged more than 3 years, and some rules took as many as 9 years to complete. To expedite its clean air rulemaking, EPA has made a number of changes to its internal review process. However, despite these efforts, EPA acknowledges that it has missed over 60 percent of its statutory deadlines imposed by the 1990 act. Exacerbating this situation is the fact that the agency does not have a system for identifying problems in its rulemaking process or assessing the effectiveness of its streamlining initiatives. We recommended that EPA implement a tracking system that would yield key information to monitor and evaluate the agency's clean air rulemaking process. In response, EPA has modified several of its existing information systems to allow manually tracking of

the time and resources allocated to agency rulemaking. As a long-term solution, the agency plans to develop a new resource management system that will track implementation progress and resource demands for rulemaking and other activities. EPA expects the system to be in place by the end of fiscal year 1997. (GAO/RCED-95-70)

### Clean Water

In 1992, we reported that a tremendous gap exists between the need for wastewater treatment facilities and the resources available in the State Water Pollution Control Revolving Fund Program to meet those needs. States estimate that the state revolving funds will meet only a small percentage of their needs and will pose particular problems for small communities. As a result, we recommended that EPA develop a long-term strategy to help state and local governments close this gap. EPA is considering options to address the needs for small communities. In addition, the Congress is currently considering this issue but has not yet enacted legislation. (GAO/RCED-92-35)

In 1992, we also reported that pollutant trading could be an economical supplement to traditional regulatory programs designed to address water pollution problems. However, we found that trading had been limited to date and attributed this largely to the uncertainties surrounding its legal status under the Clean Water Act. Accordingly, we suggested the Congress consider amending the act to explicitly authorize trading. (GAO/RCED-92-153)

### Toxic Substances

We made a number of recommendations in 1994 to help strengthen EPA's ability to regulate toxic chemicals. Under the Toxic Substances Control Act, EPA can limit or prohibit the manufacture, distribution, and use of toxic chemicals. However, EPA has issued only a few regulations under the act because the act's legal standards are very high, and the burden of proof is essentially on EPA. EPA has reviewed the risks of only 2 percent of some 62,000 chemicals and must use cumbersome procedures to acquire test data. New chemicals are marketed without EPA having sufficient data to fully assess potential risks. EPA also believes that industry has made excessive claims of confidential business information for data submitted under the act's provisions. Among other things, we suggested the Congress consider improving EPA's ability to conduct chemical reviews by requiring industry to submit additional data on new chemicals and by shifting to industry some of the burden for compiling data on existing chemicals. (GAO/RCED-94-103)

### Hazardous Waste Management

Debate over the Superfund program's reauthorization comes at a time when cost estimates to clean up the nation's hazardous waste problem are



growing at an alarming rate. The Congressional Budget Office (CBO) has projected that ultimately the nation could need \$75 billion to clean up a total of 4,500 nonfederal Superfund sites while the cleanup of contaminated federal facilities is currently costing about \$4 billion annually. To encourage the efficient and effective use of limited resources, we suggested the Congress to consider amending the Superfund legislation to underscore the importance of ranking nonfederal hazardous waste sites so that funding is targeted to the worst sites first. Similarly, to facilitate the setting of risk-based priorities for cleaning up federal hazardous waste sites, we suggested the Congress to consider amending the Superfund legislation to require agencies to develop a consistent process for assessing and ranking the relative risks of hazardous waste sites. (GAO/T-RCED-94-274, GAO/RCED-96-150)

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

## State/Federal Relations

Most federal environmental programs are designed to be administered at state and local levels. Accordingly, once a state demonstrates that it is capable of implementing an environmental program, EPA authorizes states to implement most of the day-to-day responsibilities. After authorization, EPA regions, with guidance from headquarters, continue to set goals for the states, provide them with financial assistance, and monitor their performance in meeting grant and program requirements. Most states authorized to manage federal environmental programs have been unable to meet some of the requirements to implement these programs. Many states have had difficulty in performing key functions, such as monitoring environmental quality, issuing permits, and enforcing compliance. As a result, states have become increasingly reluctant to accept additional responsibilities associated with recent environmental laws. Resource limitations have been identified as a major factor in the states' reluctance. Federal funding has not kept pace with these new requirements, and the states have been unable to make up the funding difference. We recommended that EPA work with states to identify how each state's limited funds can be most efficiently allocated within each program to

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address the state's highest environmental priorities and take steps to increase the agency's flexibility in dealing with states to achieve improvements in environmental quality. We also recommended actions that EPA could take to strengthen its working relationships with states. EPA has a number of initiatives underway to improve its communication with the states and bring greater flexibility in its oversight of state activities. (GAO/RCED-95-64)

See also chapter 5, Financial and Information Management Programs, Information Resources Management Issue Area.

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

GAO Contact: Robert Robinson, 202/512-5138

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### Impact of GAO's Work

United States Department of Agriculture (USDA), the third largest civilian agency in the federal government, has a budget of about \$60 billion. The U.S. agricultural industry is vital to the lives of all Americans and millions of people worldwide, generating about \$1 trillion in economic activity and accounting for 15 percent of the gross domestic product each year. One in six working Americans has a job related to the food and agriculture economy, and farm exports alone generate about a million jobs. USDA manages a variety of programs designed to assist agricultural producers and rural communities, develop markets, encourage farm production and exports, ensure food safety, and provide consumers with food information and assistance.

In 1996, our work was used extensively in the debates surrounding the Federal Agricultural Improvement and Reform Act of 1996 (the 1996 farm bill). As a result, landmark changes have been made in USDA programs. Of particular note are the (1) removal of the link between federal income support payments and farm prices, (2) changes to farm loan programs aimed at reducing the government's financial risk, and (3) establishment of an interagency working group to evaluate federal rural development efforts. In addition, the President signed new regulations reforming the federal food safety rules for meat and poultry in line with our recommendations.

### Farm Programs

On April 4, 1996, the President signed into law the 1996 farm bill. This legislation authorized a major revamping of federal income and price support programs in a manner consistent with positions we took in numerous reports. Under this legislation, farmers who have long depended on government price and income support programs will make the transition into a more competitive environment in which they will make business decisions in response to market signals and not government program mandates. Our specific recommendations that were followed include reducing the government role in the dairy, rice, and cotton industries and allowing producers time to make adjustments to their investments by phasing out the programs over time. CBO estimates that these farm bill changes will save about \$1.3 billion over the next 7 years.

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Credit Reform

Title VI of the 1996 farm bill dramatically altered the farm loan programs' basic lending, servicing, and property management policies, consistent with recommendations we had made in numerous reports. Among other things, the farm bill (1) prohibits new loans to borrowers who were delinquent, (2) limits borrowers who were delinquent on direct loans to one instance of debt forgiveness, (3) prohibits new loans to borrowers who defaulted on past loans, (4) expedites the disposal of farm inventory properties, and (5) requires borrowers to repay part of the interest due as a condition of having their loan payment schedules rewritten. CBO has projected savings from these actions at approximately \$69 million over 7 years.

Rural Development

Our reviews of federal rural development efforts identified the need to establish an interagency committee to oversee the federal government's widely dispersed rural development programs and to find ways to make the programs less burdensome for applicants. The 1996 farm bill directs the Secretary of Agriculture to establish an interagency working group to, among other things, establish policy for, coordinate, make recommendations with respect to, and evaluate the performance of all federal rural development efforts. The bill also directs the Secretary to develop a streamlined, simplified, and uniform application process for a number of rural assistance programs.

Food Safety

In numerous reports and testimonies, we recommended that USDA develop a mandatory Hazard Analysis and Critical Control Point system for ensuring the safety of the U.S. meat and poultry supply. We recommended that such a system should include specific requirements for microbial testing and guidelines for determining when test results warrant actions. On July 6, 1996, the President signed new regulations reforming the federal safety rules for meat and poultry. These rules, which frequently cite our work, include provisions that require every slaughter and processing plant to adopt and carry out a Hazard Analysis and Critical Control Point plan that must be verified by USDA inspectors. In addition, microbial testing for E. coli bacteria is required in slaughter plants. USDA estimated that the implementation of this approach will help reduce the estimated 4,000 deaths and 5 million illnesses that result annually from contaminated meat and poultry.

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## Key Open Recommendations

### Continuing Concerns With the Food Safety System

As stated in the section above, our work has been instrumental in the implementation of the new Hazard Analysis and Critical Control Point approach to food safety. This new program may address many of the problems we identified in our reports, and we will monitor the progress USDA and FDA make in implementing the regulations. In addition, however, we identified some shortcomings in the federal food safety program that need solutions beyond a Hazard Analysis and Critical Control Point-based food inspection program. Specifically, we identified the need for the Congress to (1) create a uniform set of food safety laws that are administered by the current federal food safety agencies, (2) expand the meat and poultry laws to include nontraditional meat and poultry products in the food safety system, and (3) provide the agency with the flexibility to target its inspection resources to the most serious food safety risks. (GAO/RCED-92-152, GAO/T-RCED-93-22, GAO/RCED-94-110)

Federal programs designed to ensure that foods are not contaminated with unsafe chemicals also need improvement. While the FDA has prepared a comprehensive strategy for monitoring animal drugs in milk and is in the process of updating its regulations, we will need to monitor their implementation to ensure that they are meeting the goal of making the nation's milk supply safer. At a broader level, structural weaknesses in the federal government's programs for monitoring chemical residues and environmental contaminants in all foods still exist.

We believe that a uniform set of food safety laws, with consistent standards for chemical residues and contaminants in food and administered by federal agencies with adequate authority to fulfill their oversight responsibilities, would lead to improved effectiveness, efficiency, and uniformity in the federal food safety system. (GAO/RCED-92-209, GAO/RCED-94-192)

### Continuing Concerns With the Peanut Program

While the 1996 farm bill addressed many of the concerns we had identified in our report about the peanut program, several issues remain unresolved. Specifically, the Congress reduced the quota support price for peanuts but kept the price above the cost of producing peanuts and above the world market price. Furthermore, the Congress did not address the issue of allowing USDA to purchase peanuts and peanut products for various food assistance programs at the world market price rather than the higher quota support price. It is anticipated that the 105th Congress will debate

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the peanut program further and may make more changes to the program.  
(GAO/RCED-93-18)

**Continuing Concerns With the  
Farm Credit System**

Title VI of the 1996 farm bill revamped the entire farm credit system. One provision of the title directs the Farm Service Agency to use guaranteed loans as an interim step in moving direct loan borrowers to commercial credit without a guarantee. To that end, we recommended that the Farm Service Agency develop plans to ensure that county offices (1) update borrowers' loan risk assessments promptly and (2) evaluate direct loan borrowers annually for potential graduation to guaranteed loans or commercial credit. The Farm Services Agency is currently writing regulations that are consistent with these recommendations and we will monitor their implementation to ensure that they meet the goal of removing borrowers from the direct loan program expeditiously.  
(GAO/RCED-95-9)

See also chapter 5, Financial and Information Management Programs, Information Resources Management Issue Area.

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

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

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Impact of GAO's Work

The housing and community development issue area reviews federal programs involving over \$1 trillion dollars—insuring some \$500 billion in loans, and guaranteeing more than \$500 billion in outstanding securities for single-family and multifamily housing.

The federal government operates more than 300 programs that are aimed at providing decent, affordable housing and healthy, vibrant communities. The Department of Housing and Urban Development (HUD) is the principal federal agency responsible for programs dealing with housing and community development. Other agencies with housing or community development programs include the Federal Housing Administration (FHA); the Department of Veterans Affairs (VA); the Rural Housing and Community Development Services; the Small Business Administration (SBA); and the Federal Emergency Management Agency (FEMA).

After decades of costly housing and community development assistance and with future budget needs of over \$100 billion for these agencies' programs; the Congress and the administration are considering significant changes in the structure of some of these agencies and their functions. HUD, long plagued with mismanagement and poor service, continues its attempts to overhaul and streamline its operations. As detailed below, this issue area's work has significantly contributed to congressional debate and decision-making on the future of housing and community development at the federal and state levels. As a result, HUD and the previously identified agencies have taken action to improve the efficiency and effectiveness of housing and community development policies and programs and saved taxpayers money.

Mortgage Assistance

Much of our work in the multifamily mortgage assistance area focused on helping the Congress evaluate alternatives for improving HUD programs and activities. In the single-family mortgage insurance area, our report on the mortgage assignment program resulted in legislation being enacted that will reduce federal spending by billions of dollars over a 7-year period.

We also reported on the economic value of FHA's single-family program and on the role of FHA in providing mortgage credit to home buyers.

In the multifamily area, we continued to evaluate HUD proposals for reengineering the 8,600 properties that both receive project-based Section 8 rental assistance subsidies from HUD and have mortgages insured by the FHA. We also analyzed issues and options for the Congress to consider in revising HUD's low-income housing preservation program. In addition, we reported on options for revising multifamily housing programs administered by the USDA's rural housing service. As of September 1996, the Congress had either enacted or was considering legislation in each of these areas.

In the single-family mortgage insurance area, we reported that HUD's mortgage assignment program has not been very successful helping borrowers avoid foreclosure in the long run and operates at a high cost to HUD. Legislation was enacted that eliminated HUD's mortgage assignment program and provided HUD authority to assist borrowers in default by other means. CBO estimated that this action reduced federal spending by \$1.2 billion in fiscal year 1996 and \$2 billion in total over a 7-year period.

We also completed work on HUD's management of single-family properties in its inventory and identified ways to decrease the agency's management costs. We reported that HUD's Illinois State Office incurred unnecessary expenses because it continued to pay for water and sewer services for vacant properties that were held for months in the inventory before they were sold. Additionally, that office did not pay property taxes on time, which resulted in HUD unnecessarily incurring expenses to recover properties lost for unpaid tax liens. In response to our recommendations, HUD headquarters issued a directive to all field offices to take specific actions to avoid the recurrence of these unnecessary management expenses.

## Low-Income Housing

Our work on low-income housing issues continued to support the Congress as it tried to formulate, reach consensus on, and pass major legislation to reform public and assisted housing and significantly change the way housing assistance is delivered to eligible families. Through our congressional briefings and testimonies, we raised programmatic and budget issues highlighting the very difficult position the Congress and HUD are in as they try to balance the federal budget and also meet low-income families' growing needs for shelter. On the basis of our budget work, we recommended that because of HUD's lack of adequate preparation, the



Congress not adopt costly departmental proposals to award \$845 million in bonuses during fiscal year 1997 to housing and community development program participants. In line with GAO's recommendation, VA and HUD, and Independent Agencies Appropriations Act, Fiscal Year 1997 (H.R. 3666) enacted on September 26, 1996, did not appropriate the \$845 million.

In testimonies this year on HUD's fiscal year 1997 budget request, we discussed several critical management and budget issues at HUD. These issues included significant and longstanding problems in public housing, the spiraling cost of HUD's long-term contracts to provide assisted housing, the need for consensus at HUD on reforms in HUD programs, the inadvisability of implementing a performance bonus system without adequate preparation, and HUD's progress in addressing the management deficiencies we described in our February 1995 high risk report. We concluded that, despite HUD's promise of reform, reinvention, and transformation aimed at solving the department's problems, much more remains to be done. HUD is very much an agency in limbo as few of the proposals in HUD's reinvention blueprint have been adopted. The Congress considered the issues raised in our testimonies as it sought to make needed revisions in HUD programs.

In conjunction with our General Government Division, we reported on our approach for reviewing the administration of the Low-Income Housing Tax Credit. This credit, administered jointly by the Internal Revenue Service and the states, was enacted to provide an incentive for the private sector to develop affordable rental housing for lower income individuals and families. This report, provided the Congress with an overview of the federal/state system established for administering the tax credit. As a result, Congress is better informed on the history of the program and its utility in producing affordable housing.

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## Key Open Recommendations

### Housing Finance

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

obligations under this program. The Finance Board expects to issue final regulations in early 1997. (GAO/RCED-95-82)

### Low-Income Housing

In a July 1994 testimony, we said that we had found deplorable conditions in various low income project-based properties and recommended that the Secretary of HUD (1) promptly identify all properties with severe physical problems and offer affected tenants temporary assistance to relocate to safe and decent housing, (2) systematically notify owners of the problems, and (3) take appropriate enforcement actions against owners not bringing their properties into compliance with housing quality standards. In mid-1997, HUD expects to implement the new Section 8 Management Assessment Program, which could implement our recommendations. (GAO/T-RCED-94-273)

In a February 1989 report, we recommended that the Congress establish one low-income rental assistance subsidy program that would provide a unified approach to delivering housing assistance, equalize the benefits to program recipients, and quiet the debate over which program is preferable. Both the House and Senate have introduced legislation to merge current programs. Resolution of these legislative initiatives is not likely to occur until early 1997. (GAO/RCED-89-20)

### Lead-Based Paint Hazards

The risk of poisoning from lead-based paint continues to threaten young children living in low-income housing that was constructed before the sale of such paint was banned in 1978. Exposure to lead, even at low levels, may cause serious health, learning, and behavioral problems in children—especially those under the age of 7. In 1993 and 1994 we issued two reports with a number of recommendations to the Secretary of HUD to revise the regulations concerning lead-based paint. The Secretary plans to implement most of our recommendations in early 1997, which, if properly executed, would protect children living in public housing from the hazards of lead-based paint. (GAO/RCED-93-138, GAO/RCED-94-137)

See also chapter 5, Financial and Information Management Programs, Information Management Resources Issue Area.

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

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

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### Impact of GAO's Work

Transportation issues significantly affect many aspects of our daily lives. The transportation sector is crucial to maintaining a healthy economy, as well as ensuring our competitiveness in the world markets and serving the expanding demands of our businesses and industries, as well as the American public. Despite the vast federal, state, and local resources that go to maintain this infrastructure, with the forecasted dramatic increase in air travel in the next decade and no slowdown expected in the demand for surface and water transportation, there is concern about the adequacy of the present infrastructure to continue to meet the needs of the traveling public safely.

As detailed below, our work has focused on budget, program management, and safety related issues. It has influenced the Congress, the Department of Transportation (DOT) and its agencies to take many actions that should improve transportation safety and the efficiency and the effectiveness of transportation policies and programs.

### Aviation Safety and Security

The Federal Aviation Administration (FAA) continues to face the challenge of dealing with the effects of a downsized workforce and a growing aviation industry within the context of continuing to maintain a high level of safety in the U.S. air transport system. High-profile airline crashes in 1996 have heightened interest and scrutiny in aviation safety and security issues. Our recommendations have been designed to help FAA and congressional decisionmakers address these challenges.

In response to our recommendations, FAA has taken a number of actions to: (1) recruit certification experts in advanced technologies, (2) better define the role of and improve the training of its certification staff, (3) deploy a system that will assess airline risk and assist FAA management in better utilizing inspector resources, (4) gather information on the aging aircraft fleet in order to target inspections, (5) improve its oversight and inspections of foreign carriers, and (6) improve the efficiency of the new airline certification process. In a report and series of testimonies, we highlighted the need for FAA to undertake actions more quickly to protect the flying public from the threat of explosives by, first, assessing specific

vulnerabilities of airports and airlines and, then, quickly developing ways to address the vulnerabilities.

## Aviation Infrastructure

FAA continues to struggle with its air traffic control modernization program—new air traffic control systems are being installed and automation equipment is still being acquired. At the same time, FAA's dual role as regulator and promoter of aviation has come under increased scrutiny.

Our work has resulted in savings to the taxpayers. FAA's fiscal year 1996 Facilities and Equipment budget request of \$1.9 billion was reduced by \$79.9 million as a direct result of GAO's analysis of DOT's budget request. Our testimony on concerns regarding the \$2.4 billion Initial Sector Suite System component of FAA's Advanced Automation System led to the suite's replacement, resulting in reduced funding of \$21.7 million in fiscal year 1996 and \$43.9 million in fiscal year 1997.

In responding to other recommendations, FAA issued guidelines and standards for acquiring and upgrading airport access control systems; improved its acquisition guidance to ensure that program sponsors use consistent approaches in selecting projects for inclusion in DOT's budget request; and issued policies clarifying the criteria for providing grants-in-aid to airports under letters of intent and the Military Assistance Program. Additionally, consistent with our recommendation, a Presidential Decision Directive established DOT as the lead agency for all federal civil Global Positioning System matters including coordination of civil augmentation systems to minimize costs and duplication of effort between agencies.

## Surface Safety

Each year 40,000 people die on the nation's highways and about 1,200 are killed in railway accidents. The societal costs total in the hundreds of billions of dollars. Our work has contributed to the following actions: (1) under contract with the National Highway Traffic Safety Administration (NHTSA), the American Association of Motor Vehicle Administrators published and distributed to the states, a handbook for improving periodic motor vehicle inspection programs; (2) the Congress, in the Swift Rail Development Act of 1994, directed the Federal Railroad Administration (FRA) to complete rulemaking governing passenger car safety by 1999; (3) the Secretary of Transportation launched a campaign to increase seat belt use by encouraging states to pass primary enforcement laws; (4) the NHTSA extended major automobile safety requirements to light trucks and vans as we had recommended in 1978 and 1990; (5) DOT delayed

expanding commercial truck traffic from Mexico until consultations are completed between the U.S. and Mexico to improve safety and security; and (6) FRA required railroads to adopt internal control procedures to enhance the quality of information pertaining to rail equipment, accidents and incidents.

## Surface Infrastructure

Our analysis of DOT's budget request and other work has resulted in significant savings to the taxpayer. Based on our work, Congress reduced DOT's 1996 budget request by (1) \$35 million for the Northeast Corridor Improvement Program, and an additional \$10 million for the next generation high-speed rail system; (2) \$128.9 million for Intelligent Transportation Systems; (3) \$300 million for the Congestion Relief Initiative based on our finding that it was duplicative of other programs; (4) \$30 million for the Pennsylvania Station Redevelopment Project; and (5) \$42 million for Chicago's Central Area Circulator project. The latter project was subsequently cancelled which will result in further savings of \$148.2 million. Finally, the Congress eliminated the Interstate Commerce Commission and created a Surface Transportation Board within DOT following a model we presented in testimony resulting in savings of \$36.6 million.

Our work on the costs and financing of the Central Artery/Tunnel project in Boston resulted in the Federal Highway Administration (FHWA) and the state agreeing to GAO's cost estimate of \$10.4 billion and in the FHWA requiring that the state have bonding authority to cover the project's cost. The FHWA implemented a recommendation that we consider key to protecting the nation's highway infrastructure. We had recommended that the FHWA issue guidance to states on factors to be considered as part of life-cycle cost analysis, such as setting priorities for projects over multiyear periods; establishing acceptable value ranges, particularly for social and other nontraditional costs like pollution, congestion, and fuel usage; and refining maintenance costs and salvage values. In response to these recommendations, the FHWA published a policy statement on life cycle cost analysis on September 18, 1996.

In other actions, the Federal Transit Administration (FTA) implemented several of our recommendations designed to enhance its bi-annual report to the Congress on the nation's mass transit needs and the FHWA issued guidance that will provide the framework for modifications to the National Highway System. Further, following concerns raised by GAO, Amtrak restructured its operations and developed a strategic business plan designed to increase revenues and reduce costs. We continue to monitor

Amtrak's progress in meeting its goal of operating self-sufficiency by the year 2002.

#### Coast Guard

The Congress is looking closely at Coast Guard missions and functions to determine if any can be accomplished more efficiently through reduction, transfer, or privatization. It is also monitoring the agency's progress in downsizing in a fiscally and organizationally sound manner. Our work has focused on identifying ways to reduce the Coast Guard's budget consistent with these goals.

The Coast Guard acted on a variety of our recommendations, such as reporting annually to the Congress on the progress of demonstration programs involving local citizens in overseeing the environmental impact of various oil related activities in Alaska, improved its performance measurement system to aid in better resource allocation decisions, improved its enforcement of restrictions on the discharge of garbage and plastics from ships, took interim actions to improve management of its cutter inventories, improved its project selection process for its Research, Development, Training and Equipment program, and reported on an Anti-Deficiency Act violations to the Congress and the President.

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#### Key Open Recommendations

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

#### Track Safety Inspections

In reporting on the Federal Railroad Administration's (FRA) Track Safety Inspection Program, we recommended that the FRA provide guidance to track inspectors on options available when excepted track deficiencies constitute an imminent threat of derailment or another safety hazard. Such action would strengthen the current regulations governing the excepted track provision and improve safety on excepted track. DOT agreed to issue revised guidance to its inspectors once the FRA finalizes the new Track Safety Standards. DOT expects to issue revised guidance to its inspectors by December 1997. (GAO/RCED-94-56)

#### New Aviation Security Technology

To improve aviation security, we recommended that FAA develop a long-term and comprehensive national strategy that combines new technology, procedures, and better training for security personnel. This plan will help focus federal and private sector resources and provide a road map for federal agencies and the airline industry to follow. The current aviation security system has numerous shortcomings that could be

exploited by terrorists. Although a White House Commission on Aviation Safety and Security has recommended a number of short-term improvements, important questions about how new initiatives will be implemented and paid for remain unanswered. New explosives detection technology is not a panacea—a mix of procedures, new technology, and better training will be needed to improve security. This is one of the most complex and challenging issues the aviation community will face over the next decade and could cost billions of dollars. DOT's plans for implementing this recommendation may be contained in the White House Commission report scheduled to be issued in February 1997.

(GAO/T-RCED/NSIAD-96-237)

### Global Positioning System

When augmented, the Global Positioning System could provide substantial safety and efficiency benefits for airlines and other users of the National Airspace System. One of the main benefits of the Global Positioning System will be prevention of accidents and the associated casualties—use of the Global Positioning System receivers may have prevented the American Airlines crash in Columbia when the ground-based navigational aids were out of service and the pilot got lost in mountainous terrain. Additionally, airlines will save hundreds of millions through more efficient and direct routings and approaches. Finally, production of the Global Positioning System-related equipment for aircraft and other transportation modes is expected to be an \$8 billion per year industry. In May 1995, we recommended that FAA prepare a comprehensive plan for augmenting the Global Positioning System, transitioning to it, and updating the plan regularly. The plan should include, among other things, schedule and cost estimates for developing and implementing the augmentation systems as well as information on the probability that FAA will meet these estimates. FAA completed a public version of a the Global Positioning System Transition Plan in July 1996, and is initiating work on a the Global Positioning System Transition Plan Library which is intended to address other users' needs. The Library's completion is expected in July 1997.

(GAO/RCED-95-26)

### Coast Guard's Vessel Traffic Service System

In reporting on the Coast Guard's planned procurement of a \$260 million to \$310 million Vessel Traffic Service system that will guide traffic through busy ports, we recommended that, given the high development costs for the program and the large number of proposed sites that show relatively low net benefits from acquiring new Vessel Traffic Service systems, the Coast Guard determine whether the safety benefits of the Vessel Traffic Service can be achieved more inexpensively. The Coast Guard concurred with our recommendation. In its deliberations on DOT's fiscal year 1997

budget request, the Congress expressed concern over the expected cost and decided that the Vessel Traffic Service program, as presently configured, should be terminated. To that end, the Congress authorized \$1 million in fiscal year 1997 for the Coast Guard to identify minimum user requirements, user fee options, public/private partnerships, and to propose a viable new program. (GAO/RCED-96-83)

### Fees for Registering and Certifying Aircraft

A potential option for dealing with limited FAA resources, is to establish new user fees or increase existing ones for the services it provides, taking into consideration the government's costs, the value of the services to the user, and the public policy or interest served. For example, the Congress authorized the collection of \$75 million in new user fees during fiscal year 1997 on a trial basis—the user fee being tested is for “overflights” of U.S. controlled airspace without taking off from, or landing in, the United States. In 1993, we reported that FAA is not fully recovering the cost of processing aircraft registration applications and estimated, that, by not increasing fees since 1968 to recover costs, FAA had foregone about \$6.5 million in additional revenue. In accordance with our recommendations, DOT is processing a Notice of Proposed Rulemaking to increase aircraft registration fees and expects to issue it in late 1997. In 1996, we recommended that DOT reevaluate the appropriateness of the Office of the Secretary increasing its fees and FAA establishing fees for services to certify new airlines. DOT concurred and indicated that, as part of FAA's reform efforts, there is a significant focus on financing reform and funding strategies. (GAO/RCED-96-8, GAO/RCED-93-135)



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**Chapter 2**  
**Improving Resources, Community, and**  
**Economic Development Programs**

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# Improving Human Resource Programs

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## Education and Employment Issue Area (Budget Function 500)

GAO Contact: Carlotta Joyner, 202/512-7014

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### Impact of GAO's Work

The Education and Employment Issue Area focuses on the nation's educational efforts—from preschool through higher education programs—and its efforts to develop skilled workers, link potential workers with employment, and ensure basic workplace protection. The quality of life in this country and our ability to compete in the international marketplace are heavily influenced by the nation's investment in educational and employment programs. The Departments of Education and Labor are the federal agencies with primary responsibility for overseeing this investment. Working with state and local governments, the federal government invests over \$60 billion annually to promote access to quality education and to advance opportunities for productive employment under safe and equitable conditions.

Our work has alerted the Congress and executive branch agencies to important issues and provided recommendations that have become the foundation for congressional and agency action. Our education finance work led to substantial improvement in the targeting of federal educational funds to children most in need because of poverty or migration, and our work on the condition of school facilities led to federal funding of school infrastructure. Our higher education work has identified ways in which the federal government can minimize student loan defaults and has led to changes in student financial assistance information management systems.

With respect to workplace quality, our work describing the magnitude, complexity, and dynamics of current workplace federal regulation, and the need to consider alternatives, has been a valuable source of information as the Congress has considered far-reaching changes in the regulatory strategies for worker protection. Our reports and testimonies on the need to reform and streamline the current system of overlapping employment training programs influenced congressional deliberations that led to House and Senate bills to consolidate such programs.

Our work on the AmeriCorps national service program has also been highly influential. Our information on the total resources needed to field

an AmeriCorps participant led to a fiscal year 1996 appropriation for National and Community Service Act programs that was \$70 million less than the previous year's funding and about \$400 million less than the amount the administration requested.

Highlights of our contributions in preparatory education (preschool, elementary, and secondary education), higher education, work force skills and jobs, and workplace quality follow.

### Preparatory Education

Our preparatory education work has focused on ways in which the federal government could be more effective in supporting and encouraging state and local educational efforts. For example, our series of reports on school facilities which documented the lack of necessary infrastructure and technology, was used to support the need for federal funds to assist states.

We also recommended that the Secretary of Education work with knowledgeable educators and researchers as well as state, district, and school officials to develop ways to assess the progress of children with special needs, such as those with limited English proficiency and those with disabilities, in achieving high standards. As a result, the Department is working closely with the National Research Council to develop ways to include children with disabilities in new assessments, and the Department is reviewing procedures used to assess the performance of children with limited English proficiency.

Our work has also led to improvements in federal program operations. For example, we recommended that the Secretary of Education continue to assess the manner in which federal education programs are reviewed by auditors and, as needed, promote changes in the way the programs are reviewed so that the review process is more consistent with schools' attempts to improve. The Department is revamping its monitoring procedures to include more emphasis on program outcomes. Also, to help ensure the consistency of the Department of Education in its investigation determinations, we recommended that the Department develop and issue policy guidance that specifies how the Department's regional offices should conduct ability-grouping and tracking investigations. The Department has developed such guidance and provided it to its regional investigators and the public, including state and local education agencies.

### Higher Education

In the higher education arena, our efforts have primarily involved cost containment and the prevention of fraud and abuse with respect to federal resources used to ensure that eligible students have access to quality

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higher education. Our work has led to cost reductions of over \$900 million in fiscal years 1995 and 1996 and administrative changes. For example, our testimonies and reports identifying poor financial and information management of student aid programs contributed to the Department of Education's implementation of administrative improvements. In testimonies and a report, we contributed to the congressional debate about the future of the direct student loan program by identifying the advantages of a properly implemented program.

Other reports and testimonies addressed options for college savings for students and their parents, achieving cost reductions through the consolidation of similar programs or the elimination of duplicative ones, and some of the contributing factors and coping strategies connected with the high cost of college. Although the Department has made changes based on our recommendations, federal student financial assistance programs remain vulnerable to fraud, waste, and abuse. For this reason, we are continuing to examine various aspects of these programs as part of GAO's special focus on high risk federal programs that could result in the loss of substantial amounts of federal resources.

## Work Force Skills and Jobs

The focus of this work has been to identify ways in which federal programs can better assist workers to acquire the skills they need to become economically self-sufficient and help employers recruit and hire qualified employees. Both the House and Senate have made extensive use of our reports and testimonies describing multiple employment training programs and recommending the consolidation or elimination of overlapping and duplicative programs. The Senate also used our report on Job Training Partnership Act (JTPA) programs—which found that JTPA-sponsored training did not significantly increase the long term earnings or employment prospects of participants—to support legislation reforming job training and reducing funding for JTPA programs. Our work on Job Corps questioned its effectiveness and has led to congressional interest in examining various aspects of the program.

The Department of Labor has also taken actions, based on our work, to improve the Job Corps and the Employment Service. We recommended that the Department of Labor determine whether the continued use of national training contractors for Job Corps training programs is cost effective. In response, Labor has initiated a new system to compare the performance of national contractors with overall Job Corps center performance. In addition, the Department will review all Job Corps course offerings to ensure that they are for occupations with a labor market

demand. With respect to the Employment Service, we recommended that Labor work with the states to identify and solve problems affecting program performance, increase technical assistance as a way of promoting quality, and share information on effective state and local employment practices. As a result, Labor initiated the “Employment Service Revitalization Strategy” to increase the Employment Service’s value to its customers.

## Workplace Quality

Our reports and testimonies on workplace quality issues have focused on the maintenance of basic workplace protection for employees while minimizing the regulatory compliance burden on employers. For example, we testified on alternative approaches to improving workplace protection and on the Occupational Safety and Health Administration’s (OSHA) efforts to better protect workers through enhanced involvement of business in the regulatory process.

The Congress has used our work in its deliberations about several different agencies. For example, our work on National Labor Relations Board staffing trends and management initiatives, was relied on by the Senate Appropriations Subcommittee in its deliberations on funding for the Board. Our work on over 1,000 combined Education and Labor field offices was used by the Congress in its discussions on how to streamline the federal government.

Our work has also led to numerous agency actions. For example, we recommended that OSHA develop procedures to obtain worksite-specific injury and illness data from employers so that OSHA could use the data to better target inspections and education and training programs to the most hazardous worksites and make more efficient use of limited inspection and training resources. As a result, OSHA is collecting worksite-specific injury and illness data from selected high hazard employers. In response to our recommendation, Labor has also improved its procedures to guard against the use of fraudulent or inaccurate data in the Davis-Bacon wage determination process.

At the Securities and Exchange Commission (SEC), our work on employment discrimination in the securities industry led to a number of actions to better ensure equitable resolution of employment discrimination cases. The SEC now directs self-regulatory organizations (SRO), such as the New York Stock Exchange, to track the numbers, types, and outcomes of discrimination cases that are arbitrated by their arbitration departments, establish written criteria and standards for

excluding persons with significant disciplinary histories from their arbitration pools, require their arbitrators to disclose criminal convictions, and use information on arbitrators' expertise when selecting arbitrators to serve on arbitration panels. The SEC has also established a schedule for inspecting SROS, begun to visit SROS at times between on-site inspection visits to determine whether its recommendations have been implemented, and issued guidance to its inspectors to specifically look for arbitrated employment discrimination cases when they select files to review during their inspections.

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## Key Open Recommendations

### Department of Education Management

In our 1992 transition series report on education issues, we recommended that the Department of Education have information and financial management systems that provide needed data and protect the federal government's financial interests from waste, fraud, and mismanagement. We recognized that corrective actions would require new systems and revised regulations, or legislation, or both. The Department is redesigning its core financial management systems and it has taken steps to improve its cash management. It has also established an information management committee to address problems in data collection and dissemination. Although the Department has made progress in implementing our recommendation, its initiatives are, by their nature, long term efforts that will require more time to complete. (GAO/OCG-93-18TR)

### Student Financial Aid

In our report on the use of student financial aid data, we recommended that the Department of Education improve the accuracy and completeness of student financial aid data by doing such things 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 already in NSLDS. We also recommended that the Department analyze student aid data more closely to identify patterns of noncompliance with federal requirements and take appropriate corrective actions. In response, the Department formed the NSLDS Data Integrity Insurance Group to (1) identify data anomalies, inconsistencies, and inaccuracies; (2) correct and prevent data problems; and (3) work toward ensuring data accuracy, completeness, and timeliness. The group identified several data inaccuracies that resulted in additional edits being added to NSLDS and many omissions and inaccuracies in data submitted by schools for entry into the Department's systems. The Department also formed an NSLDS team

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to review alleged instances of loan defaulters receiving subsequent loans, which they were not eligible to receive because of their previous defaults. The Department is also working with a contractor to identify and verify critical data elements in NSLDS. (GAO/HEHS-95-89)

## Occupational Safety and Health

In our report on the need for changes in the combined and federal-state approach to occupational safety and health, we recommended that OSHA emphasize measures of program outcomes and evaluations of the effectiveness of specific program features as it assesses both its own activities and those of the state-operated programs it is statutorily responsible for overseeing. OSHA is in the process of implementing this recommendation. It is developing a comprehensive performance measurement system that will focus on outcomes to measure its own effectiveness. OSHA and state representatives have discussed the application of this comprehensive system to OSHA's monitoring of state safety and health programs. In addition, OSHA is seeking agreement on performance measures with interested states—performance measure agreements with two states have been approved and a third one is being negotiated. (GAO/HEHS-94-10)

In the same report, we recommended that OSHA implement procedures for ensuring that employers accurately record occupational injuries and illnesses. OSHA is also in the process of implementing this recommendation. It has developed changes in its injury and illness recordkeeping regulations, published a Notice of Proposed Rulemaking in the Federal Register, and received public comments. OSHA is conducting a preliminary analysis of the comments in preparation for beginning work on the final rule. Proposed changes include simplifying the recordkeeping forms, clarifying definitions, improving employee involvement, and management certification of the records. OSHA officials plan to publish the final regulations in 1997. (GAO/HEHS-94-10)

In a report on OSHA's policy with respect to the abatement of serious hazards, we recommended that OSHA promulgate a regulation requiring employers to submit detailed evidence of corrective actions that have been taken to abate hazards. We also recommended that OSHA revise its policies so that (1) citations to employers at construction worksites require correcting the condition, equipment, or procedure that created the hazard; and (2) abatement cannot be achieved solely by moving to another location if the cited condition, equipment, or procedure would be likely to create a hazard at the new location. OSHA has chosen to develop a new abatement verification regulation in response to both our recommendation

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that it promulgate a regulation requiring evidence of corrective action and that it revise its policies regarding citations and abatements. OSHA published a Notice of Proposed Rulemaking in the Federal Register and is making revisions to the proposed regulation based on comments received from the public. OSHA has not stated when the regulation will be finalized. (GAO/HRD-91-35)

EEOC's Expanding Workload

To address increases in workload of the Equal Employment Opportunity Commission (EEOC), we recommended that the Congress convene a commission of experts to develop legislative and administrative procedures that would enable EEOC to better carry out its mission within the context of an overall federal strategy for enforcing federal employment nondiscrimination laws. Although action is expected, at the present time, congressional committees responsible for EEOC have not planned any hearings or legislation to address EEOC's workload problem. (GAO/HEHS-94-32)



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## Veterans' Affairs and Military Health Care Issue Area (Budget Functions 050, 550, 700 & 753)

GAO Contact: David P. Baine, 202/512-7101

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### Impact of GAO's Work

The Veterans' Affairs and Military Health Care issue area is responsible for GAO's evaluations of health care directly provided by the federal government as well as nonhealth benefits provided by VA. Our work on health care delivery focuses primarily on the services provided to over 34 million veterans and military beneficiaries by VA and DOD through their \$32 billion systems of hospitals, clinics, and managed care contracts. We also evaluate health care provided by the Indian Health Service and Bureau of Prisons. For VA nonhealth benefits, our evaluations address disability compensation, pensions, vocational rehabilitation, and life insurance. These programs serve over 3 million veterans at a cost of about \$18 billion a year.

Rising health care costs and substantial budget deficits have prompted major congressional concerns about whether these agencies are delivering quality health care to their beneficiaries as efficiently and cost-effectively as possible. The downsizing of the military forces and the declining but aging veteran population has also prompted a concern about the structure of DOD and VA health delivery and VA's benefits systems. Our work has contributed to the debates and resulted in improvements in the related programs as follows.

### DOD Programs

In fiscal year 1996, we continued to focus on issues related to the reform and restructuring of the military health care system, particularly TRICARE, the managed care program DOD began to implement last year and is continuing to phase-in across the country. Our examination of TRICARE led to DOD committing to gather the data necessary to measure the eventual, overall success of the program. We also studied DOD's use of Uniformed Services Treatment Facilities (USTFS) to provide care for DOD beneficiaries that resulted in (1) the establishment of a uniformed benefit for DOD beneficiaries receiving care at USTFS, (2) a requirement that prevents double-billing for care provided to Medicare-eligible DOD beneficiaries, and (3) a reduction in the appropriation level for USTFS by \$50 million.

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VA Health Care Programs

Our work supported congressional efforts to limit growth of VA's health care appropriation. We provided evidence that VA overstated the resources it will need to meet the health care needs of veterans in the mandatory care category because (1) it did not adequately reflect the declining demand for VA hospital care and (2) much of the care it provides is discretionary. In addition, we identified opportunities to reduce VA operating expenses by billions of dollars in the next 7 years by completing actions on a wide range of efficiency improvements.

Our work on VA's proposed \$211 million construction project at Travis Air Force Base contributed significantly to congressional debate over VA's fiscal year 1997 appropriations. We reported that the hospital is no longer needed and that VA planned to build too much outpatient capacity. Although the Congress appropriated funds for the project, it required VA to study alternatives to the project, such as those described in our report, before spending the funds.

Through testimony, a report, and other assistance, we worked closely with the Congress in evaluating eligibility reform proposals and identifying alternative approaches to limit the budgetary impact of reforms. We reported that VA had underestimated the potential effect of eligibility expansions on demand for VA care and therefore the potential cost of reform proposals. Citing our concerns, and those of CBO, the Congress added a limit on VA health care authorizations before enacting reform legislation.

With respect to VA efforts to improve the accessibility of VA care, we worked closely with the Congress to assess the potential effects of such efforts. As a result of our efforts, VA redirected its efforts toward improving access for current users rather than attracting new users.

VA Nonhealth Benefits Programs

With respect to VA's efforts to streamline its services, our past work identified significant delays and backlogs in VA's claims processing. In 1996, we reviewed VA's claims processing information systems and reported numerous problems including a lack of business strategy and information resources management plan. In response to our recommendations and recommendations by others, VA has taken some actions to reengineer and modernize its claims processing systems but has not addressed all concerns.

We have also recommended ways VA can better manage the costs of its services. For example, we recommended that VA establish procedures that

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focus on preventing overpayments that include identifying beneficiaries who will soon become eligible for social security benefits. VA has adopted our recommended actions and could potentially reduce costs over \$50 million annually.

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## Key Open Recommendations

- DOD**
- DOD is in the process of improving its TRICARE contracting procedures, but this process is ongoing and our recommendations in this area remain open. Also of key importance are our recommendations that DOD begin gathering certain data on who is using DOD health care under the TRICARE program, as well as DOD's success in providing timely access to its beneficiaries. This data will be critical in the eventual evaluation of TRICARE's overall success. (GAO/HEHS-95-142, GAO/HEHS-96-128)
- VA**
- In light of current efforts to reduce the budget deficit while improving health services, we recommended that VA, in concert with veterans service organizations and other federal and state agencies with jurisdiction over health benefits programs, (1) identify and evaluate options to better target VA resources to meet the health care needs of veterans and (2) develop legislative proposals to restructure the veterans benefits program. (GAO/HEHS-95-39)
- VA has struggled for years to develop a method for equitably allocating resources among its facilities nationwide. The need for such an allocation system has intensified in recent years as veterans' demographics shift and its health care delivery undergoes dramatic changes to adjust to increasingly limited resources. In February 1996, we recommended that VA take steps to link its resource allocation process to the strategic planning process so that allocations are more closely associated with VA's long-range goals, performance standards, and workload priorities, including exploring options to help ensure that veterans have consistent access to care throughout the system. (GAO/HEHS-96-48)
- VA hospitals too often serve patients whose care could be more efficiently provided in alternative settings, such as outpatient clinics or nursing homes. In July 1996 we testified and reported that VA facilities could save billions of dollars by reducing nonacute admissions and days of care in VA hospitals. Toward this end, we recommended that VA establish an

independent, external preadmission certification program for hospitals. (GAO/HEHS-96-121)

VA, through its Readjustment Counseling Service, operates over 200 community-based facilities, known as Vet Centers, which help certain veterans make a successful transition from military to civilian life. In July 1996, we reported that VA lacks the information necessary to demonstrate that its psychological services are effective. We recommended that VA direct the Service to develop a systematic approach for evaluating, on a continuing basis, the effectiveness of Vet Centers in meeting veterans' psychological needs. (GAO/HEHS-96-113)

Three VA-administered life insurance programs have and for the foreseeable future will continue to have sufficient excess funds to pay their own administrative costs. This would save an estimated \$27 million annually in appropriated monies. In order to pay for this, veterans' annual dividends (which currently range from \$274 to \$373) would be reduced by about \$10. Insured veterans have no statutory or contractual right to excess funds. However, because the law now requires the government to pay the administrative costs, a legislative change would be required to allow these programs to pay their own administrative costs. Thus, in March 1992 we recommended that the Congress amend 38 U.S.C. 1982 to require that the three VA insurance programs pay administrative costs from excess interest income. (GAO/HRD-92-42)

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

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

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

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

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

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Health Financing  
Systems and Health  
Services Quality &  
Public Health Issue  
Areas (Budget  
Functions 550 and  
570)

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Impact of GAO's Work

Our work on the nation's public and private health insurance programs, access and quality issues, and public health efforts covers programs that comprise dominant portions of the federal domestic and state budgets. In reviewing the Medicare and Medicaid programs—with projected federal outlays of \$318 billion and state and local outlays of \$76 billion in fiscal year 1997—we focused on identifying ways to reduce costs without harming beneficiaries' access to quality care. For Medicare, fiscal problems include the projected insolvency of the Hospital Insurance Trust Fund by the year 2001 and the coming of entitlement age of the "baby boomers," who will begin retiring about 2010. For Medicaid, despite a recent slow-down in spending growth, spending pressures—particularly with respect to long-term care—are not expected to subside. At the same time, we examined the ongoing transformation of U.S. health care, its effects on local markets and public health institutions, the heightened attention to information about health care quality, and the work of public health agencies, including the Food and Drug Administration (FDA), the National Institutes of Health (NIH), the Centers for Disease Control and Prevention (CDC), and the Substance Abuse and Mental Health Services Administration (SAMSA), which together spend \$19 billion annually.

Waste, Fraud, Abuse, and  
Patient Protection

The nation's health insurers are at risk of considerable financial loss due to waste, fraud, and abuse. In particular, Medicare's vulnerability—reviewed in numerous GAO products—stems from several weaknesses, including antiquated anti-fraud-and-abuse screening controls that allow improbably high claims to be paid without adequate review, the absence of specific legislative authority for Health Care Financing Administration (HCFA) to contract with organizations other than insurance companies to perform state-of-the-art claims review, and weak controls to check the validity of providers that are authorized to bill the program. Last year, the Congress passed the Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191), popularly known as the

Kassebaum-Kennedy Act. Consistent with issues raised in GAO's body of health care fraud and abuse work over the past 5 years, the act's provisions, among other things, (1) increase the funds used to investigate Medicare fraud and abuse and pursue the recovery of inappropriate payments, (2) make HCFA's authority explicit to contract with companies that specialize in utilization review, provider audit, and other safeguard activities, (3) establish a national health care fraud data collection program, and (4) specify health care fraud as a separate criminal offense.

The Department of Health and Human Services (HHS), its Inspector General, and HCFA have also addressed the various waste and abuse issues we raised in recent years. For example, Operation Restore Trust, an antifraud initiative involving the HHS Inspector General, HCFA, and the Department of Justice—among other federal, state, and local agencies—targets Medicare abuse and misuse in several states, focusing on home health, nursing homes, and medical equipment and supplies—areas on which we reported several times recently and made recommendations. HCFA also has an interagency agreement with the DOE's Los Alamos National Laboratory to obtain help in developing antifraud and abuse software for HCFA's use in screening Medicare claims. The Laboratory's proposal to do this work cites GAO among others as a source for the need for these fraud and abuse prevention tools. HCFA has also improved its provider identification system by establishing a national provider identifier system, addressing concerns raised in several of our products about fraudulent schemes involving the manipulation of Medicare's old provider number system.

Several of our reports—in 1988, 1991, 1995, and 1996—also revealed shortcomings in HCFA's oversight of health maintenance organizations (HMO) enrolling Medicare beneficiaries. More than 10 percent of Medicare's beneficiary population is enrolled in these managed care health plans, but HCFA has not adequately enforced HMO compliance with federal standards or kept beneficiaries apprised of pertinent information about Medicare HMOs. Several of our reports called for, among other things, more explicit sanction authority to improve HCFA's weak enforcement performance. Consistent with this message, the 1996 Health Insurance Portability and Accountability Act included provisions giving HCFA a broader range of sanction options to prompt HMO correction of problems affecting marketing, enrollment, quality assurance systems, grievance and appeals procedures, and access to health services. We also reported that HCFA has documented numerous instances of beneficiary confusion over managed care's benefits and restrictions and of abusive sales practices by some HMO

sales agents. Despite its awareness of these problems, however, HCFA does not provide beneficiaries with any of the comparative consumer guides that the federal government and other employer-based health insurance programs routinely distribute to their employees and retirees. As a result of our recent work on this issue, HCFA accelerated its timetable committing the agency to provide comparative information on Medicare HMOs.

We also reported on fraud and abuse problems that affect Medicaid as well as Medicare and other federal health programs. In particular, we examined the issue of health care providers who have been removed from their state Medicaid programs for committing program fraud or rendering substandard care to beneficiaries. Although, the HHS Office of Inspector General (OIG) has used its authority to exclude thousands of providers, from all federal programs, our work suggests that several weaknesses in the HHS process can leave sanctioned providers on the rolls of federal health programs for unacceptably long periods of time. This puts at risk the health and safety of beneficiaries and compromises the financial integrity of Medicaid, Medicare, and other federal health programs. In response to this work, the OIG has redesigned its system for tracking referrals and has committed additional resources to ensure the completeness of its list of excluded providers.

## Financial and Management Matters

In debates over the reform of Medicaid and the design of other federal programs, a pivotal issue is how federal monies should be distributed among states and localities. We provided information to the Congress on alternate specifications of the federal funding formula for Medicaid. In particular, our technical analysis and expertise helped the cognizant House and Senate committees develop formulas to distribute funds under their block grant proposal for Medicaid. We also provided comprehensive technical analysis and redesign of the formula grants for the Ryan White CARE Act. Our efforts and information helped the Congress improve the targeting of federal funds among the states and cities.

During 1996, we provided information to the Congress concerning the reform of the FDA. Specifically, we reported on drug and device approval times and on the status and effectiveness of new drug and device review agencies and activities in Europe. These reports helped establish a factual foundation on which proponents of different approaches could build. As a result, current FDA reform initiatives better reflect actual experience.



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## Key Open Recommendations

### Special Payments to Teaching Hospitals

We reported that Medicare's extra payments to teaching hospitals were too high and recommended that the Congress reduce the percentage of add-on payments that teaching hospitals receive. About \$1 billion could be saved annually. Since our report was issued, the CBO and the Prospective Payment Review Commission also have recommended similar reductions. Their analyses of recent data continue to show a reduction is warranted. (GAO-HRD-89-33).

### Excessive Medicare Payments for Costly Technologies

Provider costs and Medicare reimbursements for medical procedures involving new technologies, such as magnetic resonance imaging (MRI), are often high in order to offset initial expenditures for equipment and low rates of usage. We reported, however, that HCFA does not make timely adjustments to the Medicare reimbursement rates as new medical technologies mature and unit costs decline. Therefore, we recommended that HCFA (1) survey facility costs and revise the Medicare fee schedule to more accurately reflect the costs that are incurred and (2) periodically review and adjust the Medicare reimbursements for procedures using high-cost, revolving technologies.

To help bring Medicare payment rates more into line with actual costs, the Congress has enacted several mandates to reduce rates for specific procedures and services—including payments for MRI scans. In addition, HCFA has three rate-reduction projects planned or under way:

- a revision of the Medicare Fee Schedule to reflect the actual cost of staff, equipment, and supplies associated with medical procedures.
- a review to identify and correct any excessive Medicare payments for 100 items of medical equipment and supplies.
- planning of a demonstration project to evaluate a competitive bidding process to set Medicare payment levels for some medical equipment and supplies.

However, none of these projects targets new and expensive technologies. We continue to believe that significant program savings would result from an ongoing, systematic process for evaluating the reasonableness of Medicare payment rates for maturing medical technologies. (GAO/HRD-92-59)

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Rapid Spending Growth in  
Home Health Care

Since 1990, Medicare outlays on home health care services—provided to beneficiaries who are home-bound and need skilled care—have grown at an average rate of over 30 percent a year. We reported that the increase in home health outlays is largely due to increased usage that has accompanied deterioration in program controls. Funding for review of claims has declined by over a third. In addition, a court struck down HCFA's interpretation of benefit coverage requirements; this court ruling in effect widened Medicare coverage of home health. Consequently, we suggested that the Congress may wish to consider providing extra resources to strengthen controls against abuse of the home health benefit. Furthermore, we suggested that the Congress may wish to consider clarifying the scope of the benefit. At issue is whether this benefit should continue to be more of a long-term care benefit or whether it should be limited primarily to post-acute care. (GAO/HEHS-96-16)

Referrals to Imaging Facilities

In 1993, we reported that physicians with a financial interest in imaging facilities referred their Medicare patients for more imaging services than physicians without such investments. As a part of the Omnibus Budget Reconciliation Act of 1993 (OBRA). The Congress included Provisions in OBRA restrict physicians from referring their Medicare and Medicaid patients to facilities in which the referring physician has a financial stake. In 1995, we recommended that HCFA develop the procedures needed for Medicare claims processing contractors to monitor these referrals. Although OBRA restrictions were effective as of January 1, 1995, HCFA has not issued final regulations and guidance needed to assure compliance with OBRA. (GAO/HEHS-95-2)

Medicare Reimbursement for  
Therapy in Nursing Homes

Nursing home residents receive therapy services (e.g., physical therapy) from various providers. We reported that Medicare is vulnerable to overcharges by unscrupulous providers, due in part to its flawed reimbursement methods, in part to its inadequate screening of providers. Consequently, we recommended that HCFA set explicit limits to ensure that Medicare pays no more for therapy services than would any prudent purchaser. Furthermore, we recommended that Medicare certification requirements be strengthened so that those entities billing Medicare would be more accountable for the services they provide to beneficiaries. (GAO/HEHS-95-23)

Excessive Payments for  
Medical Supplies

Medicare reimburses providers of certain medical items and supplies according to fee schedules that do not reflect substantially lower market prices. For example, Medicare pays \$2.32 for a pad of gauze that is available at the wholesale level for 19 cents. Excessive fees invite

submission of abusive claims by unscrupulous providers. Coupled with inadequate review of such claims, these above-market fees and payment rates lead to Medicare and the taxpayer losing hundreds of millions of dollars.

Because current law imposes cumbersome administrative requirements that HCFA must follow when adjusting payment rates, the one time HCFA made such an adjustment it took three years. In addition, for some items HCFA lacks authority to adjust payment rates. We recommended that the Congress give HHS the flexibility to adjust fee schedules promptly when overpriced services and supplies are identified. (GAO-HEHS-95-171)

### Screening Medicare Claims

Medicare is only supposed to reimburse providers for services that are medically necessary. We reported that the several dozen Medicare claims processors often use different automated screens to distinguish necessary from unnecessary services, based on criteria developed locally. We also reported that these screens do not target medical procedures that are overused nationwide. (Up to several hundred million dollars per year of unnecessary payments are at stake.) Consequently, we recommended that HCFA act as a clearinghouse—gathering information on both local medical policies and screens for procedures that are widely overused, and disseminating the information to all the claims processors. We also recommended that HCFA hold the claims processors accountable for implementing local medical policies and screens for procedures that are overused nationwide. (GAO-HEHS-96-49)

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

### Private Sector Tools for Medicare Management of Utilization and Price

Medicare's vulnerability to making billions of dollars in unnecessary payments stems from a combination of factors, including price-setting problems, antiquated anti-fraud-and-abuse controls, and weak controls to check the legitimacy of providers billing the program. In 1995 we recommended legislative and administrative changes to allow Medicare to (1) develop more competitive payment rates, (2) enhance its fraud and abuse detection efforts by adopting modernized information systems, and

(3) establish more rigorous requirements for granting authorization to bill the program. (GAO/HEHS-95-210)

Collections From Other Insurers

Some beneficiaries have private health insurance that should pay their claims ahead of Medicare. Our work showed that, as a result of a court decision that invalidated Medicare collection procedures, Medicare could lose hundreds of millions of dollars a year in recoveries from insurers. In our testimony before authorizing committees, we pointed out that legislation is needed to strengthen Medicare's ability to collect from insurers. (GAO/HEHS-94-147)

HCFA's Contracting for Medicare Claims Processing

Section 1816 of the Social Security Act (42 U.S.C. 1395h) authorizes HCFA to contract with entities such as insurance companies, then called fiscal intermediaries, to process Medicare part A claims. HCFA also has a contract with the Blue Cross and Blue Shield Association, the national trade association for the independent Blues plans, which subcontracts with 41 Blues plans to process Medicare part A claims. HCFA has not evaluated the association's performance since 1989, even though HCFA from 1990 through 1992 paid the association over \$21 million. In our view, HCFA needs to assess the association's performance regularly, just as it does for other contractors, to ensure that the Medicare program is being managed efficiently. We recommended that the Secretary of HHS direct the Administrator of HCFA to develop criteria and evaluate the performance of the Blue Cross and Blue Shield Association in its role as the part A prime contractor. (GAO/HEHS-94-171)

Medicare Payment Rates to Risk Contract HMOs

Most Medicare beneficiaries who join a HMO belong to a "risk contract" HMO, which provides them all covered services in exchange for a flat fee, paid by Medicare. We have reported that Medicare generally overpays these risk HMOs, because its payment methods do not correct enough for risk HMO enrollees' tendency to be healthier and less costly than the average beneficiary. With risk HMO enrollment at almost 10 percent of beneficiaries and growing rapidly, these excess payments become substantial. Given the problem's heightened urgency, we suggested that the Congress might wish to give HHS the authority to reduce Medicare HMO payment rates in areas where market data indicate that these rates are too high. (GAO/HEHS-96-21)

Medicare HMO Oversight

Beneficiaries' confidence in Medicare managed care depends significantly on the effectiveness of HCFA oversight. Although HCFA has instituted several promising improvements, its monitoring and enforcement of performance standards for Medicare HMOs still falls short; quality assurance reviews are

not comprehensive, enforcement actions are too often weak, and the appeal process for beneficiaries is slow. We recommended that HHS develop more consumer-oriented oversight of the Medicare HMO program, including (a) routinely publishing comparative data on HMOs' performance and on known deficiencies and (b) assigning sufficient, trained staff to monitor and verify the effectiveness of HMOs' quality assurance practices. (GAO/HEHS-95-155)

#### Supplemental Health Insurance for the Elderly

One-third of retirees get supplemental insurance from their former employers. If an employer subsequently modifies or discontinues a Medicare beneficiary's plan, and if the person wants to obtain a different supplemental policy, that beneficiary will not be eligible for the 6-month open enrollment period provided for persons newly enrolled in Medicare part B. Because such retirees may not be able to get the alternative Medigap coverage they seek, we recommended that the Congress amend the law to provide a mechanism for retirees to obtain Medigap insurance when these circumstances occur. (GAO/HEHS-94-185).

#### Health Care Shortage Areas

To better target resources, we recommended that the Secretary of HHS apportion future National Health Service Corps (NHSC) funding to use the loan repayment program to the maximum extent allowed by law. Similarly, the Secretary should assess whether the benefits of the state loan program, which is less costly, would warrant greater use of the program. We also recommended that the Congress consider amending the Public Health Service Act either to direct the Secretary to use the loan repayment program rather than the scholarship program to meet future NHSC needs, or to grant the Secretary greater discretion to allocate larger amounts of NHSC funding through loan repayment awards than currently allowed. (GAO/HEHS-96-28)

#### Immunization of Children

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

#### Health Profession Education

Over the past decade, the supply of nearly all health professionals has increased faster than the population at large. For most health professions,

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

## Hospital Construction

HUD's FHA Hospital Mortgage Insurance Program insures loans to finance the renovation or construction of hospitals that meet certain criteria. FHA mortgage insurance protects lenders against losses they might incur if hospitals fail to make their mortgage payments. As of August 1995, the program covered 100 projects in 18 states and Puerto Rico, with an unpaid principal loan balance of about \$5 billion. More than \$4 billion of the insured projects and 9 of the 10 largest loan amounts are concentrated in New York. Given the risks associated with this concentration, the Congress and HUD may wish to explore further options—such as limiting risk exposure in a particular state and capping mortgage insurance amounts—to help ensure program stability. (GAO/HEHS-96-29)

In addition, flaws in FHA's methodology for estimating loan losses limit the reliability of its loan loss reserve estimate. Moreover, while FHA has developed performance measures for some of its major programs, it lacks performance measures that would help HUD evaluate the Hospital Mortgage Insurance Program. To improve the reliability of FHA's loss reserve estimate, enhance compliance with federal performance measurement requirements, and minimize financial losses from future projects, we recommended that the Secretary of HUD: (1) perform a comprehensive analysis of individual loan loss exposure when default is considered probable and consider recent events, such as policy changes, that can affect the performance of loans in estimating loan loss reserves; (2) develop performance measures and collect data needed to track the performance of the Hospital Mortgage Insurance Program; and (3) pursue risk-sharing arrangements—where private and public entities would share in potential financial losses from hospital defaults on future FHA-insured projects—only after evaluating the benefits and drawbacks of risk-sharing ventures, and taking into account the experience of FHA's multifamily housing programs. (GAO/HEHS-96-29)

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FDA User Fees

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

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**Income Security Issue  
Area (Budget  
Functions 600, 650)**

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

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**Impact of GAO's Work**

Income security programs operating through the Social Security Administration (SSA), HHS, and the Department of Labor account for nearly 40 percent of all federal spending. Millions of Americans rely upon programs like Social Security, Disability Insurance (DI), Supplemental Security Income (SSI), and various existing and newly created block grants for financial support and services. In addition, Americans are dependent on Labor to provide oversight over private pension plans, an important source of income for millions of retired workers.

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

The work has contributed significantly to legislative and executive actions that will result in financial savings and improvements in program efficiency and cost effectiveness. For example, we reported on the need to reform federal disability programs, contributing to increased congressional oversight and legislation to target SSI benefits toward children with more severe impairments. Further, the Congress acted to remedy problems we highlighted by changing the law regarding benefits for drug addicts and alcoholics and increasing funding for Continuing Disability Reviews (CDRS). Legislative changes and agency actions related to CDRS will result in fiscal year 1996 cost reductions of about \$112 million in benefit reductions for the SSI population, \$243 million from reduced DI benefits, and about \$111 million from reduced Medicare benefits. Finally, having shown that prisoners and other ineligible regularly receive SSI, we have recommended ways to keep ineligible applicants from receiving SSI.

Similarly, our work contributed to amending the Food Stamp Act of 1977 to authorize states to offset current recipients' benefits, without their



consent, to recover overpayments caused by agency error. We also documented millions of dollars in potentially erroneous payments from various programs made to deceased beneficiaries nationwide. As a result, OMB now requires that all agencies regularly use SSA death information to prevent such errors.

Based on our recommendations, Internal Revenue Service (IRS) issued regulations to require more timely reporting of earnings to help ensure that workers were not losing social security benefits. Further, SSA took several actions to clarify wage reporting instructions and better respond to employers' questions. Finally, we were influential in HHS' examination of its organizational structure and reorganization of regional staff to establish clearer lines of authority and communications within and between the Office of Child Support Enforcement (OCSE) and the states. These actions should lead to fewer miscommunications and better working relations between OCSE, HHS regional staff and state program staff.

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## Key Open Recommendations

### Social Security

In October 1993, we reported that while SSA had made progress in solving its management problems, opportunities still existed for SSA to continue to improve. We made several recommendations, among them that SSA complete the implementation of a strategic management process to guide planning, implementation, and evaluation of long-term strategic initiatives. Further, to gain better managerial and technical control over SSA computer modernization efforts, SSA should take the actions needed to fully integrate SSA databases. SSA is revising its strategic plan and has in place a tracking and monitoring system to monitor the progress of key agency initiatives and the attainment of performance targets and plans to establish a new methodology to ensure appropriate attention to key agency initiatives. Further, SSA developed an integrated client database in April 1995. The agency is currently in the process of refining and analyzing the functional requirements of the new database before it is released for agency-wide use. (GAO/HRD-94-22)

### Disability Programs

SSA's plan for achieving self-support (PASS) program was established in 1972 as part of the SSI program to help SSI and DI recipients return to work, thus reducing or eliminating future benefit costs. However, very few recipients have left the federal disability rolls by returning to work. In February 1996, we reported that SSA has done a poor job implementing and

managing the PASS program. Because SSA has provided insufficient program direction and support to its field office staff, these staff have difficulties approving and denying program applications. Further, the impact of the PASS program on employment is unknown because SSA lacks basic data on PASS program participation. Finally, a lack of safeguards has left the PASS program vulnerable to abuse. We recommended that SSA take several actions to address these deficiencies and SSA is making progress in responding to these recommendations. For example, the agency now requires all PASS applications to be approved by specially trained staff. SSA also issued new operating procedures and revised the application form. Both actions incorporated some of our recommendations related to improving PASS program management and eliminating program abuse. SSA has not, however, taken action to gather additional management data on PASS program participation and impact, and thus is unable to use these data to evaluate the impact of PASS participation on employment. Finally, we recommended that the Congress consider legislation to eliminate DI beneficiary eligibility for SSI benefits through use of PASS, and SSA has proposed such legislation, but the Congress has taken no action on this. (GAO/HEHS-96-51)

In April 1996, we reported that weaknesses in the design and implementation of DI and SSI program components have limited SSA's capacity to identify and assist in expanding beneficiaries' productive capacities. We noted that eligibility requirements and the application process encourage people to focus on their inabilities, not their abilities; work incentives offered by the programs do not overcome the risk of returning to work for many beneficiaries, and the complexities of work incentives can make them difficult to understand and challenging to implement; and beneficiaries receive little encouragement to use rehabilitation services, which are relatively inaccessible to beneficiaries seeking them. We recommended that SSA take immediate action to place greater priority on return to work, including (1) designing more effective means to accurately identify and expand beneficiaries' work capacities and (2) better implementing existing return-to-work mechanisms. SSA noted that it has undertaken several initiatives to find new and innovative ways to encourage work among DI and SSI beneficiaries. However, we believe that these steps, while in the right direction, do not constitute the fundamental redirection of goals and practices necessary to move the disability programs to much greater emphasis on return to work. (GAO/HEHS-96-62)

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Welfare Benefits

In June 1995, we reported that increasing states' recovery efforts and extending effective federal recovery provisions to one or more programs could help recover hundreds of millions of dollars more in benefit overpayments in the Aid to Families With Dependent Children (AFDC), Food Stamp, and Medicaid programs. We recommended that the Congress extend the authority authority for states to intercept federal income tax refunds to include the recovery of AFDC and Medicaid overpayments. Although a provision allowing states to do this was included in HR 3734, it was omitted from the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, as enacted, on primarily procedural grounds. (GAO/HEHS-95-111)

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**Chapter 3**  
**Improving Human Resource Programs**

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# Improving Justice and General Government Programs

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## Administration of Justice Issue Area (Budget Function 750)

GAO Contact: Norman Rabkin, 202/512-8777

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### Impact of GAO's Work

The administration of justice issue area covers a wide range of federal activities, including (1) civil and criminal law enforcement in such areas as community policing, the size and extent of federal law enforcement, firearms regulatory and criminal enforcement, and health care fraud; (2) litigative and judicial activities, such as administrative efforts to review local court processes and juvenile justice incentive grant programs; (3) correctional activities; (4) immigration control; and (5) U.S. Customs Service revenue collection and enforcement.

### Civil and Criminal Law Enforcement

Federal assistance for community policing amounted to nearly \$1.4 billion in fiscal year 1996 to continue the President's campaign to put 100,000 additional cops on the beat. The Public Safety Partnership and Community Policing Act of 1994 (Community Policing Act), Title I of the Violent Crime Control and Law Enforcement Act of 1994, authorizes the Department of Justice to award grants for the hiring or rehiring of law enforcement officers to participate in community policing. In a report on community policing, we noted that the higher the crime rate, the more likely a jurisdiction was to apply for a grant. The primary reasons jurisdictions that we contacted chose not to apply for grants were cost related. Specifically, these jurisdictions expressed uncertainty about being able to continue officer funding after the grant expired and about their ability to provide the required 25-percent funding match.

Federal law enforcement authority is dispersed among many federal agencies. We found that there were at least 32 federal agencies employing about 41,000 law enforcement investigative personnel in at least 9 occupational series as of March 31, 1995. The annual salary costs for these employees totaled about \$2.2 billion. We also reported on the need to eliminate duplication of criminal investigations among federal agencies.

We reported on the Bureau of Alcohol, Tobacco, and Firearms' (ATF) (1) use-of-force policies compared to the Drug Enforcement Administration (DEA) and Federal Bureau of Investigation (FBI); (2) licensing of firearms dealers; and (3) compliance with legal restrictions on maintaining firearms licensee data. On average, ATF arrested 8,000 suspects annually but was involved in less than 10 reported shooting or alleged excessive force incidents annually for fiscal years 1990 through

1995. In October 1995, Treasury and Justice issued uniform policies governing the use of deadly force. ATF's prior policy was generally consistent with Treasury's 1995 policy and with DEA's and FBI's deadly force policies in effect immediately prior to Justice's 1995 policy. The training provided to new ATF agents was consistent with that provided new DEA and FBI agents. Also, ATF's procedures for reporting, investigating, and reviewing shooting and alleged excessive force incidents were generally comparable to DEA's and FBI's. Our review of ATF's investigative files showed that ATF (1) generally complied with its investigative procedures, (2) found all intentional shootings justified, (3) found most excessive force allegations unsubstantiated, and (4) sanctioned agents found to have engaged in misconduct. Our report provided objective, independent information on a highly sensitive issue that helped address concerns regarding ATF's use of force. Subsequently, the House Appropriations Committee included in its report accompanying the fiscal year 1997 Treasury, Postal Service, and General Government Appropriations Bill recommendations calling for (1) the creation of an Office of Professional Responsibility within Treasury's Office of the Undersecretary for Enforcement to oversee, among other things, use-of-force allegations involving Treasury law enforcement agencies and (2) outside representation on ATF's Shooting Incident Review Board and Professional Review Board.

We reported that from an April 1993 high point of about 260,700, the number of licensed firearms dealers had declined about 35 percent as of September 30, 1995. Factors contributing to the decline included increased ATF enforcement of existing laws and new legislative requirements, such as increased licensing fees. However, ATF had no specific policy to reduce the number of licensees by some targeted number.

We reported that ATF identified and described for us 14 national data systems and 4 subsystems that related to firearms and that 5 systems and 1 subsystem contain data that identify retail purchasers or possessors of specific firearms. We reviewed two of these systems—the Out-of-Business (Firearms Licensees) Records System and Multiple (Handgun) Sales Systems—and determined that they were designed and operated in compliance with the Gun Control Act of 1968, as amended, and the annual appropriation rider prohibiting the consolidation or centralization of data from firearms licensee records. We also determined, however, that ATF was interpreting the rider narrowly and, as a result, had not systematically reviewed its data systems and its information practices to give appropriate effect to the appropriation rider. Therefore, we recommended that ATF do

so and report the results to the House Appropriations Subcommittee. In response to a draft of our report, ATF stated that it (1) had adopted our broader interpretation of the rider, (2) had applied it to a legal review of the systems we did not review, and (3) was committed to applying it to any record systems it established in the future. However, ATF did not determine whether the systems we did not review were operating in compliance with the law. Based on the preliminary results of our review of the Out-of-Business Records System, the House Appropriations Committee added a provision to the fiscal year 1997 appropriations bill to prohibit the creation of an out-of-business records database in which records can be retrieved by any personal identifier.

With regard to federal fugitive apprehension activities, we reported that despite the importance that Justice and Treasury law enforcement agencies place on entering fugitives' data into the National Crime Information Center's Wanted Person File as immediately as possible after the arrest warrant has been issued, FBI, ATF, U.S. Marshals Service, and Customs Service had different time criteria. Moreover, many of their fugitives, even those classified as dangerous, were entered onto the File long after their arrests were authorized. We made several recommendations to improve agencies' policies and practices relating to the entry of fugitives' data onto the National Crime Information Center's system. The agencies had made or were in the process of making improvements.

In reporting on the first full year of implementation of the Brady Handgun Violence Prevention Act, we determined that (1) almost half of all denials in 15 jurisdictions were because prospective purchasers had criminal histories and (2) as of July 1995 denials had resulted in follow-up enforcement actions against at least seven persons nationwide. These data were cited during the 1996 presidential campaign and in a case argued before the Supreme Court in December 1996.

In late 1993, the Attorney General designated health care fraud as the Department of Justice's number two enforcement priority, second only to violent crime initiatives. Recently, we reported on ways to enhance information sharing to support enforcement efforts. Specifically, we reported that (1) there was no federal immunity provision to protect persons who report suspected health care fraud to law enforcement agencies; (2) most states had enacted immunity laws with varying levels of protection for insurers; and (3) most of the law enforcement and industry officials we interviewed supported establishing a database of final adverse

actions. These have been recurring topics in the administration's and the Congress' consideration of ways to curb health care fraud, which is estimated to result in financial losses ranging from \$30 billion to \$100 billion annually.

Enforcement actions resulted in the seized property inventories of the Departments of Justice and the Treasury growing from \$33 million in 1979 to almost \$2 billion in 1994. Our report identified the historical problems that have plagued management of seized and forfeited assets. While the agencies have made progress in addressing some of the problems, others such as maintenance and disposal of seized property and enhancements to seized property tracking systems remain. Further, additional policies and procedures are needed to help ensure adequate accountability and stewardship over seized property. As a result in part of our high risk report on asset forfeiture, the Permanent Subcommittee on Investigations initiated an investigation of some particularly troublesome assets being held by the Marshalls Service. Our testimony on asset forfeiture set the stage for their hearing about a casino being held by the Marshalls Service.

The Congress passed the Anti-Car Theft Act of 1992 in response to what it considered to be the nation's number one property crime—automobile theft. The act was designed to reduce automobile theft by making the selling of stolen cars and parts more difficult. We provided information on the status of the requirements to (1) establish a national motor vehicle titling information system, (2) mark major component parts with identification numbers, and (3) establish a national stolen passenger motor vehicles and parts information system. We also identified several issues related to these provisions that may impede their implementation or influence their effectiveness.

#### Litigative and Judicial Activities

Prior to November 1995, the Administrative Office of the U.S. Courts (AOUSC) did not require the use of generally accepted government auditing standards for its nonfinancial reviews of local court operations. As a result, program reviewers adopted a wide range of program review approaches: (1) many reviews did not result in written reports, (2) results were not generally distributed to all affected parties, and (3) follow-up on written recommendations was inconsistent. Partly as a result of our report, the AOUSC has begun to improve its process for reviewing local court operations. AOUSC has amended its auditing standards to ensure greater independence of program reviewers and require written reports. It also plans to conduct training on the new processes and monitor compliance with the standards.



Title V of the reauthorization of the Juvenile Justice and Delinquency Prevention Act of 1974 is designed to provide a dedicated funding source for delinquency prevention and early intervention programs to local governmental units. The 1992 reauthorization bill required us to report on the incentive grant program for local juvenile delinquency prevention. Our report provided data on, among other things, how these funds are being allocated and spent. Justice will be using our data in its evaluation of the Title V grants. Congress used the information we provided in its deliberation on controlled funding for the program.

#### Correctional Activities

The Federal Bureau of Prisons has largely implemented our recommendations for improving its planning and coordination with probation officers for the release of inmates from the Bureau's custody. The Bureau has entered into a new memorandum of understanding with the Judiciary to provide probation officers with information on inmates 90 days before their scheduled release to probation officer supervision and has taken steps to ensure that its list of such inmates is complete and correct.

As we recommended, the Bureau has also enhanced its incentives for inmates to participate in and complete education and vocational training programs. Inmates are generally permitted to work half a day and attend school the remaining half. Inmates eligible for "premium" pay positions in Federal Prison Industries must either have a high school diploma, have completed their high school general equivalency degree, or be making satisfactory progress in their education classes.

#### Immigration Control

The Immigration and Naturalization Service (INS) issues border crossing cards to eligible Mexican citizens who wish to frequently visit the United States on a temporary basis for business or pleasure. To obtain a crossing card, applicants must be admissible as a nonimmigrant. An applicant might be found inadmissible, if, for example, he or she had a criminal record. Our review showed that Immigration Service inspectors at the San Ysidro, California, port of entry and other ports along the southern border were not required to check crossing card applicants against available criminal history databases. Indeed, we found evidence of the issuance of a crossing card to an alien with a criminal history. In response, the Immigration Service implemented a policy to standardize background checks performed during the application process.

The Congress is in the process of almost doubling the size of the Border Patrol. We analyzed the Border Patrol's enforcement activities nationwide

and by location for use by congressional committees in their deliberations on the appropriate number of Border Patrol agents to patrol the Southwest Border. Our analysis showed that the Border Patrol reportedly spent 63 percent of its time preventing illegal alien entry. The remainder of the time was spent on illegal-alien apprehension but not necessarily on the border. Subsequently, the Congress directed INS to redeploy 200 agents from interior stations to the border. This redeployment will result in a 2-year cost reduction of about \$33.6 million.

### Customs Revenue Collection and Enforcement

In our 1992 report on the management of the Customs Service, we reported that Customs could not adequately ensure that it was meeting its responsibilities to combat unfair trade practices or protect the public from unsafe goods. Moreover, Customs was finding only a small percentage of the estimated violations in imported cargo, and it did not have adequate information to assess its effectiveness in collecting applicable duties or penalizing violators of trade laws. We also stated that these problems arose because of interrelated problems and weaknesses in Customs' (1) mission planning, (2) information and human resource management, and (3) organizational structure. In all, we made over 20 recommendations to correct the identified problems and weaknesses.

Since then, Customs has responded with a variety of planning, organizational, and processing changes that radically altered its strategies, goals, and objectives. Customs redesigned its organizational structure, trade enforcement processes, and support functions and is working toward a complete redesign of its automated commercial system for enforcing trade and contraband laws, ensuring trade compliance, and providing services and information to the trade community, federal agencies, and the American public.

Customs has taken action on most of the recommendations. In some cases, the action extended far beyond the original recommendations' scope, as in its trade enforcement system. Customs developed a totally new system of industry compliance, replacing a transaction-based violation system with no standard for measuring the violations it discovered. In some instances, the actions taken represent significant departures from past practices and have moved Customs in a new direction toward meeting its future challenges.

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## Key Open Recommendations

### Civil and Criminal Law Enforcement

In our testimony on the misuse of criminal justice information in the National Crime Information Center, we identified numerous examples of misuse and recommended that the Congress enact legislation with strong criminal sanctions for such misuse. The FBI, the Information Center's Advisory Policy Board, and state and local law enforcement agencies that use the National Crime Information Center generally support such legislation as a deterrent to further misuse. While the Congress had not passed such legislation as of September 1996, the Senate Judiciary Committee had referred to the Senate floor for action a bill (referred to as the National Information Infrastructure Protection Act) that would have amended 18 U.S.C., 1030 to criminalize the misuse of government computers to obtain information. (GAO/T-GGD-93-41.)

### Litigative and Judicial Activities

In 1993, we recommended that the federal judiciary develop an improved measure of the workload of courts of appeals judges. The judiciary, while acknowledging the need for improvement, has been unable to agree on a methodology for developing a new workload measure. Consequently, it has not begun to develop this measure. The current measure for appellate judges is broad and less precise than that used for measuring district court judge workload. Some members of the Congress have questioned whether the current measure is a sufficient basis for recommending additional appellate judgeships. (GAO/GGD-93-31.)

### Illegal Immigration

We reviewed the Immigration and Naturalization Service's method for estimating the number of overstays, that is, persons who entered the United States legally as visitors but did not leave under the terms of their admission, and found that a key underlying assumption is questionable and that improved approaches have the potential to reduce the uncertainty of these estimates. We developed an alternative method for estimating overstays among foreign visitors who arrive by air. When we applied our method to sample data we found that, on average, our estimates were lower than those of the Immigration and Naturalization Service. We believe that the Service should develop improved procedures for estimating overstays, using methods such as those we developed. (GAO/PEMD-95-20)

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## Federal Management and Workforce Issue Area (Budget Function 800)

GAO Contact: Nye Stevens, 202-512-8676

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### Impact of GAO's Work

The Federal Management and Workforce issue area focuses on the analysis and evaluation of cross-cutting management, workforce, and statistical issues. These include government performance goals and measurement, restructuring and downsizing, regulatory reform, privatization, oversight of the civil service, human resource management practices at specific agencies, as well as the quality, reliability, and distribution of social and economic statistical data.

The issue area specifically covers the Executive Office of the President, OMB, Office of Personnel Management, Merit Systems Protection Board, Office of Special Counsel, Federal Labor Relations Authority, Office of Government Ethics, the Department of Commerce, Government Printing Office, Bureau of Labor Statistics, the Library of Congress, and the National Archives. However, managerial, personnel, and statistical/information issues bridge into virtually all other agencies as well.

In 1996, the issue area contributed to congressional oversight of a broad range of management initiatives as fundamental questions of government's role in society occupied the congressional agenda. The Comptroller General enunciated a series of key principles to be considered in government reorganization, and these were considered in congressional hearings on dismantlement of the Department of Commerce, consolidation of the government's decentralized statistical system, and a proposal to create a Department of Natural Resources. The issue area also profiled 22 government corporations and 5 other organizations that were similar to government corporations, comparing their adherence to 15 federal statutes and other organizational characteristics.

We continued to build on our leadership role in providing the Congress and agencies with critical information and perspective to ensure the successful implementation of the landmark Government Performance and Results Act (GPRA). More than 50,000 copies have been distributed of GAO's Executive Guide: Effectively Implementing the Government Performance and Results Act, which highlights successful practices of pilot agencies

and other organizations making the transition to results-oriented management. The Executive Guide is helping guide executive branch GPRA implementation: OMB included it by reference in guidance on GPRA implementation and the Chief Financial Officers Council enclosed copies of the guide in its GPRA training material.

We also contributed in-depth analyses of management initiatives emerging from the executive branch. We examined the status of 380 action items reported as completed by the Vice President's National Performance Review (NPR), and confirmed that 277, or 77 percent, could be verified as completed. Another report detailed the status and results arising from the NPR's 185 reinvention laboratories.

In the workforce area, persistent calls for a smaller but higher performing federal workforce continued to focus attention on the need for rethinking current civil service principles and practices. Three hearings on the federal employee redress system helped define the system's problems and pointed to alternative dispute resolution as a possible means of relieving the strains on the system. Our symposium on "Transforming the Civil Service: Building the Workforce of the Future" resulted in a December 1995 report identifying eight human resource management principles common to leading private and public sector organizations. Our discussion of these principles received widespread attention in the human resource management community and underlay many discussions concerning the kinds of human resource management reforms that may be appropriate in today's results-oriented environment. Implementation of the GPRA, for example, may hinge on better aligning agency human resource management functions with organizational goals—one of the principles identified in the December 1995 report.

In the midst of the largest federal downsizing since World War II, the issue area continued to provide the analysis needed to evaluate alternative approaches to downsizing, and the effects of workforce reductions to date. Some of these reviews led to potential cost reductions. For example, \$37 million was saved subsequent to our testimony's finding that the Department of Energy's use of "recycled" buyouts was unauthorized. We also pointed out that significant potential cost reductions were available by discontinuing the expensive, military-like compensation system for the Commissioned Officer Corps of the Public Health Service in view of our findings that the Corps' functions were essentially civilian in nature. In another report we compared federal benefit levels under the Federal Employees' Compensation Act with states' benefits and identified areas in

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which federal benefits were relatively greater. We also identified issues the Congress might consider in crafting legislation to change benefits provided for older beneficiaries who had reached retirement age.

We also contributed to the debate of a proposal to consolidate statistical agencies. Through a series of reports we explained the mission and budgets of the major statistical agencies and compared the United States' and the centralized Canadian statistical systems. We aided congressional decisionmaking through reports on the housing and medical care components of the Consumer Price Index and on issues surrounding the appropriateness of the current official measure of poverty in the United States.

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## Key Open Recommendations

### Management Issues

How best to provide central guidance on, and oversight of, management issues in the federal government has been a perennial challenge. Currently, management oversight is collocated with budget oversight in OMB. In an effort known as OMB 2000, OMB has worked to better integrate management and budget oversight functions in new Resource Management Offices. We reported that this effort increased overall attention to management issues. However, the long term success of the reorganization is not assured. We recommended that OMB review specific concerns to promote more effective integration of management and budget oversight, including (1) the way OMB trains its program examiners and whether this is adequate given the additional management responsibilities assigned to these examiners and (2) the effectiveness of different approaches taken by OMB to coordinate policy development with Resource Management Offices and to provide program examiners with access to expertise. (GAO/GGD/AIMD-96-50)

Under the administration's NPR, some 185 "reinvention labs" were established to test ways that agencies could improve their performance and customer service by reengineering work processes and eliminating unnecessary regulations. Although some laboratories had shown that new approaches can be more effective or efficient, the real value of the labs will be realized only when the operational improvements they initiated, tested, and validated achieve wider adoption. However, most laboratory officials said they had not had substantial communication with either other labs or with the NPR's task force. Therefore, we recommended that

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the Director of OMB ensure that a clearinghouse of information about the labs be established. (GAO/GGD-96-69)

In order for congressional and executive branch decisionmakers to obtain the information they need as they seek to create a government that is more efficient, effective, and streamlined, the Congress needs to provide strong and sustained attention to the implementation of the GPRA. Congressional authorization, appropriation, budget, and oversight committees all have key interests in ensuring that GPRA is successful, because once fully implemented, it should provide valuable data for decisions that each committee must make. The Congress can demonstrate a strong commitment to GPRA in two ways. First, it can ask agencies about the status of efforts to implement the act, challenges they are encountering, and how those challenges are being addressed. Second, and more important, the Congress can use the agency strategic plans and performance information developed under the act to make decisions and hold agencies accountable for achieving the goals established in strategic and annual plans. (GAO/T-GGD-96-79)

## Workforce Issues

In reviewing certain agency appointments of experts and consultants, we found many to be inappropriate. The primary reason was that the appointments were made to positions involving full-time or continuous duties that are the responsibility of career employees. To achieve better control over the use of experts and consultants, we recommended the Congress amend 31 U.S.C. 1114(b) to explicitly state that inspectors general are required to evaluate the progress agencies make in establishing effective management controls over appointed experts and consultants. (GAO/GGD-91-99)

Our review of personnel practices during presidential transitions led to our recommending that to preserve the flexibility of new agency heads appointed after presidential transitions, the OPM Director should routinely suspend all SES appointment processing during transition periods. In line with current OPM policy, in special circumstances agencies should be able to request Senior Executive Service (SES) appointment processing during such transitions. OPM has indicated that because it believes existing controls are adequate, it does not intend to take action on this recommendation. We believe such a policy should be adopted. (GAO/GGD-94-66)

In the area of equal employment opportunity, our recommendations addressed the guidance that the EEOC provides to federal agencies for

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affirmative employment planning. According to the Commission, it is reexamining its proposed guidance in light of a recent U.S. Supreme Court decision. (GAO/GGD-91-86, GAO/T-GGD-92-2, GAO/GGD-94-71)

## Census Reform

We reported in 1992 that the basic design of the decennial census had exhausted its potential for counting the population accurately and cost-effectively. We reported also that the key to a successful reform effort would be through vigorous congressional oversight. We recommended that the Congress schedule oversight hearings throughout the decade to ensure that consistent progress is being made in designing and planning the 2000 census. Oversight hearings have been held, and with one exception the Bureau's cost-saving initiatives have received favorable responses. One initiative—whether the Bureau should sample households not responding to census questionnaires—lacks consensus among the stakeholders. Consistent with our recommendation, the Bureau has proposed the use of sampling instead of a 100-percent follow-up for citizens not responding to the mailed questionnaires, but the Congress has not yet agreed. If sampling is to be used in the 2000 census, the extent of sampling needs to be determined; savings estimates range from \$400 million to \$1.1 billion. (GAO/GGD-92-94)



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Financial Institutions  
and Markets Issue  
Area (Budget  
Function 800)

GAO Contact: Jean Stromberg, 202/512-8678

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Impact of GAO's Work

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

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

Our recent look at the operations of the Federal Reserve suggests that the Federal Reserve System is facing a number of major challenges that could affect the nature, size, and distribution of its activities and resources. We found that the Federal Reserve needs to become more cost conscious and that it should undertake a thorough re-examination of its mission, structure, and work processes to assure that it is operating as efficiently and effectively as possible.

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

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

Our work also identified the need for major reform. In our report on the Federal Home Loan Bank System, we expressed concerns about its capital structure and the mixture of voluntary and mandatory members. We also expressed substantial concern about whether the Federal Housing Finance Board could act as an arm's-length regulator, and recommended a single regulator for all three housing-related Government-sponsored enterprises. This report helped to spur debates in the Congress on how to reform the Federal Home Loan Bank System.

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

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## Key Open Recommendations

### Financial Institution Reforms

In our report on credit unions, we recommended some 50 regulatory and legislative actions to ensure the future soundness of the industry, including changes to (1) maintain safe and sound insurance operations, (2) upgrade the regulation and supervision of credit unions, and (3) clarify the “common bond” characteristic distinguishing credit unions from banks and thrifts. Our 1994 testimony on Corporate Credit Unions noted eight key recommendations in our 1991 report which had not been adequately addressed. (GAO/GGD-91-85, GAO/GGD-95-15)

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

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

Our reviews of the Community Reinvestment Act and of the Equal Credit Opportunity Act and the Fair Housing Act concluded that the lending and regulatory community still face challenges in effectively implementing these laws. We recommended that the regulators: develop uniform fair lending examination procedures; adequately train examiners to review and test for lending discrimination; and use their full range of resources, including enforcement actions to ensure accurate, timely data. We further recommended that the agencies determine what resources and examination techniques were needed to meet the requirements of the recently revised Community Reinvestment Act regulations. We also recommended that the Attorney General provide updated guidance to the bank regulators on the characteristics of referable “pattern or practice” cases under the Equal Credit Opportunity and Fair Housing Acts. In addition, we suggested that the Congress may wish to consider alleviating the legal risks of self-testing for discrimination done by the lenders. These recommendations are under consideration by the regulators. (GAO/GGD-96-23, GAO/GGD-96-145)

Our report on Federal Reserve operations noted a number of areas in which the Federal Reserve could be more efficient. We recommended that the Federal Reserve undertake a thorough review of its mission, structure, and work processes to identify ways to become more efficient and effective in the future. We suggested that the Federal Reserve carefully examine the need for its 12 regional banks and its 25 branches. We also recommended that the Federal Reserve develop criteria for maintaining its surplus rather than the rule of thumb it has been using. (GAO/GGD-96-128)

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Securities

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

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

Our work on the National Association of Stock Dealers' Hotline suggested that many investors did not know about the hotline but that investors would find additional information about broker-dealers useful in making investment decisions. We recommended that the National Association of Stock Dealers' Regulation explore ways of publicizing the hotline to a wider audience and provide hotline callers with all the relevant disciplinary-related information available. (GAO/GGD-96-171)

See also chapter 5, Financial and Information Management Programs, Budget Issue Area and Corporate Audits and Standards Issue Area.

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Government Business  
Operations Issues  
(Budget Function 800)

GAO Contact: William Gadsby, 202/512-8387

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Impact of GAO's Work

Our work focuses on two of the government's largest business entities: the General Services Administration (GSA) and the United States Postal Service (USPS). Their combined annual operating budget is about \$60 billion, and their activities have far-reaching implications for federal agencies and the general public. Through them, the federal government owns and controls assets worth hundreds of billions of dollars and provides goods and services to federal agencies that directly affect mission accomplishment. We are also responsible for reviewing other entities, such as the Smithsonian Institution, the Library of Congress, and the Administrative Office of the U.S. Courts.

The reforms that GSA has made over the last several years appear responsive to many of the concerns we and the NPR have continued to express. GSA has reorganized its Public Buildings Service to separate its policy/oversight and service-provider responsibilities and help facilitate the delivery of real estate services to federal agencies. We have continued to emphasize several key obstacles—such as Federal Buildings Fund shortfalls, budget scorekeeping rules, and the lack of strategic focus and planning—that impede GSA's and the Congress' ability to pursue the most cost-effective housing and asset-management options for meeting federal space needs and managing existing federal buildings. A key area of work this past year has involved the design, construction, and use of federal courthouses. Our work in the courthouse construction area in 1995 yielded \$317 million in measurable cost reductions.

Our efforts at the USPS have continued to focus on persistent problems as well as the prospects that major reform legislation may place the USPS in a more competitive arena with its private sector counterparts. The persistent problems include poor labor-management relations, low employee morale and dissatisfaction with working conditions, a culture of autocratic management resulting in substandard mail-delivery and customer-satisfaction scores, an inability to properly control the receipt of mail and ensure proper revenue collection as well as reap projected benefits from major automation investments. In both reports and testimonies, we have highlighted the major issues facing the USPS: (1) how competition will affect both the Service's revenues, costs, and rates (domestically and internationally) and the federal government's role in

mail delivery; (2) how poor controls have resulted in revenue losses and mismanagement in some major purchases; and (3) how a new focus is needed in tracking service quality and customer satisfaction. Our postal work made major contributions to the postal reform legislation introduced in 1996.

We also handled a wide range of congressional requests covering diverse agencies and issues. In the nation's currency area, we reported that it was no longer profitable for the government to produce and distribute the one-cent coin and provided options for congressional consideration for the future of the penny. In addition, we reported that to make commemorative coins profitable, the Mint should reduce the proliferation of commemorative coins, institute a profit-sharing arrangement with coin sponsors, and base the sales levels and prices of the coins on market research. We also reported that the Smithsonian Institution should take better care of the nation's aircraft collection by refining the mission of the National Air and Space Museum, culling the collection to a size that was affordable, and developing a management plan for aircraft. We reported that 10 agencies spent a total of \$14 million in working for the President's Task Force on Health Care Reform.

Finally, we contracted with Booz-Allen & Hamilton to perform a general management review of the Library of Congress. In that review and testimony, we reported on the Booz-Allen report that said the Library needed to reassess its mission, improve its management and operational processes, and better manage its human resources and revenue opportunities. The library has developed and implemented a management improvement plan designed to address the Booz-Allen recommendations. We also reported on governmentwide rates of return from concessions contracts. We reported that, of the \$2.2 billion of concessions income, agencies that were able to retain the money earned three times as much as those agencies who had to give the money to the Treasury, and agencies that used competition in selecting contractors earned twice as much as agencies that did not use competition.

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## Key Open Recommendations

### General Services Administration

GSA is addressing our recommendations as part of its ongoing reinvention efforts. It is working internally and with federal agencies and the commercial real estate community to explore new ways of handling lease

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arrangements. It has already acted to simplify and streamline its leasing and pilot alternative options. As part of its reinvention efforts, GSA is considering privatization and outsourcing. (GAO/GGD-95-48)

The Congress, the Judiciary, and GSA have embarked on a \$10 billion courthouse construction initiative. In response to various criticisms about the inadequate management and oversight, GSA established a courthouse management group to develop a more disciplined approach that would reduce cost and provide for better decisionmaking. This group is working closely with the Administrative Office of the U.S. Courts—the administrative arm of the Judiciary—to improve communication and respond to specific recommendations we made during our testimony for improvement in the overall management and oversight of courthouse construction. The group is also establishing a mechanism to monitor and assess the use of flexible design guidance with a view toward striking a better balance in the choices made about courthouse designs. (GAO/T-GGD-96-19)

#### U.S. Postal Service

USPS, unions, and management associations should develop a long-term agreement to change the workplace climate in processing and delivery. The agreement should provide incentives to encourage teamwork and make employees more responsible and accountable for work results. The agreement should provide for the following principles and values: (1) a work structure to give employees greater responsibility and accountability for results; (2) incentives to encourage all employees to share in the tasks necessary for success and to allow for recognition and reward for corporate and unit performance; (3) training employees and holding them accountable, with a focus on customer service; (4) selection and training of supervisors to be facilitator/counselors who will have the skills, experience, and interest to treat employees with respect, motivate them, recognize and reward them, promote teamwork, and deal with poor performers; and (5) counseling, training, and if necessary, removal of supervisors and employees who show a lack of commitment to work unit goals, values, and principles. The Postmaster General and the leaders of the unions and management associations have agreed to participate in a national summit and to commit to reaching a framework agreement for addressing labor-management problems. (GAO/GGD-94-201A&B)

If the Congress wants the USPS to keep or gain business customers in parcel post and Express Mail, it should consider reexamining the provisions of section 403(c) of the Postal Reorganization Act. The Congress should determine if volume discounting by the USPS, in which all

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customers would be given the same volume discounts, would result in undue or unreasonable discrimination among mailers and undue or unreasonable preference given to mailers, since private carriers commonly use this pricing strategy. (GAO/GGD-92-49)

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

## Treasury Issues

Our 1993 report on the dollar coin recommended that Congress eliminate the paper dollar and replace it with a well-designed coin. Hearings were held in 1995, but no legislation was passed. (GAO/GGD-93-56)



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## Tax Policy and Administration Issue Area (Budget Function 800)

GAO Contact: Lynda Willis, 202/512-5407

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### Impact of GAO's Work

The Tax Policy and Administration issue area's mission is to provide the Congress, the executive branch, and the public with timely, accurate, and objective analyses and information to improve our nation's tax system and its administration. Accordingly, this issue area's responsibility encompasses the revenue side of the budget—the \$1.4 trillion in tax receipts that finance federal government operations and the \$400 billion in tax expenditures used to promote numerous social and economic objectives—as well as the federal agency responsible for tax administration—IRS.

The federal treasury will realize over \$3.1 billion in increased tax revenues over 5 years as a result of statutory and administrative changes we recommended during the last few years. Of that total, (1) about \$1.3 billion comes from IRS doing 100-percent matching of dependent Social Security Numbers; (2) about \$1 billion comes from IRS increasing controls, resulting in fewer dependents being claimed on income tax returns; (3) about \$600 million comes from changes to the wealth definition used in the Earned Income Credit program; (4) about \$100 million comes from additional tax collections by IRS sending reminder notices to delinquent taxpayers; (5) about \$70 million comes from reduced costs through the elimination of some written collection notices; and (6) about \$37 million comes from requiring information returns on forgiven debts to increase voluntary compliance.

These increased tax revenues represent only one aspect of the impact of our work. For example, in response to our recommendations, (1) IRS is getting taxpayer suggestions in designing tax forms, instructions and publications; (2) the tax code was amended to allow IRS to withdraw a notice of federal tax lien when it is in the best interest of the taxpayer and the government; (3) IRS made it easier for taxpayers to request an installment agreement to pay taxes owed; (4) IRS has expanded access to electronic filing; (5) IRS has developed a system for monitoring sole proprietor compliance projects; (6) IRS, in conjunction with trucking industry groups, has developed guidance on the kinds of records that truckers should maintain; (7) IRS has streamlined its organizational

structure by removing regional offices from the chain of command in the returns processing and forms distribution areas and plans to do the same for the call sites; (8) IRS has made changes to improve the effectiveness of the Federal Tax Deposit Alert Program.

Also, as a result of our work, better information should be available to support deliberations on future tax policy and administration changes. Our report on the income tax treatment of married and single individuals showed that certain tax provisions could result in a marriage penalty or marriage bonus depending on the individual circumstances of the taxpayer. Current IRS tax data are not available to measure and compare the significance of these penalties and bonuses. In another report we describe how IRS' efforts to detect earned income tax credit noncompliance had favorable results but also produced several problems, such as generating a workload that far exceeded IRS' capabilities, thereby delaying millions of refunds. We also provided information on the potential effects of extending the federal tax code to residents of Puerto Rico. We found that if the federal tax rules are applied to residents of Puerto Rico, the residents would owe around \$623 million in federal income tax before taking into account the Earned Income Tax Credit, but with that credit, Puerto Rican taxpayers would qualify for a total of about \$574 million in credits. We estimate that the net aggregate federal tax liability after subtracting the credit would be about \$49 million. Also during the year, we testified at seven congressional hearings, discussing tax administration issues such as Tax System Modernization, classifying workers as employees or independent contractors, tax system compliance burden, tax delinquencies, and tax debt collection practices.

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## Key Open Recommendations

### Compliance

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

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requirements to cover independent contractors. Since January 1995, at least 4 legislative proposals for clarifying the rules have been submitted. We have testified annually since 1992 and last testified in 1996.  
(GAO/GGD-92-108)

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

Through negative withholding, low-paid wage earners may receive a proration of the Earned Income Tax Credit during the tax year. Such an advance payment of the tax credit presents a potential compliance problem because the credit is paid before IRS can ensure that the wage earners are eligible. Ensuring compliance becomes more problematic if the affected wage earners do not report the advance payment on their tax returns or do not file tax returns. We recommended that IRS (1) send to individuals who do not file tax returns a notice explaining their requirement to file; and (2) explore ways to identify those individuals who claim the credit in advance but do not report it, so as to prevent them from receiving the credit a second time. IRS subsequently took steps directed at helping persons fill correct tax returns. While these steps should improve taxpayer reporting, we believe that IRS needs to do more to identify deal with those who do not file correct returns. (GAO/GGD-92-26)

At the beginning of fiscal year 1993, IRS had an inventory of about 10 million individual and business nonfilers. IRS estimated that unpaid taxes on nonfiled individual income tax returns for 1992 alone totaled more than \$10 billion. Concerned about this noncompliance, IRS began a strategy in fiscal year 1993 to bring nonfilers into the system and keep them there. IRS' strategy was generally successful in (1) reducing the size

of the nonfiler inventory, (2) eliminating unproductive cases, and (3) increasing the number of returns secured from individual nonfilers. However, it is unclear whether voluntary taxpayer compliance actually improved and whether IRS' enforcement resources were effectively managed. We identified several areas where opportunities exist to improve IRS' nonfiler strategy, and recommended that IRS (1) become more timely in making telephone contact with nonfilers, (2) use lower graded staff, paraprofessionals, and administrative staff for more of the nonfiler work; and (3) consider revising procedures for dealing with nonfilers who are brought into compliance and then become nonfilers again. (GAO/GGD-96-72)

Concerns about continued noncompliance levels led IRS to change its tax compliance philosophy. In addition to the use of enforcement methods, it is researching ways to improve compliance for entire market segments—specific groups of taxpayers that share certain characteristics or behaviors. IRS' goal is to increase total compliance with the tax laws from an estimated 87 percent to 90 percent by 2001 and believes its new compliance research approach will uncover ways to help meet this goal. We recommended that IRS (1) develop support from IRS employees for the new approach and monitor the success of IRS' developmental effort; (2) ensure that reliable compliance data will be available when needed; (3) set a schedule for completion and monitor it; and (4) establish milestones and monitoring mechanisms for the research effort and for evaluating the effort. (GAO/GGD-96-109)

## Tax Systems Modernization

Available compliance data indicate that overstated deductions by small businesses are a significant noncompliance area—about \$40 billion annually. Our review work showed that it was technically feasible for IRS to use computer-matching techniques and available information returns to identify a portion of this noncompliance. We recommended that IRS implement such matching techniques where tests showed that it would be cost-effective. We also recommended that IRS consider actions that could be taken to expand computer matching as part of its Tax Systems Modernization effort. (GAO/GGD-93-133)

We reviewed IRS' plans to maximize electronic filing, which is the cornerstone of IRS' plan to move from the traditional paper-based return filing. We found that: (1) if electronic filing continued at the current pace, IRS would fall far short of its goal of 80 million electronic returns by 2001; (2) IRS was having little success in broadening the appeal of electronic filing to those taxpayers who file other more complex returns; and (3) unless IRS can increase electronic filing, its customer service and paper

processing workloads may overwhelm its planned staffing and alter various aspects of its modernization efforts. We recommended that the Commissioner (1) identify those groups of taxpayers who offer the greatest opportunity to reduce IRS' paper-processing workload and operating costs if they were to file electronically and develop strategies that focus IRS resources on eliminating or alleviating impediments that inhibit those groups from participating in the program, including the impediment posed by the program's cost; (2) adopt goals for electronic filing that focus on reducing IRS paper-processing workload and operating costs; and (3) prepare contingency plans for the possibility that the electronic filing program will fall short of expectations. (GAO/GGD-96-12)

#### Accounts Receivable Collections

IRS is losing the potential to collect hundreds of millions of dollars of overdue taxes because of shortcomings in its processes for determining which accounts are currently collectible and which are not. We also recommended that IRS develop information on the characteristics of the accounts written off to determine whether additional cost-effective collection measures can be developed and applied. (GAO/GGD-91-89)

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

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

While IRS' delinquent taxpayer workload has continued to grow, productivity of collection staff has varied at different field locations and IRS does not use marginal productivity measurements to adjust staff levels among those locations. We recommended that IRS develop a plan to ensure that collection staff would be allocated to maximize the assessment and collection of taxes. (GAO/GGD-93-97)

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Tax Simplification

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

Businesses in order to determine their tax liabilities (e.g., employer portion of Social Security taxes) and take the appropriate steps to meet the requirements of other laws, need to be able to readily distinguish between workers who are “employees” and those who are “independent contractors.” But, the IRS rules for classifying workers are unclear and subject to conflicting interpretations. This situation puts employers at risk of large penalties and retroactive tax assessments. We recommended congressional intervention to help clarify the rules. (GAO/T-GGD-96-130, GAO/GGD-92-108)

Tax simplification also involves efforts to make IRS correspondence easier for taxpayers to understand. In this regard, we recommended that IRS modify its correspondence practices to (1) make certain system improvements, and (2) monitor taxpayer satisfaction with IRS correspondence. (GAO/GGD-94-118)

Management of IRS

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

IRS is undergoing a major effort to modernize its information systems and restructure its organization. This effort involves several components, one of which IRS calls its “customer-service vision,” which seeks to improve IRS’ interactions with taxpayers and fold parts of IRS’ field structure into 23 customer service centers. These centers would work primarily by telephone to provide taxpayer service, distribute forms, collect unpaid taxes, and adjust taxpayer accounts. They would absorb current IRS telephone operations and try to convert much of IRS’ written correspondence work to the telephone. However, a lack of clarity in management responsibilities has, to some extent, hampered IRS in implementing its customer-service plans. First, because the work units and related resources that are to make up the new customer

service-organization belong to two separate IRS organizations, we recommended that IRS clarify criteria for assigning process owners. Second, at lower management levels, we found instances in which “products” were being developed for use in the customer-service sites that had no clearly designated process owners; thus, we recommended that IRS define process owners’ roles and responsibilities. Third, we identified two instances in which IRS officials had assumed ownership roles for interactive telephone systems but had not carried out their duties to establish the quality measures critical to evaluating the systems’ performance. Thus, we recommended that IRS emphasize the need for timely input for quality measures. (GAO/GGD-96-03)

## Taxpayer Service

Successful implementation of IRS’ one-stop service initiative is crucial to IRS’ plans for improving customer service, e.g., reduce taxpayer burden in terms of additional time and frustration associated with making numerous contacts with IRS to resolve a single problem. In August 1994, we concluded that a flawed measurement process had led IRS to overstate its progress in providing one-stop service and recommended that a different measurement system be adopted. This followed an earlier recommendation aimed at improving taxpayer access to IRS. We recommended that IRS develop a reliable measure of toll free telephone accessibility so that it can make appropriate decisions on making services available. (GAO/GGD-94-131, GAO/GGD-92-132)

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

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

Three prototype interactive telephone systems—designed to reduce correspondence between IRS and taxpayers and to make IRS more accessible—suffer from too many menu options and other problems. Resolving these shortcomings is essential if IRS is to achieve its goal of handling 45 percent of taxpayer calls by using interactive phone systems. IRS' telephone-routing system requires taxpayers to remember up to eight menu options, even though the contractor guidelines called for no more than four, and does not allow taxpayers to return to the main menu when they make a mistake or want to resolve other issues. IRS has not done a cost-benefit analysis of the use of multiple toll-free numbers, which we recommended as a solution to the problem of too many menu options. Providing taxpayers with a written, detailed step-by-step description on how to use the menu options might be another way to make the telephone systems more user friendly. IRS complied with government security requirements when developing its first three interactive telephone systems. However, future interactive systems will allow taxpayers greater access to tax information, and more-secure features, such as a personal identification number, may be needed to protect taxpayer data.  
(GAO/GGD-96-74)

See also chapter 4, Information Resources Management—Internal Revenue Service Issue Area and Chapter 5, Financial and Information Management Programs, Budget Issue Area.



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Information  
Resources  
Management—  
Internal Revenue  
Service Issue Area  
(Budget Function 990)

GAO Contact: Rona Stillman, 202/512-6400

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Impact of GAO's Work

New technology provides opportunities for agencies to revamp labor-intensive processes, enhance services to the public, and keep pace with other ever-increasing demands. At the IRS, labor-intensive processes established back in the 1960s are being used to annually collect and account for over \$1 trillion in revenue. IRS' efforts to modernize its systems have been unsuccessful. In part based on numerous recommendations we made to improve IRS' ability to successfully deliver Tax Systems Modernization (TSM), the Congress has recently cut and restricted spending for IRS' modernization.

Our July 1995 comprehensive examination of IRS' TSM found that IRS had made some progress through actions initiated to improve the management of information systems; enhance its software development capability; and better define, perform, and manage the technical activities. However, IRS' efforts to modernize tax processing and the government's investment in modernization were found to be at serious risk due to pervasive management and technical weaknesses that impeded modernization efforts. We reported that IRS did not (1) have a comprehensive, cost-effective business strategy to reduce paper submissions; (2) fully develop and put in place the requisite management, software development, and technical infrastructures necessary to successfully implement an ambitious world-class modernization effort like TSM; and (3) establish an effective organizational structure to consistently manage and control the systems modernization organizationwide.

Because IRS' weaknesses were not yet corrected, we reported that the Congress should consider limiting TSM spending to only cost-effective modernization efforts that (1) support ongoing operations and maintenance; (2) correct IRS' pervasive management and technical weaknesses; (3) are small, represent low technical risk, and can be delivered in a relatively short time frame; and (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. In IRS' 1997 appropriations, the Congress reduced TSM spending pending improvements that reflect our recommendations.

In June 1996, we reported that IRS had initiated a number of new actions and was making some progress in addressing our July 1995 recommendations to correct its weaknesses. For example, IRS (1) was preparing a comprehensive strategy to maximize electronic filing; (2) had created an investment review board to select, control, and evaluate its information technology investments; (3) had updated its system engineering process and its systems life cycle methodology, and was working across various IRS organizations to define disciplined processes for software requirements management, quality assurance, configuration management, and project planning and tracking; and (4) had completed a descriptive overview of an integrated, three-tier, distributed systems architecture.

However, more remains to be done to respond fully to our recommendations, as discussed below.

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## Key Open Recommendations

In order to fully implement our July 1995 report's recommendations, IRS needs to (1) complete the development of its comprehensive business strategy for electronic filing; (2) have a repeatable process for selecting, controlling, and evaluating its technology investments, and review all planned and ongoing systems in a single investment portfolio; (3) complete the development of its procedures for requirements management, quality assurance, configuration management, and project planning and tracking; and (4) provide a schedule for and complete its integrated systems architecture or its security and data architectures. (GAO/AIMD-95-156)

See also chapter 4, Improving Justice and General Government Programs, Tax Policy and Administration Issues Area and chapter 5, Financial and Information Management Programs, Budget Issue Area.

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**Chapter 4**  
**Improving Justice and General Government**  
**Programs**

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# Financial and Information Management Programs

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## Budget Issue Area (Budget Function 990)

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

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### Impact of GAO's Work

The need to reduce the federal budget deficit continued to drive public debate in 1996. Although the Congress is charting a course to a balanced budget by fiscal year 2002, the long-term outlook remains challenging. For instance, even if growth in health care costs is moderated by the policies proposed today, the aging of the population ensures that health care costs will continue to rise and fiscal pressures will continue. As a result, the budget will continue to be a focal point of public policy in the years to come.

Our work (1) provides the Congress with deficit reduction analysis and reduction options and strategies, including perspectives on the long-term outlook for the federal budget, (2) recommends improvements in the structure and presentation of the budget to assist in budget choices and recommends improvements in the budget process, (3) identifies opportunities to improve budgetary cost data using financial accountability concepts and information, (4) assesses the impacts of budget rules and incentives on management, and (5) provides the Congress—through the budget—with information assessing alternatives for restructuring the federal role and the design of program subsidies.

### Deficit Reduction

Our long-term projections of the deficit and its impact on economic growth and productivity have been used by the public, private policy organizations, and the Congress to provide perspective on recent economic experiences and the administration's economic plan. In 1996, we testified on our simulations of the long-term economic impacts of the deficit. We tracked the economic implications of three possible fiscal paths through the year 2025, highlighting how some types of early action on the deficit, including early action on health—a principal driver of future spending, might affect the long-term deficit outlook. This type of reporting, offering a long-term outlook, has driven home the point that our current budget policy is unsustainable, especially in light of our aging population. This work was a factor in convincing CBO to conduct and publish similar analyses which has buttressed the case for early and significant action to respond to growing deficit pressures.

For the third straight year, we produced a report on the budgetary implications of selected GAO work. The report, prepared with the active support of approximately 20 GAO issue areas and the cooperation of CBO

and staff from the Joint Committee on Taxation, provided the Congress with an update of 96 of the 120 spending reduction and revenue gain options that appeared in our previous year's report. The Budget Committees used GAO's options to recommend specific ways to reduce federal spending and stay within the discretionary spending caps established by the Budget Enforcement Act. In related work, we also reported on (1) spending programs and tax benefits available to business and (2) federal subsidy and related programs that may affect the environment.

### Improving Budgetary Choices

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

In testimony on the budget process, we identified criteria the Congress might use in looking at the design of or changes in any budget process, such as building in a long-term perspective; facilitating a focus on important trade-offs; and developing enforcement, control, and accountability mechanisms. We also provided testimony highlighting the trade-offs the Congress may face if it changes the budget process from an annual to a biennial cycle. For instance, we concluded that while a shift to biennial appropriations could save time for agencies, it would also result in a shift in congressional control and oversight.

In order to help the Congress and other interested researchers cope with the complexity of the annual federal budget, we published a compendium of federal budget accounts. The report, Compendium of Budget Accounts: Fiscal Year 1997, provided a convenient way to sort through the fiscal structure of the federal government and to determine the level of budgetary resources—used, estimated, or requested by fiscal year—for individual accounts. In work related to understanding the federal budget, we updated our 1987 report on the inventory of accounts with spending authority and permanent appropriations (commonly referred to as “backdoor authority”). This report provided specific information on such accounts and analyzed the changes in the number and dollar amounts of accounts with backdoor authority. We found that the use of backdoor authority continues to be widespread; both use of the authority of accounts have increased since 1987.

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Government Restructuring and  
the Federal Role

In addition to these reports, we provided correspondence to the Congress on options for using accrual concepts in the budget for federal insurance programs. Our work to date continues to support our previously stated concern that cash-based budget reporting for federal insurance programs provides incomplete information on the cost of these programs.

The 104th Congress continued to show strong interest in a range of government reform initiatives, including privatization, consolidating government programs and agencies, and giving states new authority to run entitlement programs by converting AFDC from an open-ended entitlement to a block grant.

In our report on block grant implementation, we stressed the need for the Congress to build accountability provisions into newly proposed block grants. We noted that well designed accountability provisions, such as comparable data reporting and maintenance of effort requirements, will help clarify the financial and programmatic relationship between the federal government and the states and could be important in sustaining the block grant approach as these programs mature.

Given congressional interest in federal divestitures, and the limited U.S. government experience in this practice, we provided the Congress with information on privatization policies and processes in foreign governments. In one report, we examined the divestiture experiences of Canada, France, Mexico, New Zealand, and the United Kingdom. In a second report, we focused on the divestiture experiences of Argentina. In both reports we examined issues related to the privatization process, the valuation and preparation of the assets for sale, and the use of sale proceeds. Despite the different experiences of each country, the information we found from these governments may help the United States smooth the transfer of viable operations from the public to the private sector. The Congress has been using the information in these reports as it deliberates on ways to change the budget scoring rules so that they take into account the long-term budgetary impact of asset sales. The executive branch has considered forming a centralized office to coordinate federal asset sale.

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## Key Open Recommendations

### Budget Enforcement Act Compliance

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

### Federal Credit Reform

In response to a congressional request, we issued a series of reports examining several highly technical issues related to the implementation of the Federal Credit Reform Act of 1990. In our July 1994 report on coverage and compliance issues, we stated that Government National Mortgage Association (GNMA) guarantees were covered by the Credit Reform Act but that GNMA had not fully complied with the act's requirements. We recommended that the OMB Director require GNMA to budget for guarantees using the issuance dates of the guarantees to determine whether their costs should be included in the financing account or the liquidating account. OMB is examining long-term credit reform treatment for GNMA. (GAO/AIMD-94-57)

In the same report, we stated that it was appropriate for a credit program to capture the cost of a closely linked cross-subsidy program in determining the credit program's total subsidy costs. We also presented criteria for defining a "closely linked cross-subsidy program." We discussed, as a matter for congressional consideration, an amendment to the act to include the cost of closely linked subsidies in the cost of credit programs. For cross-subsidies not meeting the criteria for being closely linked, we recommended that the OMB Director include a table in the appendix to the Budget of the United States Government for the associated credit program showing, for each cross-subsidy, the size, cost, and effect of the credit subsidy rate. OMB has responded favorably to our recommendation, but has not included supplemental information in the Budget Appendix on the size and effect of cross-subsidies. The Congress has not yet addressed the matter for consideration. (GAO/AIMD-94-57)

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

In our recently issued report on the treatment of negative subsidies under credit reform, we examined the budgetary treatment of negative subsidies (those in which receipts exceed outlays) and examined whether this treatment could adversely affect program management and budgeting. Specifically, we reviewed budget proposals and actions for fiscal years 1992 through 1995 for the FHA's Mutual Mortgage Insurance Fund, the Export-Import Bank, and GNMA. We determined that the budgetary treatment of credit programs with negative subsidies was not consistent with credit reform requirements. The act does not explicitly address situations in which programs have negative subsidies. Under OMB's reasonable guidance, appropriations of negative subsidy receipts, unlike appropriations of general funds, do not make budget authority available for obligations. We determined that this disconnect between appropriations and available budget authority, coupled with the credit reform requirement that budget authority be available before direct loans are obligated or loan guarantees are committed, might delay or reduce program expenditures to avoid violations of the Anti-Deficiency Act. To avoid this, we recommended that the Congress appropriate only general funds for all subsidies and administrative costs of credit programs and use negative subsidy receipts to reimburse the general fund. (GAO/AIMD-94-58)

In the same report, we stated that programs with both positive and negative subsidy direct loans and loan guarantees, such as the credit programs on the Export-Import Bank, presented an additional issue. The act calls for appropriating amounts equal to estimated net subsidy costs (the estimated subsidy cost from positive subsidy direct loans and loan guarantees offset by estimated receipts from negative subsidy loans and loan guarantees). With such an appropriation (or, from another viewpoint, an appropriation equal to estimated net outlays), an agency would not have sufficient budget authority to make all subsidized loans. To solve this problem, we recommended that the Congress amend the act to require the appropriation of an amount equal to the gross subsidy cost for credit programs with both positive and negative subsidy components. (GAO/AIMD-94-58).



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See also chapter 4, Improving Justice and General Government Programs, Financial Institutions and Markets Issue Area.

## Mandatory Spending

In response to a congressional request, we examined the implementation issues involved in applying a budgetary spending cap to mandatory spending programs. In our July 1994 report, we stated that although a spending cap on mandatory programs would achieve savings, a cap would have little, if any, effect on the long-term growth trends in these programs until issues of underlying eligibility and benefit formulas, which drive spending, are addressed. We discussed, as a matter for congressional consideration, an alternative process under which the Congress would reduce spending by periodically setting spending targets, assessing mandatory spending, and voting on whether and how to change mandatory programs. The Congress did not consider overall budget process reform legislation in 1996. (GAO/AIMD-94-155)

## Tax Expenditures

In a joint effort with the General Government Division's Tax Policy and Administration Issue Area, we responded to a congressional request to examine the growth of tax expenditures and alternatives for limiting their growth. Our June 1994 report contained a recommendation to the Congress, matters for congressional consideration, and recommendations to the OMB Director. We recommended that the congressional tax-writing committees explore, within the existing framework, opportunities to exercise more scrutiny over indirect "spending" through tax expenditures. Although these committees have considered revisions to various existing tax expenditures over the years to either eliminate such expenditures or more narrowly restrict eligibility, no specific action has been taken on our recommendation. (GAO/AIMD/GGD-94-122)

In this report, we also stated that should the Congress wish to address tax expenditure efforts in the broader context of the allocation of federal resources, it could consider further integrating those efforts into the current budget process. One option would be for the Congress to consider whether it wanted to seek a specified level of tax expenditure savings during its annual deliberations on the congressional budget resolution. Several proposals for better controlling tax expenditures have been offered, but no specific action has been taken on our recommendation. (GAO/AIMD/GGD-94-122)

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

expenditure information to highlight the fiscal and other consequences associated with tax expenditures. (GAO/AIMD/GGD-94-122)

OMB revised its fiscal year 1995 budget to highlight information about tax expenditures in two respects: (1) the budget presents estimated tax expenditures over the 5-year budget window, as well as estimated expenditures for the current fiscal year and actual expenditures for the prior fiscal year, and (2) present-value estimates are reported for tax expenditures involving deferrals and similar long-term revenue effects. Although OMB agreed in principle that the combined presentation of outlays and tax expenditures within functional areas would be helpful and is exploring the feasibility of presenting this information on a selective basis, OMB made no significant additions for the fiscal year 1997 budget. The Department of the Treasury is deferring to OMB on this recommendation. (GAO/AIMD/GGD-94-122)

Second, we recommended that to the extent practical, OMB incorporate tax expenditures into the annual budget review process. OMB has announced its intentions to begin such a process and has initiated preliminary actions to implement joint reviews of tax expenditures and related outlay programs as part of its annual budget review. (GAO/AIMD/GGD-94-122)

Third, we recommended that OMB, working with the Treasury, design and test a basic structure for tax expenditures performance reviews before developing the governmentwide framework the 1993 GPRA requires by May 1997. OMB has not yet developed this framework. We also recommended that once the initial determinations were made, OMB, along with the Treasury, conduct case studies of the proposed performance review process. This would enable OMB and the Treasury to gauge how well the proposed framework might function. In addition, we recommended that once tax expenditure performance data were developed, OMB consult with the Treasury to consider how to present tax expenditure performance information in the budget. OMB is scheduled to begin action on the above recommendations according to the time frames established in GPRA. The Department of the Treasury is deferring to OMB on this recommendation. (GAO/AIMD/GGD-94-122)

See also chapter 4, Improving Justice and General Government Programs, Tax Policy and Administration Issue Area and Information Resources Management—Internal Revenue Services Issue Area.

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## Civil Audits Issue Area (Budget Function 990)

GAO Contact: Greg Holloway, 202/512-9510

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### Impact of GAO's Work

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

### Chief Financial Officers Act of 1990

The CFO Act establishes a solid foundation for greatly needed, comprehensive reform of federal financial management. Since its enactment in 1990, coupled with the Government Management Reform Act of 1994, financial statement preparation and audit coverage have significantly increased. However, most of the 24 CFO Act agencies have not received unqualified audit opinions on financial statements for their entire operations. During 1997, audit coverage is expected to increase to about 99 percent of the government's outlays, as executive branch agencies work toward producing the agencywide financial statements now required by law and subjecting these statements to audit.

Our experience has shown that preparation and audit of annual financial statements incrementally improves the reliability of financial information. Also such recurring audits are providing a more complete view of agencies' financial conditions, highlights control weaknesses and high-risk areas that need to be resolved, and identifies actual and potential savings. We will continue to work with OMB and with agency CFOs and IGS to develop a strategy and plan for preparing and auditing agencywide financial statements, beginning with fiscal year 1996, and the first-ever consolidated executive branch financial statements, beginning with fiscal year 1997.

### Other Financial Management Improvements

Our audits at civil agencies over the past several years continue to result in significant financial management improvements. We assessed the

effectiveness of agency efforts to implement CFO Act requirements. Through this effort, we were able to work collaboratively with agency management in identifying problems and potential solutions as agencies position themselves to meet the audit requirements of the CFO Act over the next several years. We also have stressed the need for those agencies to make sound investments immediately to upgrade the qualifications of financial management staff, fix rudimentary bookkeeping problems, and make existing financial systems work better.

Agencies have long had problems in managing credit programs and collecting tax and nontax debt, and these problems have been highlighted in our reports and testimonies over many years. In April 1996, the Debt Collection Improvement Act of 1996 was passed, which should help make substantive improvements in these areas. The Act's provisions include (1) expanding and enhancing debt collection tools available to agencies, (2) strengthening agencies' authority to offset delinquent debts from federal payments, (3) strengthening coordination among agencies through increased centralization of collection activities, and (4) denying loans and loan guarantees to those delinquent on federal debts. CBO estimated that 2-year savings were \$364 million.

In our report on IRS' 1995 financial statements, we noted that it had made some progress in responding to the problems identified in our previous audits. For example, IRS has implemented a new administrative accounting system to account for its day-to-day operations. IRS also successfully transferred its payroll processing to USDA's National Finance Center and, as a result, properly accounted for and reported on its \$5.3 billion of payroll expenses for fiscal year 1995.

## High-Risk and Management Control Issues

In our February 1995 High-Risk Series, we provided an update on a number of critical government operations that we consider to be highly vulnerable to waste, fraud, abuse, and mismanagement. During the past year, our focus has been on six broad categories which collectively affect almost all of the government's \$1.25 trillion in revenue collection efforts and hundreds of billions of dollars in federal expenditures. These efforts have stimulated congressional oversight touching on all of these matters during 1996.

Our management control focus is an integral part of our overall monitoring of agency efforts to achieve the objectives of the CFO Act. OMB's revision to Circular A-123 provides a good foundation for assessing management controls across government, and we will monitor executive branch efforts

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to integrate its reporting on management controls with other management reporting. (GAO/HR-95-20SET)

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## Key Open Recommendations

### Agency-Specific Recommendations

We continue to make many agency-specific recommendations to correct problems involving fundamental accounting procedures, including serious internal control and accounting system weaknesses. The following recommendations deserve priority attention. Major improvements continue to be needed to restore integrity to the federal government's financial management operations. Key elements of successful federal financial management reform are high-quality leadership; an effective CFO organizational structure; effective long-range planning; and preparation of meaningful and auditable component level, agencywide, and governmentwide financial statements. Though agencies have made some progress in these areas, substantive and lasting improvement will depend on prompt action needed to implement our recommendations and to meet the requirements of the CFO Act. To meet the CFO Act's ultimate goals of providing reliable, useful financial information, CFOs must overcome serious financial management, reporting, and system weaknesses and the Inspectors General (IG) must better position themselves to perform required financial audits.

At the same time, agencies must concentrate on developing performance measures and cost accounting systems, which are almost universally lacking in the federal government today, and emphasize integrating budget, accounting, and management data.

Based on our 1993 and 1992 audits of the U.S. Customs Service's financial statements, we identified several weaknesses that limited Customs' ability to report reliable financial information and effectively carry out its mission and made a number of recommendations. In reporting on its audit of Customs' 1995 financial statements, Treasury's OIG noted that Customs had made substantial progress on several of our recommendations. For example, Customs improved procedures for identifying and recording liabilities at year-end. However, several key recommendations had not been adequately addressed including the need for actions to (1) reasonably ensure overall compliance with trade laws and ensure that duties, taxes, and fees on imports would be properly assessed and collected and refunds of such amounts would be valid, (2) control,

manage, and report the results of its enforcement efforts, including maintaining accountability and stewardship over cash and property seized or used in enforcement efforts, (3) adequately control the use and reporting of its operating funds, and (4) effectively prevent or detect unauthorized access and modifications to sensitive data and computer programs. (GAO/AIMD-94-119)

Although IRS improved its administrative accounting, it had made much less progress in improving accounting for federal revenues. It had completed action on only 3 of 14 recommendations we made in previous reports concerning revenue collections. However, efforts are underway to address the remaining areas. With our assistance, IRS is developing a detailed plan of interim strategies with explicit, measurable goals, and a timetable for action, to solve these problems in the near future. For some areas, IRS will need to make more sweeping changes to fully address systems problems. In these cases, longer-term solutions will be required, involving the reprogramming of software for IRS' antiquated systems and developing new systems. (GAO/AIMD-96-101, GAO/T-AIMD-96-170)

Our work at the Department of the Interior's Bureau of Indian Affairs showed continuing trust fund management problems, and the need for the Secretary to (1) report to the Senate Committee on Indian Affairs and the House Committee on Resources on the tribes that accept or dispute their reconciled account balances, and the Secretary's plan for resolving disputes, (2) implement trust fund management subsidiary systems, (3) continue to hire qualified trust fund financial management staff, (4) acquire investment advisory services, and (5) develop a comprehensive strategic plan for Indian trust business management. (GAO/T-AIMD-95-94)

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

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## Corporate Audits and Standards Issue Area (Budget Function 990)

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

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### Impact of GAO's Work

The issue area includes a broad segment of largely independent government agencies referred to as government corporations, federally sponsored pension plans, and mandated assistance related to legislative entities. The issue area also includes accounting and auditing standard setting in both the public and private sectors.

### Financial Management

Government corporations conduct a variety of missions that are an integral part of the nation's economy, such as deposit insurance; buying and selling mortgages, loans, and other forms of credit for housing and other national purposes; transportation; and utilities. Regarding the nation's financial industries, trillions of dollars of support are provided in the form of guarantees and insurance.

We have focused our efforts on the government corporations with significant exposure presented by the government's deposit insurance guarantee. For the past several years, financial institutions have been reporting record profits. This financial performance contributed to the health of the various insurance funds administered by the FDIC as relatively few institution failures occurred over the past several years. However, the health of the Savings Association Insurance Fund (SAIF) remained a concern as it continued to be undercapitalized and the thrift industry was competitively disadvantaged due to an insurance premium disparity between banks and thrifts. Our reports and testimonies provided the Congress with various policy options to build up SAIF's reserves, remove the threat of a default on bonds issued to help finance the cost of the savings and loan crisis, and remove the insurance premium disparity. In 1996, the Congress enacted legislation framed around the guidance we provided that removed the threat of taxpayers having to pay for these billions of dollars in costs facing the deposit insurance program.

We have independently assessed the reliability of the financial statements of FDIC's three funds—the Bank Insurance Fund (BIF), SAIF, and the Federal Savings and Loan Insurance Corporation Resolution Fund (FRF)—and the financial statements of the Resolution Trust Corporation (RTC). We have also audited the Panama Canal Commission's financial statements to assist the Congress in monitoring the Commission's financial progress in being able to meet its obligations by the year 2000 when the Canal is turned over

to the Panamanian government. For fiscal year 1995, we issued unqualified opinions on each of the corporation's financial statements.

We have also continued to assess the corporations' control structures and worked closely with them to improve their internal control systems and operations. The corporations we audited continued to address internal control weaknesses we identified, and none had material weaknesses. However, weaknesses in important areas of operations, such as electronic data processing operations, and disposition and estimated recovery value of assets acquired from failed institutions, still remain.

RTC terminated on December 31, 1995, and transferred its remaining assets and obligations to FDIC as a component of FRF. In our final report on RTC's financial statements, we included an analysis of the total cost of the savings and loan crisis. Our analysis showed the hundreds of billions of dollars of taxpayer cost to resolve the crisis. Internal control weaknesses contributed significantly to the failure of the many savings and loans that are included in the total cost.

The regulators have taken a number of actions to correct the weaknesses we identified in their examination policies, procedures, and practices for banks and thrifts. Specific areas addressed included loan sampling methodologies, internal control review procedures, working paper documentation, and supervisory review requirements. Certain of the regulators are still completing their new policies and procedures.

Federally sponsored pension plans cover more than 10 million participants and range in size from the Civil Service Retirement and Disability Fund with 5.2 million participants to smaller plans, such as the Tax Court with fewer than 25 participants. As supported by GAO, the Congress enacted legislation to fully fund the larger plans, but these plans remain significant government liabilities and a key component of federal employee benefit oversight by the Congress. In 1996, we compiled a list of the many plans and analyzed their financial condition to assist the Congress in its continuing oversight of the federally sponsored pension plans. Also, we are currently reviewing the adequacy of the accounting and actuarial reporting requirements for the plans.

As we had previously recommended, we assisted the Library of Congress in obtaining an audit of its fiscal year 1995 financial statements. Although the Library made considerable progress in addressing the weaknesses we reported in our last audit, it was not able to obtain a "clean opinion" on its



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financial statements and has a number of internal control weaknesses, including material weaknesses and the lack of a comprehensive security plan for its collections.

To assist the Congress in its oversight of federal financial management, we worked closely this past year with the House Committee on Government Reform and Oversight to compile a comprehensive list of laws related to federal financial management. Finally, we worked with a number of executive agencies to assist them in making their operations more efficient while also maintaining effective but more efficient internal controls.

### Accounting and Auditing Standards

Accounting and auditing standards provide the foundation for consistent and reliable financial reporting. As a member of the Financial Accounting Standards Advisory Board (FASAB), we have provided leadership in developing the fundamental accounting standards to facilitate consistent and reliable agency financial reporting as envisioned by the CFO Act. We also reinstated the Government Auditing Standards Advisory Committee to address issues concerning government auditing standards.

With respect to the private sector, our report on the accounting profession provided a comprehensive analysis of the major issues facing the accounting profession. These issues included auditor independence concerns, auditor responsibilities for detecting fraud and determining the effectiveness of internal controls, the auditors' role in providing additional audit-related services, and a financial reporting model that needs to be expanded to better meet users' comprehensive needs. Our report noted that the SEC will need to assume a leadership role in working with the accounting profession to resolve these major issues that affect public confidence in the fairness of financial reporting which is critical to the effective functioning of the nation's securities markets.

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### Key Open Recommendations

#### Corporations' Internal Control Systems

In our 1995 financial audits of RTC and FDIC's three funds, we found that the corporations continued to make progress in addressing internal control weaknesses identified during our previous financial audits. However, while much progress has been made, FDIC continues to face internal control weaknesses relating to asset valuations, expense allocations, and information systems, as well as internal control weaknesses relating to the information systems of the now terminated RTC. FDIC is currently working

to address these internal control issues. We are in agreement with the Corporation's planned corrective actions and we will continue to monitor its progress. (GAO/AIMD-94-135, GAO/AIMD-95-102, GAO/AIMD-96-89, GAO/AIMD-95-157, GAO/AIMD-96-123)

**Bank and Thrift Examinations**

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

See also chapter 4, Improving Justice and General Government Programs, Financial Institutions and Markets Issue Area.

**Library of Congress' Internal  
Controls and Collections  
Security**

The audit of the Library's fiscal year 1995 financial statements, conducted by a CPA firm under our direction, found that the Library's balance sheet was auditable and that the Library had made progress in improving financial management since our audit of the Library's 1988 financial statements. As we reported in our testimony, the Library implemented a new financial accounting system, established additional accounting policies and procedures, and corrected previous noncompliance with certain laws and regulations. Notwithstanding this progress, the audit identified a number of significant internal control and systems weaknesses that must be corrected to ensure the safeguarding of assets and reliable financial reporting. Further, the library needs to improve security to safeguard its collections. The library also needs to conduct a complete risk assessment and develop a comprehensive security plan. The Library has developed plans to address these weaknesses. (GAO/T-GGD/AIMD-96-115)

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## Defense Financial Audit Issue Area (Budget Function 990)

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

The serious and longstanding nature of DOD's financial management problems led us to make it an area of focus under GAO's high-risk program. Devising effective solutions to these problems is not only one of the most difficult management challenges facing the federal government today, but it is also critical to DOD's ability to meet the objectives of the CFO Act for strengthening federal financial management.

DOD's extensive financial management problems present difficult challenges (1) to the department in meeting the requirement for audited department-level financial statements as required by the CFO Act beginning in fiscal year 1996, and (2) to the federal government in meeting its mandate for audited consolidated financial statements beginning in fiscal year 1997.

Our approach continues to focus on two fronts: (1) working with the DOD IG and the military services' audit organizations and (2) identifying the interim corrective actions necessary to significantly improve DOD's financial management reporting and operations. Specifically, our strategy has included (1) conducting the initial audits of the three military services' financial reports and statements, (2) working with the DOD audit community to develop its ability to perform financial statement audits mandated by the CFO Act, and (3) demonstrating the need for financial reform within DOD.

Overall, this strategy will enable us to (1) support the work necessary to identify root causes and solutions to DOD's financial management problems, eventually putting us in a position to render an unqualified opinion on the governmentwide statements, (2) respond to interests of a number of key committees, including both the House and Senate Appropriations and oversight committees.

This issue area also encompasses our work at the State Department, the Agency for International Development (AID), and the National Aeronautics and Space Administration (NASA) to assess these agencies' progress toward meeting the CFO Act requirements.

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## Impact of GAO's Work

With the completion of our audit of the Navy's financial operations, we have performed financial audits of each of the three military services. In each case, however, because financial records and systems were deficient

and basic internal controls were lacking, we could not express an opinion on any of the military services' financial statements.

Our financial audits identified fundamental weaknesses in basic processes and internal controls, and has also illustrated to the Congress, DOD, and the public that managers need better financial information for effective oversight and accountability over DOD's multi-billion investments in weapons systems, equipment, and supplies; and tens of billions of dollars in funds expended and liabilities incurred.

Perhaps most importantly, our audit work conducted pursuant to the CFO Act has been instrumental in gaining DOD officials' acknowledgement—for the first time—of the extent and severity of the department's financial management problems and the obstacles to establishing effective departmentwide financial management. The Secretary of Defense has publicly acknowledged that financial management complacency has permitted pervasive weaknesses to persist in DOD financial management operations that “waste money that is needed more than ever to sustain sufficient combat power.” Such forthright admissions of serious weaknesses places DOD, for the first time, in a position to comprehensively and realistically address and resolve these weaknesses.

In addition, our audits have demonstrated that significant improvements in the department's financial operations can be achieved even within DOD's present deficient systems. For example,

- As a result of our audit work, DOD took action to better ensure proper matching of obligations with related disbursement documents for all proposed payments of \$5 million dollars or more before funds are disbursed.
- As of September 1996, DOD had collected over \$7 million of an estimated \$7.8 million in unauthorized payroll payments to “ghost” soldiers and Army deserters identified by our financial audit at the Army.
- On both the Navy and Army financial audits, we identified significant errors in inventory records at selected installations. Based on our recommendations, these installations took actions to improve their inventory accuracy.

- Defense adopted a statistical sampling procedure for counting inventory that satisfies both logistical and financial needs based on our physical inventories completed as part of financial statement audits.

Our continuing work with the DOD audit community to develop its ability to perform financial statement audits mandated by the CFO Act has also been very successful. We assisted the Air Force Audit Agency and the Army Audit Agency in their audits of their financial statements for fiscal years 1992 and 1993, respectively. Since then, both of these audit agencies have completed audits of their agencies' financial statements for fiscal years 1993 through 1995.

Our limited assessment of the State Department, AID, and NASA's CFO organizations and inspector general audits have shown that weaknesses in accounting systems and poor accounting for property continue to preclude State and AID from preparing auditable financial statements and fully achieving the objectives of the CFO Act. In contrast, NASA has made financial management improvements and received unqualified opinions on its financial statements.

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## Key Open Recommendations

DOD will need to intensify its efforts in order to correct its long-standing, serious financial management problems. These problems continue to greatly impede DOD's ability to obtain reliable financial information needed to support its decisionmaking, as well as its ability to prepare auditable financial statements. A consistent theme of our financial audit reporting has been that it is important for DOD to pursue short-term and intermediate improvements, as well as long-term system enhancements. The following are among our most important recommendations that have yet to be fully implemented.

## DOD-Wide Programs

In November 1995, we testified that given the serious and pervasive nature of DOD's financial management problems, and the need for more immediate progress, the department needs to consider additional steps to fix its longstanding weaknesses. Specifically, we reported that to turn the Secretary's "Blueprint" for reforming DOD's financial management into substantive improvements, DOD needs to take immediate action to (1) assess the number and skill levels of its financial management workforce, and (2) establish an outside board of experts to provide counsel, oversight, and perspective to its reform efforts. (GAO/T-AIMD-96-1)

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Army Programs

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

In December 1993, we reported that the Army's budget execution system had fundamental weaknesses that limit the Army's ability to ensure its compliance with the Anti-deficiency Act. The report also pointed out that inaccurate reporting could cause the Army to underestimate its future required outlays. In addition, we reported that the lack of sustained DOD leadership has impaired Army's ability to strengthen financial accountability. (GAO/AIMD-94-12)

We recommended that the DOD Chief Financial Officer (1) evaluate and resolve budget execution and disbursement problems, (2) implement existing security access policies and automated data processing contingency plans, and (3) develop and implement a comprehensive plan, with specific milestones, for identifying and monitoring improvements in DOD and Army financial management, including personnel qualifications, organizational structures, and systems used to carry out Army financial management. (GAO/AIMD-94-12)

Navy Programs

In March 1996, we issued a report to complete our initial reviews of each of the military services' financial management operations. In that report, we expressed our concern that the Navy had not taken advantage of the 5 years since the passage of the CFO Act or the experiences of its counterparts in the Army and the Air Force to address the pervasive and long-standing financial management problems that hamper the Navy's financial operations. We concluded that the Navy and Defense Finance and Accounting Service (DFAS) must now play "catch up" by giving the area a higher priority and sense of urgency if it is to meet the objectives of the CFO Act. We recommended that the DOD Comptroller and the Navy's Assistant Secretary for Financial Management take a number of actions to improve the credibility of the Navy's financial reports. Our recommendations focused on placing high priority on implementing basic required financial controls over Navy accounts and reports, and

developing a plan for producing reliable financial statements that will address (1) staffing issues, (2) short-term measures to improve data quality in existing financial systems, (3) strategies for promptly meeting U.S. general ledger requirements, and (4) offices or positions that will be held accountable for identified actions. (GAO/AIMD-96-7)

In July 1996, we reported that the Navy's Plant Property accounting and reporting was unreliable. Specifically, we reported that there was no assurance that all plant property was reported and we identified over \$24 billion of real property that was reported twice. We recommended several actions directed at updating requirements, monitoring compliance, and ensuring that appropriate training is provided to correct the observed deficiencies. (GAO/AIMD-96-65)

In August 1996, we reported that the Navy did not have adequate visibility over \$5.7 billion in operating materials and supplies. This lack of visibility increased the risk that millions of dollars could be spent unnecessarily to purchase items that could be obtained from excess stock at operating unit-level locations. For example, we determined that, for the first half of fiscal year 1995, the Navy will incur unnecessary expenses of approximately \$27 million. We recommended that the Navy take a number of actions directed at eliminating operating material and supply redistribution centers and ensuring that asset visibility efforts facilitate complete, reliable financial reporting of Navy operating materials and supplies. (GAO/AIMD-96-94)

In September 1996, we reported that our reviews of general controls at locations processing Navy and Marine Corps data revealed serious weaknesses that would allow both computer hackers and hundreds of thousands of legitimate users with valid access privileges to improperly modify, steal, inappropriately disclose, and destroy sensitive DOD data. We found deficiencies across the board, undermining DOD's ability to protect sensitive personnel, payroll, disbursement, and inventory information maintained in DOD computer systems. To resolve these deficiencies, we recommended that the department's chief information officer take a leadership role in implementing a series of actions directed at establishing, implementing, and monitoring a comprehensive DOD-wide computer security management program. (GAO/AIMD-96-144)

In September 1996, we issued a report concerning improvements needed in the Standard Accounting and Reporting System (STARS) selected to serve as Navy's system for general fund accounting. We found that the planned

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STARS implementation is expected to produce some net cost savings. However, its implementation plans were hampered by the lack of a target systems architecture—or blueprint—that would define the systems' expected functions, features, and attributes, including interfaces and data flows. To increase the likelihood that the STARS enhancement project will result in an efficient, effective, and integrated Navy general fund accounting system, we recommended that DOD and the Navy expeditiously develop a target STARS architecture and that action plans reflect specific steps needed to achieve this architecture, identifying responsible parties, and establishing realistic milestones. (GAO/AIMD-96-99)

See also chapter 1, National Security and International Affairs Programs.



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## Audit Oversight and Liaison Issue Area (Budget Function 990)

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

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### Impact of GAO's Work

This issue area focuses on three objectives: (1) making the intergovernmental auditing process more useful, (2) strengthening the inspector general concept, and (3) improving the financial accountability of several federal activities.

The issue area provides guidance and support to the National Intergovernmental Audit Forum and 10 regional intergovernmental audit forums. The forums include federal, state, and local government auditors as well as members of the public accounting profession. The forums have provided the foundation for the development and recognition of professional auditing standards for audits of governmental entities and the means to ensure that those audits help to ensure accountability over public funds. In that regard, the forums were an excellent resource in the development of recommendations we have made to make the single audit process more useful and in passage of the Single Audit Act Amendments of 1996.

Federal IGS have devoted considerable effort since passage of the IG Act in 1978 to establish controls to ensure compliance with professional standards and to measure dollar savings and other accomplishments from their work. NPR others, however, have begun to seriously examine the role IGS should play and to demand that IGS develop more meaningful performance measures for how IGS help improve the way government operates. In response to our recommendations, IGS have recently begun establishing their own strategic plans and have proposed new performance measures.

We perform financial audits of several federal activities, including independent counsels, commemorative coin recipients, the White House Travel Office, and certain legislative branch entities. These audits are typically mandated by law and have resulted in numerous recommendations and suggestions for improvements in financial management. For example, based on our work, independent counsels have corrected serious internal control weaknesses as well as noncompliance with laws and regulations we found in our first audit in 1992.

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Key Open  
Recommendations

The single audit is an important means by which the Congress, federal oversight officials, and program managers obtain information on whether the recipients of federal assistance properly account for the federal funds they receive, maintain adequate internal controls over those funds, and comply with program requirements. The 12 years of experience since passage of the Single Audit Act in 1984 have shown that refinements can be made to strengthen the usefulness of single audits while at the same time the burden on state and local governments and nonprofit organizations can be reduced. The Single Audit Amendments of 1996 and action by OMB earlier this year brought about a number of the refinements in the single audit process that we recommended. OMB and others are continuing to work on the additional refinements we recommended. (GAO/AIMD-94-133)

IGs have implemented our recommendations to develop strategic plans that assess their respective agencies' risks, describe the strategies for reducing those risks, detail the resources required and available to implement the strategies, and provide measures to evaluate their progress. Not all IGs, however, have implemented our recommendation to include their strategic plans in required semiannual reports to the Congress. Including strategic plans in semiannual reports would help to ensure that the Congress, OMB, agency heads, and others are informed of IGs' activities and effectiveness. (GAO/AIMD-94-39)

Audits of employee benefit plans are a key safeguard for protecting much of the assets held by plans. As of 1988, the last year for which we have data, an estimated 5.2 million plans covered by the Employee Retirement Income Security Act of 1974 had assets of about \$1.75 trillion. The Act currently allows plan administrators to exclude from the scope of the audit investments held by certain regulated institutions, such as banks and insurance companies. The Congress has not enacted legislation we recommended to eliminate this limited scope provision. (GAO/AFMD-92-14)

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Information  
Resources  
Management Issue  
Areas (Budget  
Function 990)

GAO Contact: Jack Brock, 202/512-6204  
Joel Willemsen, 202/512-6253

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Impact of GAO's Work

As agencies increasingly turn to technology and the information superhighway to carry out and streamline operations, it has become critical that they effectively manage their information resources. Our work covering many of the larger federal agencies revealed that they are not doing enough to ensure that the billions of dollars the federal government spends annually on new technology acquisition and development will provide positive returns on investment and support agency goals and missions. As a result, agencies risk missing out on the dramatic improvements to operations that new technology can help achieve. In this light, GAO has been working with congressional committees and civil and defense agencies to improve controls over the management processes associated with high risk information technology investments.

Our work over the past year also revealed that more attention needs to be focused on protecting government information systems. While the Internet and other new technologies offer tremendous opportunities for streamlining operations and improving efficiency, they also greatly increase the risk of unauthorized access to very valuable and sensitive information, and disruption of critical operations.

Over the last few years, our reports and testimony have emphasized the importance of improving mission performance by adopting strategic information management "best practices" gleaned from leading public and private organizations. In 1996, we worked closely with the Subcommittee on Oversight of Government Management and the District of Columbia, Senate Committee on Governmental Affairs, to develop the legislative provisions of the Clinger-Cohen Act of 1996. At our recommendation, many of the "best practices" principles, which include appointing a chief information officer and establishing a capital planning and investment process, were incorporated into the law. Further, Executive Order 13011 on Federal Information Technology adopted these practices and provides additional guidance to agencies on implementation.

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Department of Defense

In the spring and fall of 1995, we testified on DOD's plans to streamline, improve, and reconcile financial systems. Specifically, DOD needed to develop accurate, auditable financial statements; eliminate problem disbursements; develop credible cost information systems; develop effective financial management systems; and build an effective and accountable management structure. The congressional authorizing and appropriating committees for DOD have frequently cited our work on financial management in their reports—most recently, the report accompanying the DOD fiscal year 1997 appropriations—and used it as a catalyst for improving DOD's financial management environment.

Using our prior work on DOD's Business Operating Fund as a basis, the congressional Defense committees have been critical of the fund's cash management practices, which are symptomatic of long-standing DOD financial management weaknesses. In April 1996 we reported that (1) the fund's managers did not have accurate, complete, or timely data on cash balances, (2) DOD continued to rely on advance billing customers to generate sufficient cash for the fund's day-to-day operations, (3) the fund had about \$1 billion in outstanding accounts receivable that were over 120 days old and DOD was unable to collect over \$200 million for work performed because the billing documents did not identify the specific activities, and (4) monthly reports did not fully disclose \$5.4 billion in adjustments that were made to accounts receivable and payable balances. We also reported that if current practices persisted, they could lead to DOD's requiring excessive amounts of cash to maintain ongoing operations. Acting upon the results of our work, the Congress reduced DOD's fiscal year 1996 budget request by \$140 million.

In early 1995 we reported and testified that DOD processing of temporary duty travel is a wasteful and burdensome operation. We indicated that, by reengineering and applying industry best practices to its travel processing, DOD could potentially save hundreds of millions of dollars. DOD has recognized this and has a travel process reengineering initiative underway. In line with our report recommendations, DOD has provided sustained commitment to the initiative, supporting its reengineering team with the resources and authority necessary to carry out its mandate. In anticipation of savings related to travel reengineering efforts, the Congress reduced DOD's request for operations and maintenance funds for fiscal year 1996 by \$128.5 million.

DOD's unclassified computers and networks are being attacked via the Internet by unknown and unauthorized individuals. We reviewed and

reported on the frequency of and damage caused by these attacks, as well as DOD's actions to secure its information systems. DOD itself has reported that it may have experienced as many as 250,000 attacks last year, the majority of which were successful. We found that these attacks often caused considerable damage—information and software have been stolen, modified, and destroyed—and the potential for greater harm is very high. In short, these attacks pose a serious threat to military operations and national security. We reported that DOD's security practices are not uniform and must be greatly improved, particularly in the areas of information security policy, training, and incident-response capability. DOD concurred with our findings and recommendations and indicated that corrective actions would be taken. In response to our work, the Congress has also recognized the need to review the protection of sensitive government information at other federal agencies.

Our reviews of Defense and governmentwide telecommunications issues were highly influential in improving two major programs. Our work on FTS 2000 costs resulted in an immediate cost reductions to the government when Sprint agreed to reduce its FTS 2000 prices by \$86 million over 2 years. Further, by working closely with congressional staff in assessing GSA's Post-FTS 2000 acquisition strategy, we helped persuade GSA to adopt a more flexible, shorter term approach that will enable the government to take advantage of telecommunications reform and procure more services at lower cost. In addition, we produced the first governmentwide analysis of what federal agencies spend on long-distance, local, and other telecommunications services. That study demonstrated that agencies need to do a much better job in managing and accounting for telecommunications costs.

The success or failure of today's major weapons acquisition programs often depends on the effectiveness with which DOD manages the development, acquisition, and support of computers and software embedded in these systems. Despite efforts to improve software management, DOD still needs to focus more attention on this important, \$20+ billion annual investment area. In one program—the B-1B bomber—the computer and software upgrade approach being pursued would not have enabled the B-1B to meet its requirements, would have increased computer maintenance costs, and would have necessitated another costly upgrade in the future. As a result, the \$412 million estimated cost of this upgrade would have been wasted. We recommended another computer upgrade approach that would meet all requirements, allow growth for future requirements without another upgrade, and save about \$800 million

in software maintenance. DOD concurred with our recommendations and took corrective action.

Our series of reviews of DOD's actions to improve its logistics information systems have revealed critical flaws in DOD's migration system strategy—principally in failing to conduct analyses needed to assess whether investments are cost-beneficial and in not trying development efforts to other major DOD initiatives. As a result, DOD has invested billions of dollars in systems that may not be any better than the hundreds of “legacy” systems already in place, and it could waste millions of dollars resolving problems that result from the lack of developing and implementing a clear and cohesive investment strategy. Our past work on DOD's Depot Maintenance Standard System resulted in adjustments to the DOD's migration systems strategy to take advantage of commercial off-the-shelf technology and cut implementation time frames for this important readiness-related program.

Our work with the Defense congressional committees and DOD leadership has led DOD to establish several management initiatives to improve controls over and reduce the risks of its information technology investments. As a result, DOD has initiated efforts to improve (1) the strategic planning process; (2) integration of its planning, programming, and budgeting process with its acquisition and oversight process; (3) the use of performance measures as a management control; and (4) a management framework to represent more closely a Department-wide enterprise approach (a true Defense information infrastructure) rather than the historic “stovepiped” information technology management framework that followed military service organizational structures.

#### National Aeronautics and Space Administration

Our work at NASA helped spur the agency to seek greater efficiencies and effectiveness in the way it manages its information resources. In response to our recommendation regarding consolidation of its wide area networks, NASA commissioned an independent committee to develop recommendations for a more cost-effective approach to consolidation. NASA will begin implementing the committee's recommendations in fiscal year 1997. Our assessment of NASA's chief information officer (CIO)—the first such GAO assessment of an agency CIO—included recommendations for strengthening the information officer's ability to achieve greater economies and efficiencies in information management. NASA officials have indicated they will implement most of our recommendations.

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Department of Commerce,  
National Weather Service

Our continuing effort to assess the Department of Commerce's National Weather Service's \$4.5 billion modernization program raised the awareness of the Congress about the potential for requirements creep and the need to contain costs. Specifically, our testimony and report on the Advanced Weather Interactive Processing System highlighted the potential for the system to include capabilities not directly tied to improving the National Weather Service's mission effectiveness. Based in part on our concerns about cost growth, the Congress capped the total amount that could be spent on the system at \$525 million. Additional reports led to \$12 million in cost reductions in the procurement of NEXRAD radars and improvements in the National Weather Service's software development processes.

Department of Agriculture

Our work on the InfoShare program helped convince the Congress to halt and redirect the \$2.6 billion effort to modernize and reinvent USDA's farm service and rural development agencies. This review found that agency managers were not taking necessary steps to redesign business processes and that, instead, the program was being used as a vehicle to buy information technology and further automate its current way of doing business. This work also resulted in the Department's linking its business processing reengineering to its reorganization initiative. Other work at the Department this year yielded an additional \$147 million in measurable benefits by working closely with committees to limit the use of Commodity Credit Corporation funding for automatic data processing (ADP) equipment.

We also reported that USDA was wasting millions of dollars each year by not cost-effectively managing its annual \$100 million telecommunications investment. For example, the Department had wasted millions of dollars by not acting on all opportunities to consolidate and optimize telecommunications services. We also reported that the Department was losing millions of dollars each year paying for (1) unnecessary telecommunications services, (2) leased equipment that was not used and service billed but never provided, (3) commercial carrier services that cost more than three times what they would under the FTS 2000 programs, and (4) unauthorized collect calls and other types of telephone fraud and abuse. Our work prompted the Department to reassess and begin reengineering its overall telecommunications management operations, and convinced the Department to report its management of telecommunications as a material internal control weakness under the Federal Managers' Financial Integrity Act.

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In our review of USDA's actions to correct its financial management system problems, we reported that many problems will not be resolved until financial and mixed systems are brought into compliance with the Department's new financial standards, and that the Department's CFO has neither the authority nor mechanism to enforce compliance. Further, the Department's efforts do not address eliminating and/or consolidating systems that perform similar functions, or reengineering financial management processes. This work resulted in the Department's delegating additional authority to the CFO to oversee all Departmental financial management system activities, including approving component agency financial management system design and enhancement projects.

Environmental Protection  
Agency

Our work on the EPA's nationwide system for managing hazardous waste convinced the agency to eliminate reporting requirements levied on the states that dramatically reduced their reporting burden.

Department of Justice,  
Administrative Office of the Us  
Courts

As a result of our work on the development of the National Fine Center, a centralized system to account for criminal debt, the Department of Justice's AOUSC plans to terminate this project and return about \$13 million to the Crime Victims Fund. In addition, our work contributed to improvements in the Department of Justice's ability to identify the collectibility of criminal debt and as a result, Justice has determined that about 68 percent of the outstanding debt is unlikely to be collected.

Department of Health and  
Human Services

Our 1995 report on Medicare health care fraud noted that (1) Medicare continues to experience large losses each year due to waste, fraud, and abuse, and (2) payment controls for Medicare Part B can be bypassed, are weak, and have important technical limitations. We recommended that HCFA develop a plan to implement commercially available antifraud technology, particularly where the need to reduce fraud is great, such as in South Florida. The agency responded by stating that it would provide funding for additional Medicare contractors to acquire anti-fraud computer systems within the next several months. As a result, three additional Medicare carriers, including Florida Blue Cross/Blue Shield have acquired the same anti-fraud technology described in our report.

In 1991 we reviewed how the Public Health Service's Agency for Health Care Policy and Research had explored ways in which automated medical records could be used. We found that the agency needed to further explore ways to use automated medical records to provide data for outcomes research. In response to our recommendation, the Agency for Health Care Policy and Research has taken several actions to support public and



private use of automated medical record systems to more effectively provide for outcomes research. Specifically, it has completed a series of studies on the availability of automated medical records data and the usability of such data in addressing medical effectiveness research questions. It has joined with the National Library of Medicine to provide grants to address research areas for the development of computerized medical records. It is also sponsoring and encouraging public and private industry meetings that explore ways to increase the use of automated medical record systems.

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

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## Key Open Recommendations

### Office of Management and Budget

Our review of the Information Technology (IT) decision processes at five case-study agencies found that elements of an investment approach were embedded in some of the agencies' existing decision-making processes. However, we also found weaknesses that prevented the agencies from having a complete, institutionalized process. As a result, we recommended that OMB guide and assist agencies in establishing and improving their IT investment management process by requiring agencies to (1) implement IT investment processes; (2) periodically analyze their entire portfolio of IT investments; (3) design control and evaluation processes that include cost, schedule, and quantitative performance measures; and (4) set minimum quality standards for data used to assess cost, benefits, and risk decisions. OMB agreed with these recommendations and said it would be

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implementing many aspects of them as part of the fiscal year 1998 budget review process of fixed capital assets. (GAO/AIMD-96-64)

Over the past 4 years, we have has issued over 30 reports describing serious information security problems at major federal agencies. Our analysis of the most recent of these reports for the 15 largest federal agencies found that 10 agencies had serious information security weaknesses. Such weaknesses put billions of dollars of federal assets at risk of theft, misuse, or loss. In addition, unauthorized disclosure of sensitive data and disruption of critical operations could occur. As a result, we recommended that the director of OMB advocate and promote the Chief Information Officers Council's adoption of information security as one of its top priorities, and development of a strategic plan for (1) increasing awareness of the importance of information security and (2) improving information security program management governmentwide. OMB agreed with this recommendation and plans to take action to implement it. (GAO/AIMD-96-110)

#### Department of Defense

Our report on computer attacks at DOD highlighted risks to our national security and the damage that has already been caused. We identified weaknesses in Defense's information security practices and recommended that the Department develop a strong information systems security program. We specifically recommended that DOD develop departmentwide policies for preventing, detecting, and responding to attacks; better train users, systems managers, and security officials; evaluate the sufficiency of its incident-response capability; and continue developing and using network monitoring and protection technologies. DOD concurred fully with our findings and recommendations and indicated that corrective actions would be taken. (GAO/AIMD-96-84)

Prevalidating all disbursements is important to protecting the integrity of DOD's disbursement process. However, unless the threshold is lowered to include all payments, billions of dollars of disbursement transactions will continue to bypass this important control. Accordingly, we recommended that DOD develop a plan to meet this target of matching all disbursements with obligations before making a payment. DOD agreed and is in the process of developing a plan that will require the matching of all disbursements with obligations in the accounting records prior to making a payment. (GAO/AIMD-96-82)

Our recent work on DOD's logistics system improvement actions for transportation and material management, and our report summarizing our

reviews of the logistics migration strategy, made a number of recommendations aimed at improving the management of these major investments. Specifically, we recommended that DOD develop a strategic information resources management plan that anchors its use of information technology resources to priority business objectives. We also recommended that DOD limit or halt deployment of segments of its failed migration system strategies until they can be linked with evolving outsourcing/privatization plans and show a favorable return on investment. (GAO/AIMD-96-81, GAO/AIMD-96-109, GAO/AIMD-96-128)

See also Defense Financial Audit Issue Area in this chapter, and chapter 1, Improving National Security and International Affairs Programs.

Department of Commerce,  
National Weather Service

Our report on the National Weather Service's modernization program noted that the Service lacked an overall systems architecture or blueprint to guide the development and evolution of the modernization's many and diverse components. As a result, we recommended that a systems architecture be developed and implemented. The Service agreed, and plans to complete the systems architecture in fiscal year 1997. (GAO/AIMD-94-28)

Department of Agriculture

USDA has not been fully responsive to our recommendations to improve its business process reengineering for the Department's farm service and rural development agencies. Consequently, the Department is having difficulty making progress in reengineering its processes. As a result, we are monitoring InfoShare and working with agency officials, OMB, and congressional committees to ensure that sound business process reengineering principles and practices are not compromised and that USDA does not spend hundreds of millions of dollars of scarce resources automating the farm service agencies' current way of doing business and, therefore, not achieve the objectives of a reinvented USDA. (GAO/AIMD-94-156)

We recommended that the Secretary of Agriculture also take a number of steps to improve the management and planning of telecommunications resources. In its May 6, 1996, statement of actions taken on our recommendations, the Department said it was reporting telecommunications management as a material internal control weakness in accordance with OMB Circular A-123. The Department also discussed many other actions that are currently underway to address our recommendations. We continue to monitor the Department's activities to ensure that its actions are fully responsive to our recommendations. (GAO/AIMD-95-997, GAO/AIMD-95-203, GAO/AIMD-96-59)

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To correct its financial management system problems, USDA has taken steps to provide more authority to its Chief Financial Officer, but has yet to fully address our other recommendations. (GAO/AIMD-95-222)

See also chapter 2, Improving Resources, Community, and Economic Development Programs, Food and Agriculture Issue Area.

Environmental Protection  
Agency

At EPA, we are working to implement several open recommendations. For example, we recommended that the Administrator determine what information is needed to oversee states' implementation of the Resource Conservation and Recovery Act and develop a cost-effective solution for meeting these needs. The agency has begun to assess the information required to manage the Resource Conservation and Recovery Act program, and is currently defining its strategy for carrying this out. The agency has also reduced the reporting burden on states by eliminating 274 nonessential data elements from its reporting requirements. (GAO/AIMD-95-167)

See also chapter 2, Improving Resources, Community and Economic Development Programs, Environmental Protection Issue Area.

Department of Commerce, U.S.  
Customs Service

Our report on Customs' modernization program noted that the agency did not perform the requisite analyses before committing to its organization-wide architecture project entitled CDC-2000. As a result, we recommended that Customs complete work for defining its core business processes, and generate business information requirements for use in performing further analyses for selecting an organization-wide architecture. Specifically, we recommended that Customs not resume hardware and software purchases for CDC-2000 unless the requisite analysis identifies it as the optimal processing approach. (GAO/AIMD-96-57)

See also chapter 4, Improving Justice and General Government Programs, Administration and Justice Issue Area.

Department of Housing and  
Urban Development

Our report on HUD's information resources managements (IRM) program found numerous long-standing problems. We recommended several actions to address them, including (1) establishing strategic business and IRM planning processes and developing and maintaining up-to-date plans and a systems architecture that are clearly linked to each of the others; (2) establishing a strategic information architecture that is based on strategic business and IRM plans to govern the development, deployment, and use of IRM resources; and (3) eliminating weaknesses in computer

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security controls over automated systems and installations that store, process, transmit, or use sensitive or privacy data. HUD is addressing these recommendations. (GAO/AIMD-94-34)

See also chapter 2, Improving Resources, Community and Economic Development Programs, Housing and Community Development Issue Area.

Department of Health and  
Human Services

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

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

In 1994 we also reported that pharmacies' use of automated prospective drug utilization review systems to review Medicaid prescriptions before they are filled could (1) significantly improve patient safety by helping prevent adverse medical reactions due to inappropriate drug therapy and (2) potentially save the Medicaid program hundreds of millions of dollars annually in unnecessary drug and hospitalization costs. States are not required to use these systems; about a third of them believed the systems were too costly to acquire and operate and might not provide tangible benefits. HCFA shares our view on the value of automated prospective drug

utilization review systems and is taking steps to gather information on their costs and benefits to share with the states. (GAO/AIMD-94-130)

During 1994 we also reported on HCFA's Medicare Transaction System and found that HCFA's executives had not been involved in the planning, acquisition, or management of the project. In response to this report and follow-up discussions, HCFA agreed to change to an incremental development and implementation strategy, and deploy the system initially at a limited number of sites, enabling HCFA to identify problems and correct them before further implementation. In November 1995 we testified that many problems remained, stemming from HCFA's lack of a disciplined management process. We reported that Medicare Tracking System design and development was proceeding despite difficulties in defining requirements, a compressed project schedule, and lack of reliable information about costs and benefits. Since that time, HCFA has taken some steps to address these weaknesses; however, many of the same problems relating to requirements, schedule, and an adequate cost/benefit analysis remain. (GAO/T-AIMD-96-12)

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

In 1995 we reported that HCFA continues to experience large losses each year due to waste, fraud, and abuse, and that existing Medicare Part B payment safeguard controls can be bypassed, are weak, and have technical limitations. We recommended that HCFA develop a plan to implement commercially available antifraud technology for the entire Medicare program. HCFA responded by providing funding to 3 of 32 Medicare Part B carriers to acquire, for their individual use, the same antifraud technology described in our report. While this investment should result in better detection of fraud and abuse at these carriers' sites, it does not completely respond to our recommendation, which advocated establishing a plan to implement commercial antifraud technology nationwide. Given the potential for substantial savings of program funds

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and commonly accepted information resources management best practices that encourage the use of available off-the-shelf software, we will continue to meet with officials to assess their approach to enhancing Medicare's fraud detection capabilities. (GAO/AIMD-95-77)

See also chapter 3, Improving Human Resource Programs, Health Financing Systems and Health Services Quality and Public Health Issue Area.

**Department of Veterans Affairs**

Since 1991, VA's modernization project has received continued scrutiny by us as well as OMB and GSA. In 1995 VA took positive steps to direct its modernization toward fulfilling our recommendations. In September it began to analyze current business processes and set measurable goals for improved service to veterans. However, it still needs to take aggressive action to effectively address its serious technical and management weaknesses if modernization is to succeed. (GAO/IMTEC-93-6)

See also chapter 3, Improving Human Resource Programs, Veterans' Affairs and Military Health Care Issue Area.

# Status of Open Recommendations: A Users Quick Reference for the Electronic Edition

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## Introduction

This electronic edition contains the details of GAO's open recommendations using "askSam for Windows" software. The software is compatible with Microsoft Windows 3.1 or Microsoft Windows 95 and provides several search and retrieval options to find either summaries of key open recommendations or detailed information on products containing open recommendations. Three high-density 3.5 inch installation disks are provided containing all of the software and data for this electronic edition of the Status of Open Recommendations report.

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## How to Install

*The installation program installs the files necessary to run this software on your hard drive and creates a Windows icon that will allow you to run the program. At least 8MB of RAM and 8.3MB of hard disk space are required. To load the software on your hard drive:*

1. Insert installation disk labelled "Disk 1" into your floppy drive.
2. Select the **File** option from the Windows menu bar, then select the **Run** option from the drop-down menu.
3. In the Command Line window, type the drive designation of your floppy drive, a colon, a backslash, and the word "install". For example, type "a:\install".
4. Click once on the **OK** button, then follow the instructions that appear on the screen.

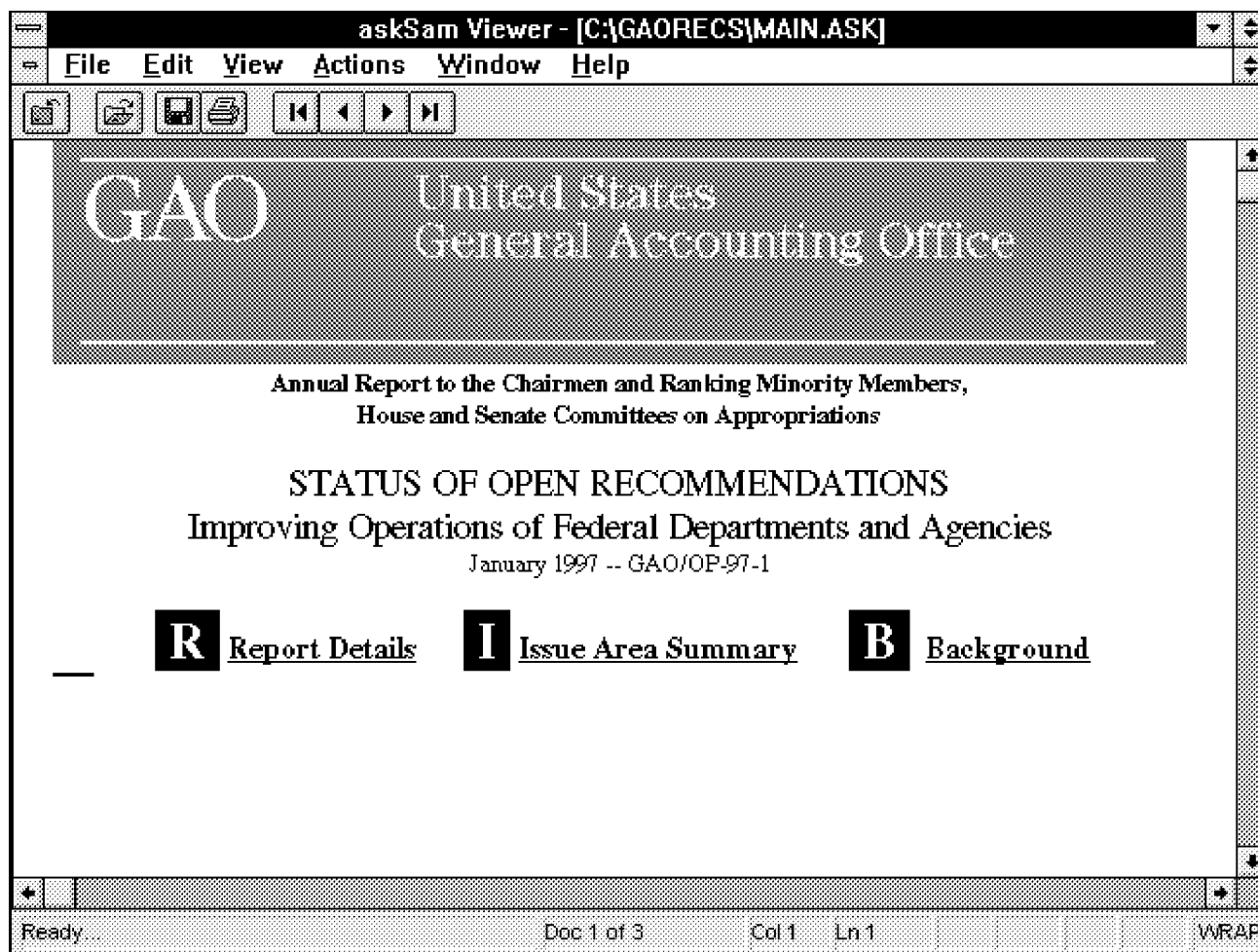
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## How to Start

In Windows, double-click on the Open Recommendations icon to start the program and display the main menu as shown in figure 1. The menu contains three options: Report Details, Issue Area Summary, and Background.



Figure 1 Main Menu



## How to Search—Report Details

*This option accesses the database containing descriptive information about each GAO product with open recommendations including the title, recommendations, an abstract, the GAO contact person, addressees, requestors, and the product number.*

1. Select the Report Details option on the main menu. The Report Details menu, shown in figure 2, will be displayed.

2. To quickly select a commonly used word, code, or phrase: select and click on one of five look-up table options listed:

Committees of Interest  
Interested Members of Congress  
Recommendation Addressees  
GAO Issue Area Units  
Subject Terms

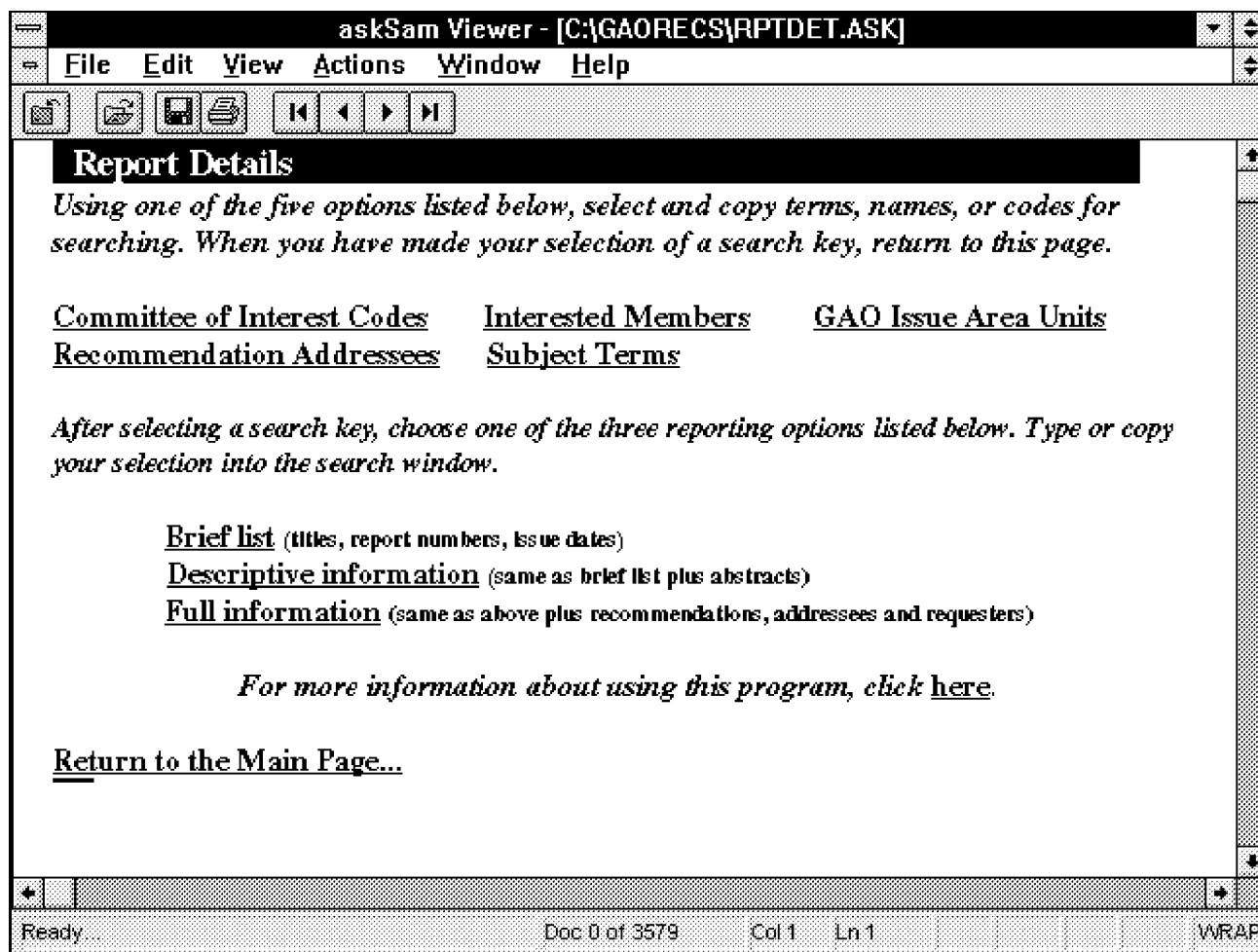
Follow the instructions to browse the table you selected, and to select and copy the name, term, or code for your search. Return to the Report Details menu. (NOTE: You may skip step 2 if you wish to search on a keyword.)

3. Select and click on one of the three output formats for displaying or printing the results:

Brief list  
Descriptive information  
Full information

4. When prompted, depress **Shift-Insert** to paste the search term (that you selected and copied in step 2), enclosing the term in "[ ]", OR type in a keyword. Press **OK**.

Figure 2 Report Details Menu



## How to Search—Issue Area Summary

*This option presents the information contained in the printed copy of the Status of Open Recommendations—the impact of GAO’s work and key open recommendations, organized by GAO’s programming units.*

1. Select the Issue Area Summary on the main menu.
2. Select and click on one of three options:

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Table of Contents  
Preface  
Keyword

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## How to Print Your Search Results

*There are two options for printing the results of a search:*

- Select **File** from the menu bar. Select **Print** from the drop-down menu, or
- Depress **Control/P**.

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## Exiting the Program

To exit the program, choose **File** from the Menu Bar, then choose the **Exit** option from the drop-down menu.

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## How to Get Help

Detailed information on searching the Report Details and Issue Area Summary Databases may be obtained from the Main Menu's link to "Background" and the Report Detail menu's option: "For more information about using this program, click **here**". Information on formulating searches using the askSam query language is available by clicking on the **Help** option appearing in the Windows menu bar.

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