

GAO

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

January 1998

STATUS OF OPEN RECOMMENDATIONS

Improving Operations of Federal Departments and Agencies





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

**Comptroller General
of the United States**

B-205879

January 30, 1998

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's) 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 during appropriations and oversight hearings. We are also sending copies to the Chairs and Ranking Minority Members of all House and Senate committees and subcommittees to better inform them of our open recommendations.

A handwritten signature in cursive script that reads "James F. Hinchman".

James F. Hinchman
Acting Comptroller General
of the United States

Preface

Each year, GAO's work contributes to many legislative and executive branch actions that result in significant financial savings and other improvements in government operations. Some, but not all, are identified through GAO's system for periodically following up to determine the status of actions taken on the recommendations made in its 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 of 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 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
APHIS	Animal and Plant Health Inspection Service
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

Contents

DEA	Drug Enforcement Agency
DFAS	Defense Finance and Accounting Service
DI	Disability Insurance
DLA	Defense Logistics Agency
DOD	Department of Defense
DOE	Department of Energy
DOL	Department of Labor
DOT	Department of Transportation
EEOC	Equal Employment Opportunity Commission
EPA	Environmental Protection Agency
EZ/EC	Empowerment Zone/Enterprise Community
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FAIR	Federal Agricultural Improvement and Reform Act
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
FSIS	Food Safety and Inspection Service
FTA	Federal Transit Administration
GAO	General Accounting Office
GNMA	Government National Mortgage Association
GPRA	Government Performance and Results Act
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Control Point
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

Contents

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
NRC	Nuclear Regulatory Commission
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
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
PTO	Patent and Trademark Office
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SAMSA	Substance Abuse and Mental Health Services Administration
SBA	Small Business Administration
SBIC	Small Business Investment Company
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
USEC	United States Enrichment Corporation
USPS	United States Postal Service
USTF	Uniformed Services Treatment Facilities
VA	Department of Veterans Affairs

Improving National Security and International Affairs Programs

Defense Acquisitions Issue Area (Budget Function 050)

GAO Contact: Louis Rodrigues, 202/512-4841

Impact of GAO's Work

Although the national defense budget has declined significantly over the past decade, the Department of Defense (DOD) still spends almost \$80 billion annually to research, develop, and acquire weapon systems. DOD's leadership has emphasized its commitment to streamlining and improving the acquisition process to reduce acquisition costs while ensuring technological leadership and a strong, competitive industrial and technology base. The National Aeronautics and Space Administration (NASA) has similar efforts underway.

During fiscal year 1997, we reviewed (1) the justifications for new and modified systems to determine whether they are reasonable and support the national military strategy, (2) system development programs to determine whether systems are being acquired in an effective and efficient manner, and (3) acquisition strategies to determine whether DOD and NASA have selected the lowest risk and least costly acquisition strategies consistent with the need for the planned system or modification. Our reviews included systems such as the B-2, F/A-18E/F, F-22, C-17, and F-14 aircraft and unmanned aerial vehicles. We also continued our work on DOD's development of space systems, including the Defense Satellite Communications System and Expandable Launch Vehicle Program.

To determine whether DOD and NASA are streamlining and improving their acquisition processes, practices, and infrastructure, we evaluated the implementation of governmentwide acquisition reform legislation and reviewed new proposals. We also assessed DOD's efforts to utilize opportunities for international cooperation in the development and production of weapon systems. In addition, we assisted the Senate and House Appropriations Committees, the Senate Armed Services Committee, and the House National Security Committee, by examining DOD's fiscal year 1998 budget and prior years' appropriations and identifying opportunities to reduce DOD's procurement and RDT&E funding by about \$1.38 billion.

We provided Congress with information to assist in its oversight responsibility on many occasions. For example, we reported that DOD needs to reorient its aircraft investment strategy to recognize the reality of a constrained overall defense budget for the future. Otherwise, a

significant imbalance is likely to result between the funding requirements, particularly the major commitments for the initial procurement of all the planned aircraft programs (such as the F/A-18E/F and F-22) over the next several years, and available funding.

Our work on the use of major weapon systems warranties resulted in Congress repealing 10 U.S.C. 2403 and reducing DOD's procurement budget by \$75 million for fiscal year 1998 to account for potential savings. We reported that Theater High Altitude Area Defense project had not achieved a successful intercept during the four tests conducted in the engineering, manufacturing, and development phase of RDT&E. Subsequently, Congress denied DOD's program request for \$262 million for fiscal year 1998.

Our work regarding defense industry restructuring showed that DOD did not include data on grants provided by the Department of Labor in its annual restructuring reports to Congress. As a result, DOD agreed to include such information in future reports in order to provide Congress more complete information about federal funding used to assist workers affected by restructuring. We also found that tracing savings into contract prices was extremely difficult given other factors that affect a contractor's operations and costs. Subsequently, Congress requested that we determine whether defense contract prices are lower than they would have been had restructuring not occurred and to evaluate the impact of defense industry consolidation on competition.

Our work on the Federal Acquisition Computer Network (FACNET) showed that agencies had good business and technical reasons for not using FACNET and recommended that the government needs a coherent strategy and flexibility to implement alternative electronic commerce technologies and purchasing methods that make good business sense and are aligned with commercial applications. As a result, the fiscal year 1998 Defense Authorization Act repealed the mandated use of FACNET. In addition, the President's Management Council tasked a high-level management committee to review electronic commerce implementation government wide and develop a more integrated federal strategy.

Our work on whether DOD provides Congress accurate information on contracts for advisory and assistance services showed that DOD may be significantly underreporting those costs. In the President's budget submission, DOD reported fiscal year obligations of about \$3 billion on advisory and assistance service contracts. Our analysis of DOD's contract

data indicated fiscal year 1996 obligations of almost \$12 billion for services involving advising or assisting DOD management. As a result, the Congress reduced DOD's budget by \$300 million and attributed this reduction to our work. Subsequently, the Senate Appropriations Committee requested a review to more fully examine the reasons for the underreporting on contracts for advisory and assistance services.

High-Risk Areas

Defense Acquisitions is the point of contact for three areas that have been designated as high-risk—Defense Weapon Systems Acquisition, Defense Contract Management, and NASA Contract Management.

Defense Weapon Systems Acquisition

In fiscal year 1997, we reported that despite DOD's past and current efforts to reform its acquisition system, wasteful practices still add billions of dollars to defense acquisition costs. Many new weapon systems cost more and do less than anticipated, and schedules are often delayed. Moreover, the need for some of these costly weapons is questionable, particularly since the collapse of the Soviet Union.

DOD's goal is to become the world's smartest buyer, continuously reinventing and improving the acquisition process while taking maximum advantage of emerging technologies that enable business process reengineering. DOD is pursuing a number of positive initiatives that could, over time, improve the cost-effectiveness of its acquisition processes and is reporting some success in terms of cost savings or avoidance and other benefits. The ultimate effectiveness of these initiatives cannot be fully assessed because many are in various stages of implementation. Therefore, it may be several years before tangible results can be documented and sustained.

Defense Contract Management

Further, as with many other elements of defense, contract administration and audit resources have been reduced, and further reductions are planned. At the same time, DOD continues to look to additional outsourcing opportunities, and it plans to significantly increase its procurement budgets in the coming years. Both these actions may increase contracting actions and the need for effective contract administration and audit. To maintain appropriate controls over contract expenditures with reduced resources, DOD will need to improve the efficiency of its contract management.

NASA Contract Management

Over the past several years, NASA has improved its contract management by changing its policies and practices to better influence its contractors'

performance and improve oversight of its procurement activities. Since NASA spends about \$13 billion annually, it is likely to have problems periodically. The key is early identification to prevent the problems from becoming systemic. We are concerned about the systems and processes NASA uses to oversee its procurement activities and the ability of these systems and processes to routinely produce accurate and reliable management information. NASA has told us that it has made improvements in these areas.

Key Open
Recommendations

Our work in contract management concluded that unless DOD achieves cost-effective control over its payment process, it will continue to risk hundreds of millions of dollars in potential overpayments and other financial management and accounting control problems. Further, improving the efficiency of the payment process could save additional millions of dollars annually in reduced processing costs. We recommended that DOD (1) thoroughly evaluate the information requirements of the user, procurement, and accounting communities in terms of their impact on the payment process' ability to produce useful information; (2) evaluate whether the structure that the Columbus Center uses to charge its customers for accounting services needs to better reflect the cost of servicing contracts; (3) establish a DOD-wide policy for closing out existing contracts that cannot be reconciled because accurate and complete data are lacking; and (4) explore increased opportunities for using best practices. ([GAO/NSIAD-97-37](#), [GAO/HR-97-4](#))

In May 1995, we reported that the unclear lines of jurisdiction over stealth-related items may lead to the inappropriate export of military sensitive materials and technology. We recommended that the State Department clarify the licensing jurisdiction between the Commerce Control List and U.S. Munitions List for all stealth-related commodities and technologies with a view towards ensuring adequate controls under the Arms Export Control Act for all sensitive stealth-related items. ([GAO/NSIAD-95-140](#))

Our work on the Defense Satellite Communications System (DSCS) showed (1) DOD's anticipated increase in requirements for high capacity satellite communications, (2) the relative high cost of leasing commercial satellite communications and apparent cost-effectiveness of acquiring commercial-like satellites instead of leasing equivalent services from commercial providers, and (3) the potential for saving about \$2.8 billion in future years if the first launch of the replacement satellite were to occur in

fiscal year 2003. We recommended that DOD accelerate the introduction of a DSCS replacement system from fiscal year 2006 to 2003, or as soon as practicable, if the emerging requirements are deemed valid, the estimated acquisition and commercial costs are considered credible, and the necessary acquisition funds can be made available. (GAO/NSIAD-97-159)

In our work on the Navy's Cooperative Engagement Capability program on the transfer of certain frequency spectrum to the Federal Communications Commission for reallocation to the private sector, we reported that fragmented DOD management responsibilities have resulted in inadequate coordination within DOD on spectrum issues and preparation of long-range plans. We recommended that DOD assign responsibility for overall DOD spectrum management to a specific organization. (GAO/NSIAD-97-131)

In May 1997, we reported that the Army's current Hellfire missile requirement of 12,722 may be overstated by over 8,300 missiles and that significant cost reductions can be achieved with lower missile quantities. We recommended that the Army (1) reduce Longbow Hellfire missile procurement requirements to reflect the current information on the number of missiles that the Apache can carry, the correct residual readiness computational procedures, and the appropriate Hellfire II to Longbow Hellfire mix ratio and (2) prepare a new procurement strategy that reflects the reduced equipment and recomputed expected cost. (GAO/NSIAD-97-93)

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

Defense Management Issue Area (Budget Functions 050)

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

Impact of GAO's Work

Defense managers are confronted with many challenges to their ability to continue accomplishing their missions as they strive to streamline operations, reduce existing infrastructures, improve the management of closed/realigned facilities, enhance the effectiveness and efficiency of the defense supply chain, and better control high interest programs.

Our overall strategy for Defense Management issues is to identify new initiatives that are innovative, efficient, and cost effective approaches to improving DOD's management and in reducing defense costs. It focuses on the implementation and effectiveness of DOD cost reduction initiatives as they apply to DOD's support infrastructure activities with special emphasis on logistics-related business activities which include operations and functions such as depot maintenance, the purchase of parts and supplies for inventory, storage and disposal, and transportation. Our work encourages the reengineering and streamlining of DOD operations through new processes and best management practices and, where appropriate, the privatization or outsourcing of defense functions and activities.

Defense logistics-related business activities and infrastructure functions consume a major share of DOD's budget—perhaps as much as \$80 billion in fiscal year 1997. DOD recognizes the need to cut these costs and is seeking a reduction of \$20 billion annually in order to fund acquisitions for weapon systems modernization. Initiatives DOD has undertaken to achieve reductions include privatization, acquisition reform, technology insertion, organizational streamlining and consolidation, management process reengineering, base and facility closures, personnel reductions, inventory reductions, and private sector use of facilities.

Key areas we focused on in fiscal year 1997 included the transition of former bases to civilian use, depot maintenance workloads, inventory management, property disposal activities, and opportunities to improve operations through the use of best management practices. We also addressed DOD environmental costs and programs and problems associated with the disposal of the chemical weapons stockpile.

High-Risk Areas

Defense Management is the point of contact for the following two high-risk areas: Defense Inventory Management and Defense Infrastructure.

Defense Inventory Management

It is estimated that about half of DOD's secondary inventory—spare and repair parts, clothing, medical supplies, and other items—are not needed to be on hand to support war reserve or current operating requirements. DOD has clearly had some success in addressing its inventory management problems. However, it has not yet succeeded in developing the management tools needed to solve these problems on a long-term basis. In the near term, DOD needs to emphasize the efficient operation of its existing inventory systems. In the long term, DOD must establish goals, objectives and milestones for changing its culture and adopting new management tools and practices. Further, DOD must continue to explore other alternatives such as using business case analysis to identify opportunities for outsourcing logistics functions and to implement best management practices.

Defense Infrastructure

Over the past 7 to 10 years, DOD has taken actions to reduce its operations and support costs, however, billions of dollars continue to be wasted annually on inefficient and unneeded activities. In recent years, DOD has substantially downsized its force structure yet it has not achieved commensurate reductions in operations and support costs. Progress in reducing the cost of excess infrastructure activities is critical to maintaining high levels of military capabilities and in providing the funding source for weapon systems modernization. Reductions of this nature are difficult and painful because achieving significant cost savings requires up-front investments, the closure of installations, and the elimination of military and civilian jobs.

Key Open Recommendations

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

The Secretary of Defense should identify options and take steps to minimize the impediments to interservicing to realize potentially significant savings in base support costs through interservicing-type arrangements. ([GAO/NSIAD-96-108](#))

The Secretary of Defense should establish reasonable timeframes for concluding negotiated sales of surplus real property and when practical,

rent unoccupied, surplus housing and other facilities as a means of preserving property pending final disposition. (GAO/NSIAD-96-149)

The Secretary of the Army should begin the disposal determination process for (1) all excess real property not needed for replenishment requirements at the Kansas, Louisiana, and Sunflower Army Ammunition plants, and (2) all inactive plants retained only for their unique capabilities when those capabilities can be adequately provided by other sources. An integral part of this process will be identifying the costs involved in accomplishing the disposal of unneeded properties. (GAO/NSIAD-97-56)

The Secretary of the Navy, working with the Defense Logistics Agency, should develop a demonstration project to determine the extent to which the Navy can apply best practices to its logistics operations. The specific practices that should be tested are (1) inducting parts at repair depots soon after they break, (2) reorganizing repair workshops using the cellular concept to reduce repair time, (3) using integrated supplier programs to shift consumable inventory responsibilities to suppliers, (4) using local supplier distribution centers for quick shipment of parts to mechanics, and (5) expanding the use of third-party logistics services to store and distribute spare parts. (GAO/NSIAD-96-156)

The Secretary of Defense should direct the defense transportation reengineering efforts to simultaneously address process and organizational structure improvements including (1) the need for separate traffic management component command headquarters staff, (2) the consolidation of separate field subordinate command traffic management staff, and (3) the elimination of all remaining duplicative field-based subordinate command support staff. Further, the Secretary of Defense should clarify which U.S. Transportation Command mobilization costs should be passed along to its customers. (GAO/NSIAD-96-60)

The Secretary of Defense should, at a minimum, explain the methodology used to estimate savings in future Base Realignment and Closure (BRAC) budget submissions and these submissions should note that all BRAC-related costs are not included. (GAO/NSIAD-96-67)

In order to strengthen DOD's budgeting process and ensure that correct assumptions are being made regarding expected reductions in base operating costs, DOD needs to improve its periodic updating and reporting of savings projected from prior BRAC decisions. Accordingly, the Secretary of Defense should provide guidance to ensure that its

components have and follow a clear and consistent process for updating savings estimates associated with prior BRAC decisions. (GAO/NSIAD-97-151)

Further, if Congress authorizes future BRAC rounds, the Secretary of Defense should (1) work with the Task Force on Defense Reform and the National Defense Panel to address the important organizational and policy issues in various cross-service areas, (2) convene a DOD joint working group, as soon as practical, to develop policy guidance, improve BRAC processes and decision-making tools, and (3) ensure full audit access to all parts of DOD's BRAC process. (GAO/NSIAD-97-151)

If Congress considers legislation for future BRAC rounds, it may wish to (1) model it on the 1990 BRAC legislation as a starting point, (2) pass such legislation early to allow the lead time needed for DOD and the Commission to organize their processes, and (3) consider the relationship between new BRAC authority and section 277 of the National Defense Authorization Act for Fiscal Year 1996 pertaining to laboratories and test and evaluation facilities. (GAO/NSIAD-97-151)

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

**International
Relations and Trade
Issue Area (Budget
Function 150)**

GAO Contact: Benjamin F. Nelson, 202/512-4128

Impact of GAO's Work

The Congress is continuing to rethink the U.S. role in international affairs, including the level of resources devoted to and the effectiveness of current programs in advancing U.S. political and economic interests. To assist the Congress in this regard, our work focused on assessing the relevancy, priority, effectiveness, and management of international affairs activities, and addressed issues of current national concern, such as U.S. involvement in Bosnia, North Atlantic Treaty Organization (NATO) enlargement, and the North American Free Trade Agreement (NAFTA). Our reviews examined the rationale, structure, and reform agenda of the international organizations that receive U.S. funding, and examined the cost, management, and results of the U.S. bilateral programs and activities in critical regions of the world, including the broad range of programs designed to enhance U.S. security and those aimed at reducing the flow of illegal drugs into the United States. In addition, we completed work that assisted the debate on current trade issues and examined the need for U.S. government export and investment promotion programs. The work has had a significant impact on efforts to address major international relations and trade issues.

Our assessment of the Bosnia peace operation concluded that only limited progress had been made toward achieving the Dayton Agreement's goal of establishing a unified, democratic government that respects the rule of law. This situation, we noted, was due principally to the failure of Bosnia's political leaders to fulfill their obligations under the Dayton Agreement and to promote political and social reconciliation. This report was a seminal assessment of the Bosnia issue and was instrumental in influencing the administration's decision to revise its Bosnia strategy. Our assessments of U.S. programs and those of other NATO member countries showed that they are helping former Eastern Bloc countries prepare for possible membership in the NATO. In a separate study that examined the likely cost of NATO enlargement, we concluded that DOD's estimated cost of about \$27-35 billion was speculative and that the actual enlargement costs could be substantially higher or lower. This work led to a request for GAO to testify at an October 1997 hearing as additional congressional concerns were raised about the impact of NATO expansion on DOD's

budget. Our work on NAFTA addressed concerns about the economic impact of the agreement, examined the implementation of the supplemental side agreements on labor and the environment, and described the agreement's dispute settlement process and the efforts made to help workers displaced by imports from Mexico or Canada.

We continued to examine the extent to which U.S. participation in multilateral institutions advance U.S. interests and whether there are opportunities to reduce costs. Our examination of U.N. peacekeeping operations showed that there are eight costly, long-standing, and marginally effective operations for which the State Department had not established clear exit strategies. In response to our recommendation, the State Department outlined exit strategies and criteria for these operations and notified the Congress that it would continue to review this matter to ensure effective reforms were implemented. We also completed a major review of the United Nations Development Program (UNDP)—the central financing and coordinating mechanism for development assistance within the U.N. system—to determine the progress that it had made in reducing administrative costs and improving its management of projects. The recommendations we made for improved project management are currently being implemented.

Our comprehensive examination of the U.S. Agency for International Development (USAID) found that 5 years of reform have resulted in a smaller aid bureaucracy that has achieved some operational efficiencies but that the full benefits were not yet clear and fundamental questions about the effectiveness and relevance of these programs remain.

Our evaluations of how the federal government manages its overseas real estate identified deficiencies that resulted in additional and unnecessary costs. We recommended that DOD negotiators obtain and use estimates of the market value of installations in negotiating with foreign governments on recouping the residual value of closed overseas facilities. The additional revenue realized in fiscal years 1996 and 1997 from implementing this recommendation was estimated to be \$222 million. During fiscal year 1997, the State Department sold three of the properties, we identified as unnecessary, for \$7.6 million.

With respect to arms control, we reported that progress has been made in reducing the threat from weapons of mass destruction through the dismantling of nuclear weapons in the former Soviet Union, the provision of better international accountability for nuclear materials, and the

imposition of effective export controls. Acting on a recommendation we made in our 1995 report on DOD's Cooperative Threat Reduction program, DOD improved its reporting on program management and assistance. Our evaluation of whether U.S. export control policy toward Hong Kong will adequately protect U.S. national security interests after Hong Kong's reversion to China revealed Hong Kong will continue to have easier access to sensitive technology that is more tightly controlled for China. We also found that the U.S. government has limited ability to monitor such technology to ensure that it is not diverted. We made recommendations to improve these weaknesses. This report could form the cornerstone of any congressional deliberations to change the application of U.S. export controls to Hong Kong. We also reported on issues surrounding the sales of high performance computers to Russia's nuclear weapons laboratories. This testimony influenced the legislative debate over whether the recently relaxed export control rules need to be reexamined.

The Congress has a continuing interest in the operations and the effectiveness of U.S. counternarcotics programs. Our comprehensive report on the U.S. drug control effort was based on over 10 years of review of various aspects of U.S. drug control strategy. The report concluded that despite long-standing efforts and expenditures of billions of dollars—about \$20 billion over the past 10 years—these efforts have not materially reduced the availability of drugs.

During the past year, we completed comprehensive reviews of U.S. programs aimed at promoting U.S. interests through export and investment promotion and greater market accessibility. These reviews focused on the continuing relevance of these programs and whether increased efficiencies and reduced costs are possible. Our reports on the U.S. Export-Import Bank (Eximbank) (1) presented options for saving millions of dollars in subsidy costs by raising fees or reducing program coverage in higher-risk markets, (2) documented the amount of the funding and programs of competitor nations, and (3) summarized the results of the Eximbank's efforts to meet the financing needs of small business and to comply with laws governing the financing of dual-use (civilian and military) defense exports. Our work at the Overseas Private Investment Corporation (OPIC) identified important changes in the private sector's willingness to invest in foreign markets and ways that the risks of OPIC's programs could be reduced. We also discussed a number of issues that would need to be addressed if the agency were not reauthorized. Our review of the 1994 U.S.-Japan Insurance Agreement found that most U.S. insurance providers in Japan were of the opinion that Japanese

government actions to implement the agreement did not result in significant liberalization and had no effect on their ability to compete in the Japanese insurance market. Our assessment of U.S. agricultural export assistance programs found mixed evidence regarding the continued relevance of these programs.

**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 plans on using this methodology in making its staffing resource decisions in fiscal year 1998. Because stationing staff overseas is costly, State must be able to ensure that it places no more staff than is needed at each of its overseas posts. ([GAO/NSIAD-94-228](#))

In 1995, we recommended that the Congress terminate USAID's Housing Guarantee Program because it was not achieving its original goals and objectives. This program was not terminated by the Congress, but its appropriation was reduced in fiscal years 1996 and 1997. ([GAO/NSIAD-95-108](#))

In 1996, we reported that the State Department had done relatively little to implement reforms and streamline its operations to save money. 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 by selling unneeded real estate at its overseas locations. We identified a number of options that the State Department could take to address possible budget reductions, including developing a downsizing strategy for adjusting to potentially lower funding. Actions have not been taken on these recommendations because State objects to the report's overall premise that major budget reductions will occur, saying that such reductions could undermine the U.S. foreign policy infrastructure. ([GAO/NSIAD-96-124](#))

In 1996, we recommended that the Director of the Office of National Drug Control Policy (ONDCP) 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 needs and delineate a comprehensive strategy to improve Caribbean nations' antidrug-trafficking capabilities and commitment to counternarcotics interdiction. ONDCP is considering our recommendation as part of an ongoing evaluation of the

entire drug control strategy. In 1997, we recommended that the Director, ONDCP, develop a long-term plan with meaningful performance measures and multiyear funding needs that are linked to the goals and objectives of the international drug control strategy. ONDCP says that in fiscal year 1998 it will present the Congress with a 10-year strategy with multiyear budget plans and measurable performance objectives. (GAO/NSIAD-96-119 and GAO/NSIAD-97-75)

Also in 1996, we recommended that the Secretary of the Treasury monitor and periodically report to the Congress measurable indicators of the World Bank's progress in reforming its operations to improve their effectiveness. If the indicators do not show satisfactory progress, we recommended that the Secretary should report on the actions taken to do so. The Treasury Department is monitoring the World Bank's new reform initiative, called the Strategic Compact, and will report on the results of this initiative in the upcoming year. (GAO/NSIAD-96-212)

Military Operations and Capabilities Issue Area (Budget Function 050)

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

Impact of GAO's Work

DOD faces unprecedented challenges as it strives to plan and budget for military operations that range from peacekeeping and disaster relief to humanitarian assistance and warfare at the highest level of intensity. To effectively meet these challenges, DOD must maintain a high readiness level and strike the proper balance between the need to fund weapons modernization and the need to maintain dedicated and high-quality personnel.

Our overall strategy to assist Congress with military operations and capabilities issues is to: (1) identify potential reductions to operations and maintenance budgets, while recommending ways to improve planning for future military operations; (2) identify shortfalls and excesses in capability in relation to military requirements; (3) alert Congress to existing or projected readiness shortfalls that could leave military forces ill-prepared to conduct effective operations; and (4) recommend ways to improve DOD's ability to recruit, train, and retain a high-quality active, reserve, and civilian workforce.

In fiscal year 1997, we completed reviews of DOD's fiscal year 1998 budget requests for operations and maintenance and military personnel programs, and identified changes to other military programs that could save millions of dollars. We also provided Congress with information on the readiness of war reserve equipment prepositioned afloat; reviewed DOD's chemical and biological defense capabilities; identified DOD efforts to protect U.S. forces from terrorist attacks; assessed the telemedicine strategies among DOD, other federal agencies and the private sector; and evaluated DOD's study on the need to increase the number of general and flag officers.

During our review of DOD's \$94 billion operations and maintenance budget requests, we identified potential budget reductions of about \$3.7 billion. Of this amount, about \$1.6 billion is for the purchase of inventory in excess of current operating and war reserve requirements. Likewise, we identified potential reductions of about \$390 million in the services' military personnel requests. Of this amount, about \$304 million can be reduced

because the services began fiscal year 1998 with 12,300 fewer active military personnel than budgeted for.

We identified significant per-year dollar savings that could result from our recommended changes in other military programs. For example, the Navy could save about \$140 million annually by turning over the operation of eight multiproduct (oil, ammunition) ships to the Military Sealift Command for crewing with civil service mariners. These savings are due primarily to a much smaller crew size than has been traditional on military crewed auxiliary ships. Likewise, DOD could save as much as \$95 million annually by converting roughly 9,500 administrative and support positions, now held by military officers, to lower-cost positions that could be filled by civilians. Since the 1950s, a DOD Directive has required the services to staff positions with civilian personnel unless the services deem a position military essential. Moreover, DOD could save about \$54 million per year in personnel costs once the Army removes unneeded war reserve equipment from central Europe and aligns its resources with the reduced mission.

During our assessment of the readiness of the Army's war reserve equipment prepositioned on ships, we found that 25 percent of the unit sets do not meet the Army's readiness goal for full mission capability. We reported that, as of April 1997, equipment in 13 of 51 reportable unit sets did not meet the 90-percent readiness goal. Factors contributing to lower readiness status include the deterioration of the equipment while in storage aboard ships and the limited ability to conduct maintenance on the equipment while in storage. The Army plans to conduct maintenance on prepositioning ships every 30 months.

Our examination of U.S. chemical and biological defense capabilities resulted in two classified reports. One report contained a series of recommendations to the Secretary of Defense aimed at improving the protection of U.S. forces from biological agents. DOD is in the process of implementing several corrective actions, after concurring with all of our recommendations. The other report addressed U.S. chemical and biological protection at critical ports and airfields in high threat areas overseas. This work contributed to a refocusing of some Commander-in-Chief's priorities, doctrinal changes, and other actions designed to improve various aspects of chemical and biological defense.

Our work on DOD's efforts to protect U.S. forces overseas from terrorist attacks showed these forces to be better protected today than in June 1996, when a bomb detonated near the Khobar Towers military

complex and killed 19 U.S. service personnel. During our visits to 30 overseas sites, we found security improvements were most evident where the risk of terrorism appeared greatest, such as Turkey and the Middle East. DOD has initiated several changes aimed at improving its antiterrorism program, including a newly-created office for combating terrorism on the Joint Staff.

During our work examining DOD's use of telemedicine (the use of communications technology to help deliver medical care without regard to the distance that separates the participants), we found that DOD was the largest federal investor between fiscal years 1994 to 1996. Of the nine federal departments and independent agencies that collectively invested at least \$646 million in telemedicine projects during this period, DOD invested more than any other agency and is considered a leader in developing this technology. Opportunities exist for federal agencies to share lessons learned and exchange technology. In 1995, the Joint Working Group on Telemedicine was created within the Department of Health and Human Services to help coordinate federal programs.

The National Defense Authorization Act for Fiscal Year 1997 required us to examine DOD's study on general and flag officer requirements. Due to DOD's delay in issuing a final report, we issued an interim report on DOD's draft report. Our review showed that DOD's draft does not clearly identify requirements for general and flag officers and does not explain the basis for its recommendations to increase the number of officers by 54 active and 32 reserve positions. We estimate the cost of implementing DOD's draft recommendations would be at least \$1.2 million annually, assuming the services reduce the number of colonels/Navy captains by the same amount as the increase in general and flag officers. However, the cost will exceed \$1.2 million if the services do not reduce their colonels/Navy captains.

**Key Open
Recommendations**

We made several recommendations to the Secretary of Defense to address the weaknesses we identified in 1996 in the chemical and biological defense areas. 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)

U.S. Special Operations Forces are considered highly capable, elite forces that are trained and maintained to address critical U.S. national security objectives. In response to our questionnaire, many unit leaders of these special forces are convinced that the high use has adversely affected readiness, retention, and morale. To maintain the readiness of these forces to support national security objectives and help ensure that readiness is not degraded through overuse or improper use, we recommended that the Secretary of Defense direct the Commander of the U.S. Special Operations Command to complete efforts to develop an information system for monitoring how the Command's forces are used and establish a methodology for periodically comparing these forces' usage with the Commanders-in-Chief's priorities and special forces training needs. We also recommended that the Secretary direct the Commander to exploit potential opportunities to reduce deployments that do not prepare these forces for unique missions in support of national security objectives and that can be performed by conventional forces. (GAO/NSIAD-97-85)

During the Cold War, the Army stored about nine brigade sets of equipment in central Europe. The Army plans to remove seven brigade sets of equipment due to its reduced European mission. Since DOD could save about \$54 million per year in personnel costs once the equipment is removed, we recommended that the Secretary of Defense, among other things, direct the Secretary of the Army and the Commander of the Army Materiel Command to develop a specific and timely disposition plan for all equipment not needed in central Europe. (GAO/NSIAD-97-158)

Thousands of recruits are separated from military service in the first 6 months because the services do not adequately screen applicants for disqualifying medical conditions or for preservice drug use. All military services agree that reducing early attrition is desirable. To this end, three services have attrition-reducing targets that could realize immediate short-term annual savings ranging from around \$5 million to \$12 million. Possible long-term savings could range from more than \$15 million to \$39 million. To reduce the attrition of enlisted personnel during the first 6 months of their terms of enlistment, we recommended that the Secretary of Defense, among other things, issue implementing guidance on DOD's separation codes and direct the services to strengthen their recruiter incentive and medical screening systems. We also recommended that drug testing for all the services be moved to the Military Entrance Processing Command. (GAO/NSIAD-97-39)

Chapter 1
Improving National Security and
International Affairs Programs

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

National Security Analysis Issue Area (Budget Function 050)

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

Impact of GAO's Work

DOD continues to face difficult policy, programmatic, and budgetary decisions as it seeks to strike a balance between maintaining sufficient force structure to address current dangers, while also investing in the new systems and technologies needed for the future. DOD's recently completed Quadrennial Defense Review (QDR) stated a preference for reducing the size and cost of defense infrastructure in order to make the investments needed to modernize the future force. The QDR also recognized the challenge of making these choices in a fiscally constrained environment, marked by a national consensus to balance the Federal budget by year 2002. Our reports and testimonies on budget, force structure, strategy implementation, and intelligence issues have been cited frequently by the Congress as it debates how best to prepare America's armed forces for this new environment.

Budget

For the fourth straight budget year since 1995, DOD's execution of its overall program has been inconsistent with its goals of reducing infrastructure costs and increasing funding for weapons modernization. DOD wants to increase procurement spending to \$60 billion a year by shifting resources from infrastructure activities to modernization of weapon systems. However, our analysis showed that DOD has not been successful enough in reducing and streamlining infrastructure. Our analysis of DOD's 1998 budget and Future Years Defense Program (FYDP) show substantial risks that the current defense program will not be executed as planned. For example, the 1998 FYDP projects billions of dollars in savings due to management initiatives, but DOD does not have details on how all of the savings will be achieved. Further, DOD projects no real growth in the costs of the Defense Health Program during 1998-2003. This appears to be unrealistic, given that operation and maintenance (O&M) funding of DOD's health program increased 73 percent in real terms during 1985-96. After we informed Congress that DOD's future health program costs were likely to exceed their estimate, DOD submitted a budget amendment to redress its understated funding request for the program. Another reason we believe the 1998 FYDP poses risks is that the estimates for procurement spending, in relation to DOD's operation and maintenance projections, run counter to DOD's own experience over the last 30 years. Specifically, DOD estimates it can increase procurement spending over 40 percent and concurrently reduce O&M resources by

8 percent. Historically, O&M costs do not decline but rise in proportion to increases in procurement.

We provided Congress with detailed analyses of DOD's appropriations to show the trends over the years by various program categories. Our analysis has identified infrastructure activities that could be consolidated and streamlined to gain more efficiency. We also continued to inform Congress of the projected cost of U.S. military operations in Bosnia. For its deliberations on the supplemental request for fiscal year 1997 funds, we provided Congress with the most up-to-date information on the status of costs. In July 1997 we reported that recent operational decisions will increase the cost estimate for 1998 and that other decisions, such as changes in the size and composition of the force and the timing of withdrawal, could lead to further increases in the O&M cost estimate for 1998.

Force Structure

There is continued congressional interest and debate over the size and composition of U.S. military forces. Our analysis of the active end strength requirements of the Army, Navy, and Air Force helped the Congress assess DOD's efforts to shape its force for the post cold war world and prepare for the next century. For example, our analysis of Army active endstrength showed that while a smaller active Army support force could increase the Army's risk of carrying out current defense policy, new initiatives being explored by the Army regarding its combat and nondeployable support forces could lead to a smaller active Army in the future. We identified areas where the Army could improve its process for assessing its need for deployable support forces, and recommended that the Army develop an analytical basis for assessing its requirements for nondeployable support personnel. In response, the Army implemented a number of our recommendations, and the House National Security Committee cited our analysis in its deliberations on Army civilian personnel management.

Our prior work identified considerable Army National Guard combat structure that was not needed to meet the National Security Strategy. Building on that analysis, we recommended that the Secretary of Defense, as part of the Quadrennial Defense Review, validate requirements for the Guard's combat structure. We also recommended that he eliminate structure which is not needed to carry out the strategy. DOD's Quadrennial Defense Review determined that excess structure existed in the Guard. Subsequently, the Guard agreed to cut 17,000 personnel over the next three fiscal years.

Our report on Air Force endstrength issues found that potential exists to reduce the active Air Force below the minimum level set by Congress, without adversely affecting the Air Force's war-fighting capability. Our analysis showed that approximately two-thirds of the Air Force's 381,000 active duty personnel are now allocated to infrastructure functions such as installation support and acquisition. Further, internal Air Force analyses showed that the Air Force could support reductions in its endstrength by 9,400 positions in fiscal year 1998 and by as many as 75,000 beyond fiscal year 1998 in order to free up resources for modernization. These reductions would primarily occur in infrastructure related positions.

We also helped Congress evaluate recent reductions in Navy personnel by assessing past, ongoing and planned actions to achieve force level objectives, how various segments of the force were affected by the reductions, and the adequacy of the force to implement the national military strategy. We also noted that the long-standing lack of adequate management attention to the shore-based personnel requirements process could preclude programs intended to further reduce personnel levels from achieving their purpose, or ensure the force is appropriately sized. We made suggestions to strengthen management oversight.

As Congress debated the modernization of tactical air power, we testified on the results of our extensive study of air power documented in a series of reports issued in 1996 and 1997. We provided the Congress with detailed information on the size and capabilities of U.S. combat air power and contrasted this with the limited air defense capabilities of potential adversaries. We described the type of joint mission assessments that need to be completed to aid the Chairman of the Joint Chiefs of Staff to carry out his responsibilities as the senior military advisor to the Secretary of Defense on the requirements, programs, and budgets of the military services.

Strategy Implementation

Presence is a key element of U.S. national security strategy, and the U.S. spends large sums to maintain presence throughout the world. To help Congress assess this aspect of strategy, we examined changes in DOD's approaches to achieve overseas presence since the Cold War and DOD's process for allocating resources to meet presence requirements. We reported that DOD does not have a specific process for determining requirements nor does it currently compile information on presence approaches. We recommended that DOD compile and analyze information on requirements in a manner that would allow it to assess the effectiveness of current levels and mixes of forces and activities used to

achieve presence and whether more cost-effective alternatives exist. DOD agreed with our suggestion and is taking action to improve its assessment of certain presence requirements and approaches.

In recent years, the threat of terrorism has clearly been of increasing concern, prompting the National Security Council to issue expanded U.S. policy, strategy, and operational guidelines on combating terrorism both at home and abroad. In response to Congressional requests, we examined this issue across government —identifying the roles, responsibilities, programs, and activities of the numerous federal agencies, bureaus, and offices involved in implementing the national policy and strategy, as well as mechanisms in place for interagency coordination. Our discussions with various congressional oversight committees suggest the report will help them understand what federal agencies are expected to do to prevent and counter terrorism in this more than \$6 billion crosscutting program. We expect continued congressional interest in terrorism issues, and have been asked to perform additional analysis evaluating interagency counterterrorism preparedness and how DOD and other agencies are implementing legislation requiring training of local first responders to deal with terrorists using weapons of mass destruction. The legislation is aimed at establishing local capabilities to provide immediate response to such incidents.

Intelligence

Missile defense for the United States has been one of the most frequently discussed and debated security issues during the past few years. As requested, we assessed the adequacy of the Intelligence Community's National Intelligence Estimate on the foreign missile threat to the United States, and subsequently testified before the Senate Select Committee on Intelligence. Our work was cited by a former Director of Central Intelligence in his critique of the threat estimate and was also used by a panel created by the National Defense Authorization Act for Fiscal Year 1997 that reviewed the estimate.

Key Open Recommendations

A key recommendation stemming from our work on aircraft requirements calls for the Secretary of Defense to direct the Secretary of the Air Force to develop and use supportable and consistent criteria to justify backup aircraft inventories and future procurement of backup aircraft as the Navy is doing. ([GAO/NSIAD-95-180](#))

After assessing key combat air power missions, we recommended that the Secretary of Defense develop an assessment process that yields more

comprehensive information on joint mission requirements and capabilities than current processes provide. Our recommendation described the scope of these assessments and the general procedures for conducting them. The Department of Defense plans to spend hundreds of billions on new fighter and attack aircraft over the next several decades, and tens of billions of dollars more on weapons for combat air power missions. If implemented, these assessments would improve the information available to assist decisionmakers in making key decisions on air power plans, programs, and budgets. (GAO/NSIAD-96-177, GAO/NSIAD-96-72, GAO/NSIAD-96-45)

In our report assessing Air Force aircraft, we recommended that the Secretary of Defense, in his efforts to reduce the Department of Defense's infrastructure costs, should require the Secretary of the Air Force to develop an implementation plan to operate the Air Force's fighter force in larger, more cost-effective squadrons. If the Secretary of Defense believes that the plan could reduce costs, he should seek congressional support for it. (GAO/NSIAD-96-82)

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

Improving Resources, Community, and Economic Development Programs

Energy, Resources, & Science Issue Area (Budget Function 250, 270, 300)

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

Impact of GAO's Work

The Energy, Resources, and Science issue area encompasses a broad and diverse group of agencies with concerns and topics ranging from cleaning up the nuclear weapons complex—estimated to cost up to \$265 billion—to finding better ways to manage the 650 million acres of land owned by the federal government, equal to almost one-third of our Nation's total land surface. Agency responsibilities include the Department of Energy (DOE) and related agencies, such as the Nuclear Regulatory Commission (NRC), the Federal Energy Regulatory Commission, and Tennessee Valley Authority (TVA). A second grouping encompasses various land management and natural resource agencies, including the Department of the Interior, the Forest Service within the Department of Agriculture, and the Army Corps of Engineers. Finally, there's an array of science and technology-related agencies, including the National Science Foundation (NSF), the Department of Commerce's National Institute of Standards and Technology, the Patent and Trademark Office, the National Oceanic and Atmospheric Administration, and the National Technical Information Service. Programs and activities within these agencies account for over \$60 billion in gross federal obligations each year with annual revenues of about \$10 billion spanning 10 of the government's 19 budget functions. But, more importantly, the activities of these agencies pose significant implications for the 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, as outlined in the section below, 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:

- continue to assess questions and issues regarding the role and missions of DOE and how to restructure it in a post-Cold War environment;

- better ensure that the government will receive a fair price in the planned sale of the Naval Petroleum Reserves at Elk Hills,
- deliberate on the potential privatization of DOE's five power marketing administrations,
- continue its search for an acceptable alternative for disposing of nuclear waste and in assessing the safety, reliability, and security of our nation's nuclear arsenal;
- evaluate U.S. vulnerability to oil disruptions;
- develop legislation to prevent U.S. funding to the United Nations from going to the development of Cuban reactors;
- deliberate on the U.S./North Korean nuclear reactor agreement;
- leverage the use of "carry-over" balances and find other ways to reduce DOE's, NRC's and Commerce's budgets;
- consider legislation that was ultimately passed to terminate the federal helium refining program;
- receive the first-ever comprehensive accounting of western water projects, including the costs associated with providing interest-free financing of irrigation projects; and
- make more informed decisions about the future of the Patent and Trademark Office.

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

- DOE postponed and later canceled an unneeded waste vitrification project at its Hanford site, reducing costs \$823.3 million.
- DOE strengthened its controls over the amount and type of litigation expenses it will reimburse its contractors, resulting in a savings of \$25 million.

- NRC established criteria for determining when states' radiation regulatory programs are in compliance with NRC's requirements and developed procedures for suspending or terminating certain state programs that are in non-compliance.
- DOE began consolidating the purchase of laboratory analyses and, since then, has experienced a 30 percent reduction in its costs.
- DOE developed a strategic plan for spending U.S. funds to upgrade Soviet-designed nuclear reactors.
- NSF terminated its Academic Research Infrastructure Program, as a savings of \$50 million.
- The Forest Service took action—for the first time ever—to recover the costs of granting special use permits within the national forests even though it had authority to do so since 1952.
- The Bureau of Reclamation took action to recoup or share future costs to operate and maintain recreation facilities at reclamation projects.
- The Department of the Interior adopted regulations to strengthen its ability to prevent unauthorized activities on hardrock mineral claims on federal lands.
- The Department of Interior revised its regulations to ensure that lessees on federal lands will not be issued new coal mining leases unless they have met statutory coal production requirements.
- The National Park Service took action to correct erroneous financial information and made significant progress in its financial reporting.

High-Risk Area

We designated DOE contracting as a high-risk area in 1990 based on its vulnerability for waste, fraud, and abuse.

DOE Contracting

Contracting was considered particularly vulnerable because DOE's missions rely heavily on contractors and DOE has a history of weak contractor oversight, stemming from the Manhattan Project where special contracting arrangements, such as least interference in the contractor's work and indemnification of a contractor's liability, were considered necessary steps in developing the atomic bomb during World War II. Decades later, DOE continued to enter into contracts in which competition

was the exception, reimbursement of virtually any contractor cost was the practice, and lax contractor oversight was the norm.

Over the years, we issued a series of reports and testimonies documenting DOE's contracting practices and problems and identifying some of the costly effects. These products have contributed to the Congress' budget deliberations and provided an impetus for DOE to reform its practices. However, changing the way DOE does business has not come easily or quickly. DOE has taken various actions in the past to improve its contracting, and a recent contract reform effort that has received high priority and visibility appears promising. Given the magnitude of these reforms, implementation problems are to be expected. However, they must be identified and corrected for contract reform to succeed. Therefore, DOE's continuance of high-level monitoring and oversight will be needed to further identify problems, standardize the best practices, and make needed corrections as DOE makes its way through these changes.

Key Open Recommendations

Decommissioning of Nuclear Facilities

In May 1989, we recommended that to enhance regulatory oversight of nuclear facilities' decommissioning efforts, the Chairman of the NRC should ensure that licensees decontaminate their facilities in accordance with guidelines from NRC before NRC releases a site for unrestricted use. NRC agreed and in June 1992 issued a regulatory guide on acceptable radiological surveys in support of license termination. In addition, NRC, in cooperation with the Environmental Protection Agency and the Departments of Energy and Defense, is developing a manual that uses a common survey method to determine residual radioactive contamination. NRC expects to issue the manual in January 1998. Finally, in July 1997, NRC published a final rule establishing radiological criteria for license termination and expects to issue related guidance for implementing these criteria in 1998. ([GAO/RCED-89-119](#))

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, we said, might include placing the laboratories under the control of different agencies or creating a separate structure for the sole purpose of developing a consensus on the laboratories' missions.

DOE's Laboratory Operations Board, created to provide focus and direction for DOE's laboratories, has developed an initial strategic plan for the laboratories. Among other things, the Board is trying to determine whether some of DOE's laboratories—particularly the small, missions specific ones—are still needed or whether they could be closed or privatized. Further, the Board is taking steps to implement 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. The Board has also recommended that DOE streamline its organizational structure. The current Secretary of Energy recently announced that the Board's work will continue. Meanwhile, various bills have been introduced in the Congress calling for restructuring the laboratories. ([GAO/RCED-95-10](#))

Nuclear Regulation

In May 1994, we recommended that the NRC—in order to ensure the health and safety of workers the public—establish acceptable limits for radioactivity in sludge, ash, and related by-products at sewage treatment plants that receive radioactive materials from NRC licensees. NRC has been 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. Among other things, they are conducting a national survey to assess the extent of radioactive contamination in sludge, ash, and byproducts, and plan to issue final guidance on radioactive materials, including acceptable levels of radioactivity—in 1998. ([GAO/RCED-94-133](#))

In another report—in May 1997—we recommended that NRC develop strategies to more aggressively act on safety deficiencies they discover in commercial nuclear power plants. Specifically, we urged NRC to better document how plant owners are addressing their problems and to advise owners on how NRC will respond to uncorrected problems. We also recommended that NRC assess the competency of plant management. NRC acknowledges weaknesses in their regulatory program and is making changes in response to our report. They are streamlining their process for identifying potential problem plants at an earlier stage, and are improving the way they track plant owner commitments to address safety problems. NRC also plans to study ways of evaluating management competency. ([GAO/RCED-97-145](#))

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, identified the relevant changes that are needed, and plans to have the new contract completed by late 1997. Modifications have also been made to the contracts requiring that information regarding university-sponsored research be submitted to DOE for review. DOE is still in the process of developing a new fee policy for profit and nonprofit management and operating contractors which relates fees to anticipated risk. DOE anticipates sending the policy to the Office of Management and Budget (OMB) in early 1998 for publication in the federal register. (GAO/RCED-94-202)

In another report—in December 1996—we recommended that DOE (1) clearly link management and operating contract goals with its strategic plan and annual performance goals, (2) include a mandatory standard clause in all management and operating contracts that gives DOE the exclusive authority to set contract goals and incentives that support the strategic plans and missions of the Department, and (3) adopt federal contract pricing policies such as those contained in the Federal Acquisition Regulation (FAR). DOE agrees with these recommendations and is in the process of developing implementing policies. (GAO/RCED-97-18)

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 (USEC), take the lead role on behalf of the Nation's taxpayers throughout the privatization process for the USEC, which was authorized by the Energy Policy Act of 1992. Our September 1995 report also found fault with how USEC had calculated its value in its July 1995 privatization plan and 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 President signed into law the USEC Privatization Act which, among other things, requires the Secretary of the Treasury to take a more active role in the USEC privatization process. However, the President has not yet directed USEC and the Secretary of the Treasury to proceed with the privatization plan and thus a final decision on whether the corporation will be sold directly to a private company or through a public stock sale has not been made. (GAO/RCED-95-245)

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. We said the policy should provide criteria and flexibility for determining which programs and projects are appropriate for repayment. DOE officials agree with this recommendation and is conducting a comprehensive review of its existing authorities, the experiences of other agencies, and other matters as a basis for adopting a new policy to accommodate it. (GAO/RCED-96-141)

Intellectual Property Fees

In May 1997, we noted in our report to the Senate Committee on the Judiciary that the Congress may wish to reconsider whether intellectual property fees should be more closely aligned with the costs of the services provided by the government. Regarding patent fees, we suggested considering whether (1) the fee differentials between large and small businesses should be continued, (2) a larger proportion of the fees should be tied to the actual examination process, and (3) applicants requiring more examination time and/or creating delays in examination should pay larger fees. Regarding copyright fees, we suggested considering whether the Copyright Office, like the Patent and Trademark Office (PTO), should be self-sustaining through fees. We recommended that the Copyright Office itself, also like PTO, raise fees to account for inflation when given the authority to do so administratively. Since the issuance of our report, the Congress has been using our analyses in their deliberations on bills to restructure PTO, although final action has not yet taken place. The Copyright Office has assured us that it will raise fees administratively in the future as we recommended. (GAO/RCED-97-113)

Fair Market Value

In April 1996, we reported that the Forest Service is not receiving fair market value for right-of-way fees on Forest Service lands. We recommended that an appropriate fee system be implemented. Both the Forest Service and major industry groups, representing private companies that have rights-of-way to operate power lines, pipelines, and communications lines across Forest Service lands, agree on the need for a new fee system. The Forest Service is working with the Bureau of Land Management to develop a common fee system for rights of way, more reflective of fair market value and expects to implement it by fiscal year 1999. (GAO/RCED-96-84)

**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. In November 1996, the Congress passed Public Law 104-333 that, among other things, requires the Park Service to (1) review and revise its criteria for providing employees housing, and (2) assess the conditions of, and need for, its employee housing units. The Park Service is currently reviewing the scope of its employee housing program and is exploring ways to increase private sector involvement in helping to address the housing need. (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 by early 1998. (GAO/RCED-90-193)

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. The Bureau of Reclamation has taken various actions to implement these recommendations and the Army Corps of Engineers is coordinating with the Bureau to take others. ([GAO/RCED-94-35](#))

Environmental Protection Issue Area (Budget Function 300)

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

Impact of GAO's Work

Protecting the environment will remain an important and challenging objective for the nation as we move into the next century. The Environmental Protection Agency (EPA) has designed its new strategic plan to assist the Congress with its renewed interest in environmental protection. Since EPA's inception more than 25 years ago, the nation has seen and come to expect continued improvements in the quality of its air, water, and other resources. These improvements, moreover, have come with increasingly higher compliance costs. Further increases are expected. Real spending for environmental compliance grew 7.3 percent in 1994—according to the government's latest available estimates. This growth rate represents the largest single-year increase in a decade. (Prior year increases were about 3 percent.) In 1994 the nation spent \$122 billion in current 1996 dollars on environmental protection—or 3 percent of the Gross Domestic Product. Thus, EPA's almost \$7 billion budget has a significant impact on the nation's economy.

Rising costs, demands for more environmental protection, and efforts to reduce government spending highlight the need for innovative approaches and demonstrated results. In the past, the nation has taken a strict "command and control" approach toward environmental protection. Under this approach, EPA has set specific limitations on pollutant discharges and prescribed, in detail, how these limits are to be met. While this strategy may have served its purpose in the past, a consensus among industry, regulators, and even some in the environmental community is growing that this approach will not effectively control future sources of pollution. This prescriptive approach has also strained relationships between EPA and the states. Both the Congress and EPA seem poised to allow states, localities, and business more flexibility to carry out their environmental responsibilities without extensive direction or oversight from EPA.

Our work has been in the forefront, highlighting our nation's recurring environmental problems and recommending ways in which the Congress and EPA can effectively address those concerns. In an effort to seek a more realistic balance between environmental expectations and available resources, we have continued to review EPA's efforts to incorporate strategic planning into the agency's management and operations. This

approach would help ensure that limited resources are targeted to high-risk environmental and public health problems. For example, we have recommended that the agency establish benchmarks for implementing and monitoring a complex project directed towards integrating its management processes for planning, budgeting, and ensuring accountability. This project's success is important for EPA to better measure the costs and results of its programs. 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, including 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 environmental statutes go through the reauthorization process.

High-Risk Area

We designated EPA's Superfund program management as a high risk area.

Superfund Program Management

EPA's Superfund program began in 1980 as a relatively short-term project to clean up abandoned hazardous waste sites. At that time, the country's hazardous waste problems were thought to be limited. Since then, thousands of waste sites have been discovered. Furthermore, cleaning up these sites—many of which are owned by the federal government—has proved to be far more complicated and costly than anticipated. Recent estimates show that cleaning up these sites could amount to over \$300 billion in federal costs and many billions more in private expenditures.

Under the Superfund law, EPA can compel the private parties responsible for abandoned or inactive hazardous waste sites to clean them up, or it can conduct the cleanup and demand reimbursement of its costs from the responsible parties. Currently, EPA has negotiated with private parties to do over 70 percent of the cleanups. To pay for EPA's cleanups, the agency draws on a legislatively established trust fund that is primarily financed by a tax on crude oil and certain chemicals and by an environmental tax on corporations. (In December 1995, the authority to collect these taxes expired and taxes are no longer being collected. However, because the trust fund still has an unappropriated balance, it has continued to be used

to finance the Superfund program.) Federal agencies generally use their annual appropriations to finance cleanups of the facilities under their jurisdiction.

In 1990, GAO identified Superfund as one of its high-risk programs because of certain long-standing management problems. First, EPA and other federal agencies have not consistently allocated their cleanup resources to reduce the most significant threats to human health and the environment. Second, although EPA is responsible for pursuing reimbursement when it funds a cleanup, the agency has recovered from responsible parties only a fraction of the moneys that it has spent. Finally, while about half of the Superfund program's budget annually goes to contractors, EPA has had long-term problems with controlling the contractors' costs.

EPA and other federal agencies have taken steps toward addressing these areas. For instance, EPA has begun using a risk-based process to set priorities and allocate some of its cleanup funds. Other federal agencies have made uneven progress in (1) taking the first step toward setting priorities—that is, developing a complete inventory of the waste sites that need cleanup—and (2) implementing systems to rank sites for cleanup according to risk.

EPA has also made some improvements in its cost recovery program, although it still recovers only a small percentage of its costs when it does the cleanup work. While some costs are not expected to be recovered, EPA's historically low recovery rate in part results from the agency's slow pace in revising its policy that limits the recovery of indirect program costs. EPA estimates that the value of these excluded costs has grown to \$3.8 billion through fiscal year 1995—up from a value of \$1.1 billion 3 years earlier.

Finally, while EPA has focused attention on strengthening its management of Superfund contracts, past problems still persist: (1) EPA's regions are still too dependent upon the contractors' own cost proposals to establish the price of cost-reimbursable work, (2) EPA continues to pay its cleanup contractors a high percentage of total contract costs to cover administrative expenses rather than ensuring that the maximum amount of available moneys is going toward the actual cleanup work, and (3) little progress has been made in improving the timeliness of audits to verify the accuracy of billions of dollars in Superfund contract charges.

Thus, despite improvements, further actions are needed to safeguard the government's investment.

Key Open Recommendations

Air Quality

The Clean Air Act Amendments of 1990 required EPA to issue a series of regulations—many with ambitious milestones—to address some of the more serious air pollution problems facing the nation. Because of the billions in estimated annual costs to implement these requirements, the Congress required EPA to report on the benefits and costs of the agency's regulatory actions pursuant to this act. We found that EPA's benefit-cost analyses were inconsistent in their use and reporting of certain key economic assumptions and recommended that EPA make several changes to ensure that its analyses were more consistent in using and reporting key economic assumptions. Consequently, EPA is taking such steps. In addition, because the act's statutory mandates requires EPA to develop and issue rules at an unprecedented rate, we recommended that EPA implement a tracking system that would allow the agency to identify and correct problems in its rulemaking process. In response, EPA has modified several of its existing information systems and plans to use the previously mentioned accountability system that is being developed as well as governmentwide cost accounting requirements to obtain this information. (GAO/RCED-97-38, GAO/RCED-95-70)

Clean Water

Interest continues to grow in the use of pollutant trading as an economical means for addressing remaining pollution problems. This approach uses cost savings as an incentive for reducing pollution. For example, to address water pollution, a pollutant trading approach allows a group of dischargers of wastewater to help determine (with EPA or state assistance and approval) how their collective discharges can be reduced to preapproved levels in a cost-effective manner. We have reported that pollutant trading could be an economical supplement to traditional regulatory programs. However, trading had been limited and, under the Clean Water Act, this limited use has been attributed largely to the uncertainties surrounding its legal status. 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 a small 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. 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)

Because little is known about the risks posed by many chemicals, EPA is planning to develop a Chemical Use Inventory. Debate on this effort has focused on certain key issues, such as the chemicals to be included. Although EPA has not made final plans, the agency has considered collecting data on up to 12,000 chemicals. Many think the number should be substantially smaller. Also, our past work has shown that EPA does not have the resources to effectively compile and analyze data on such a large number of chemicals. Consequently, we recommended that EPA begin its inventory with a smaller number of chemicals—such as those suspected of presenting the greatest risk to human health and the environment—and then expand the inventory as appropriate. EPA is taking our recommendation into account as it develops its proposal to establish an inventory. (GAO/RCED-95-165)

Hazardous Waste Management

As previously mentioned in the High-Risk Area section, we suggested the Congress consider amending the Superfund legislation to develop a consistent process for assessing and ranking the relative risks of hazardous waste sites and employ this process as a factor in setting priorities for federal hazardous waste cleanups nationwide. Also, we recommended that EPA expeditiously broaden its definition of indirect costs that it could recover and increase the program costs that it seeks to recover. EPA is planning to review its Superfund cost accounting system in light of the new government cost accounting standards and to provide data describing the indirect costs that result from the new standards. Beginning in fiscal year 1998, the agency intends to use that data to determine what and how site costs would be affected if the new accounting definitions were used to set indirect rates for cost recovery. On the basis of that

analysis, EPA will decide what steps need to be taken next to increase the recovery of its indirect program costs. (GAO/RCED-96-150, GAO/RCED-94-196)

In the Superfund program, EPA has used incineration to clean up some of the most toxic forms of contamination at hazardous waste sites. To promote the safe operation of incinerators at hazardous waste sites, EPA relies on four methods, such as establishing site-specific standards for incinerator's emissions and providing for on-site observation. However, the agency has not used two other techniques—inspections of incinerators and the compiling and sharing of lessons learned—that it also intended to use. We recommended that EPA use these two additional methods as it originally planned to better ensure the safe operation of these on-site incinerators. The agency is taking steps to do so. (GAO/RCED-97-43)

Moreover, after spending nearly two decades and billions of dollars for cleanups, the nation still has thousands of hazardous waste sites to address. To reduce this backlog of contaminated sites, some states have created voluntary cleanup programs, which rely on incentives not enforcement to accomplish cleanups. Some incentives include the reduction in requirements to expedite cleanups and reduce costs and some assurance of relief from future state liability. Our review of these voluntary programs found that the federal role in these cleanups needed clarification. Since EPA has been working with states to establish some guidance in this area, we recommended that EPA, in its final guidance, provide some criteria that would better define when EPA would enter into agreements that would limit its involvement at such sites. (GAO/RCED-97-66)

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. States authorized to manage federal environmental programs have been unable to meet some of the requirements to implement these programs. Many states have had difficulty in performing key functions, such as monitoring environmental quality, issuing permits, and enforcing compliance. As a result, states have become increasingly reluctant to accept additional responsibilities associated with recent environmental laws. Resource limitations have been identified as a major factor in the states' reluctance. Federal funding has not kept pace with these new requirements, and the

states have been unable to make up the funding difference. We recommended that EPA work with states to identify how each state's limited funds can be most efficiently allocated within each program to address the state's highest environmental priorities and 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.

Food and Agriculture Issue Area (Budget Function 350)

GAO Contact: Robert A. Robinson, 202/512-5138

Impact of GAO's Work

The Food and Agriculture Issue Area covers the domestic food and agriculture programs at the U.S. Department of Agriculture (USDA), the third largest civilian agency in the federal government, with a budget of about \$57 billion. USDA, and the food and agriculture industry it supports, is a vital part of the lives of millions of Americans. Approximately two-thirds of the Department's budget, or about \$39 billion, is spent on federal food and nutrition assistance programs for needy citizens. Each year, American agriculture accounts for about 13.5 percent of the gross domestic product and for about 10 percent of all exports. In addition, about 23 million Americans have jobs related to the food and agriculture economy.

In 1997, many of USDA's programs changed dramatically. Many of these changes, most of which were mandated by the Congress in 1994 and 1996, reflect a body of work produced by the Food and Agriculture Issue Area, particularly in the farm commodity program, farm credit, and food safety areas. Specifically, USDA began implementing the provisions of the 1996 Farm Bill, which, among other things, pushed farm assistance programs to a more market-oriented approach and strengthened the integrity of the farm lending programs. USDA also began to implement the provisions of Hazard Analysis and Critical Control Point (HACCP), which fundamentally changes the approach to food safety inspections. Additionally, USDA's Food Stamp Program has changed significantly as the result of the major changes to federal welfare programs. While these program changes are occurring, USDA is undergoing the most massive reorganization in its history.

During the past year, we have assisted the Congress and the Department in assessing USDA's implementation of these changes. For example, we

- reported on conflict-of-interest problems within the newly organized Farm Service Agency's state and county offices;
- reported on the progress USDA has made in meeting congressionally mandated reorganization and streamlining changes;
- identified opportunities for reducing government costs to deliver crop insurance through private sector companies;

- analyzed the strengths and weaknesses of options to increase availability of credit to rural America;
- evaluated the financial condition of \$43 billion loan portfolio held by USDA's Rural Utilities;
- evaluated alternatives for improving the delivery of the more than \$6 billion federal school meal programs; and
- evaluated the impact of the 1996 Farm Bill on USDA's county office workload.

Furthermore, during this past year, a number of our prior recommendations have been implemented by USDA and the Congress. For example, the following occurred as a result of our work:

- The Congress enacted legislation requiring states to ensure that prisoners are not counted in households for purposes of providing food stamps.
- USDA will routinely monitor the expenses of crop insurance reinsurance companies to ensure that the administrative expense reimbursement is reasonable for the service provided.
- The Congress did not provide any budget authority for the enrollment of additional acres in the Conservation Reserve Program in fiscal year 1997, which reduced the federal budget by \$48.6 million, because the program had already reached its legislative acre limit.
- The Congress combined two USDA food distribution programs to streamline administration of these programs.
- USDA agreed to improve the monitoring and administration of food service management companies' contracts to ensure that these contracts comply with federal requirements.
- USDA submitted a legislative proposal that would allow it to recover overpayments to farmers regardless of whether the overpayments were made in error or the repayment would cause the farmer a hardship.

High-Risk Area

We designated USDA's farm loan programs as a high risk area in 1992.

Farm Loan Programs

USDA's farm loan programs are intended to provide temporary financial assistance to farmers and ranchers who are unable to obtain commercial credit at reasonable rates and terms. In operating the farm loan programs, USDA faces the conflicting tasks of providing temporary credit to high-risk borrowers so that they can stay in farming until they are able to secure commercial credit and of ensuring that the taxpayers' investment is protected. We reported on the federal government's exposure to financial loss in GAO's December 1992 and February 1995 high-risk series reports. In our most recent high-risk series report (Feb. 1997), we reported that the Congress has enacted legislation that, if implemented properly, should significantly reduce the financial risks associated with the farm lending programs. Specifically, Title VI of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 made fundamental changes to the program's loan-making, loan-servicing, and property management policies. CBO has projected savings from these actions at approximately \$69 million over 7 years.

Overall, the extensive reforms mandated by the FAIR Act, combined with USDA's actions to improve compliance with program standards, should reduce the farm lending programs' vulnerability to loss. However, USDA is still in the process of implementing the mandated reforms, and their impact on the loan portfolio's financial condition will not be known for some time.

Key Open
Recommendations

Food Safety

Our past work has been instrumental in the implementation of the new HACCP 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 the Food and Drug Administration (FDA) make in implementing the HACCP regulations. In addition, however, we identified some shortcomings in the federal food safety program that need solutions beyond a HACCP-based food inspection program. Specifically, we identified the need for Congress to (1) create a uniform set of food safety laws that are administered by a single food safety agency, (2) provide that agency with the flexibility to target its inspection resources to the most serious food safety risks, and (3) consider extending the Food Safety and Inspection Service's (FSIS) discretionary inspection authority and requiring FSIS to implement a discretionary inspection program for meat and poultry processors. (GAO/RCED-92-152, and GAO/RCED-94-110)

Similarly, federal programs designed to ensure that foods are not contaminated with unsafe chemicals need improvement. To overcome the fundamental weaknesses in the federal government's programs for monitoring chemical residues and environmental contaminants in food, we identified the need for the Congress to enact a uniform set of food safety laws that includes consistent standards for chemical residues and contaminants in food and provides the federal agencies with the authorities needed to effectively carry out their oversight responsibilities. (GAO/RCED-94-192)

Regarding a uniform inspection system, the Congress has been considering action for many years. Most recently, in its mark-up of the FSIS' fiscal year 1998 budget, the House Appropriations Committee, Subcommittee on Agriculture, urged the Administration to proceed with the development of a single-food safety agency. Regarding flexibility to target FSIS' inspection resources and implementing discretionary inspections, in July 1996, FSIS proposed redesigning and enhancing the role of FSIS inspectors by moving traditional carcass-by-carcass examination duties to industry and having FSIS inspectors concentrate on sampling carcasses for pathogen reduction checks and verifying HACCP procedures.

Foreign Pests and Diseases

Foreign pests and diseases entering the United States cost an estimated \$41 billion annually in lost production and expenses for prevention and control. USDA's Animal and Plant Health Inspection Service (APHIS) is responsible for minimizing the risks of infestation and disease and protecting the health of U.S. agriculture. On the basis of our review of APHIS, we recommended several actions to better ensure that APHIS identifies harmful pests and diseases through the inspections it conducts. APHIS agreed with problems noted in our report and is developing an action plan to correct these problems. (GAO/RCED-97-102)

Rural Development

The Empowerment Zone/Enterprise Community (EZ/EC) program was created by the Congress in 1993 to help distressed communities develop comprehensive approaches for dealing with their social and economic problems. This program involves significant levels of federal funds. In fact, we estimated that federal funding will total more than \$1 billion over the 10-year life of the program. On the basis of our review, we recommended that USDA and Department of Health and Human Services (HHS) take several actions intended to better ensure that these funds are spent in accordance with appropriate financial standards and that there is sufficient capability to oversee the progress of the program's implementation. Both USDA and HHS are in the process of taking actions to

implement these recommendations. We will monitor their progress.
(GAO/RCED-97-75)

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

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

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

Impact of GAO's Work

There are more than 300 federal programs and activities, scattered among 28 agencies, that are aimed at providing decent, affordable housing and healthy, vibrant communities. The Department of Housing and Urban Development (HUD), including the Federal Housing Administration (FHA), is the principal federal agency responsible for about 240 of these programs and activities. Other key agencies with housing or community development programs include the Department of Veterans Affairs (VA), the Rural Housing Service, the Small Business Administration (SBA), and the Federal Emergency Management Agency (FEMA).

The Congress continues to deliberate significant changes in the structure and functions of some of the aforementioned agencies. Major debate also exists regarding how the federal government should address the housing needs of its citizens, especially in light of welfare reform. Also, heightened sensitivity exists within the Congress regarding future budget needs—over \$100 billion—for these agencies' programs. The Housing and Community Development Issue Area's work has significantly added to congressional debate and decision-making on the future of housing and community development at the federal and state levels. Highlights of some of our work are listed below.

In congressional hearings, we (1) discussed HUD's management deficiencies, its progress on reforms, and remaining challenges; (2) questioned the need for hundreds of millions of dollars in potentially duplicative Section 8 funding and premature community development aid included in HUD's fiscal year 1998 budget request; (3) discussed the challenges facing HUD's Indian Housing Program; and (4) discussed SBA's estimates of credit subsidies for the guaranteed business loan and certified development company programs.

In our report on a Congressional proposal to dismantle HUD, we provided the Congress with critical information on the consequences of coupling reduced federal funding with basic changes in the federal role in housing and community development.

Our report on HUD's portfolio reengineering proposal discussed the potential costs and savings associated with the proposal and key issues that must be considered in formulating legislation on that subject.

Our report on HUD's \$1.58 billion HOPE VI-Urban Revitalization Demonstration Program will assist Congressional decisionmakers on the future of this program.

We identified substantial problems with HUD's Preservation Program that need to be addressed, either through program reforms or its termination.

Our report on HUD's Economic Development Loan Fund made recommendations to correct monitoring and information management problems we identified.

We presented the Congress with information on the impact of a reduction in FHA's insurance coverage on (1) home mortgage lenders, the home mortgage market, and the types of borrowers served by FHA; (2) the financial condition of FHA's insurance fund; and (3) HUD's Government National Mortgage Association.

The work we have performed in past years has influenced the Congress, HUD and its agencies to take actions during fiscal year 1997 that will result in financial benefits and program improvements. Examples of these improvements are shown below.

- The Congress did not appropriate \$845 million to HUD for bonus funding during fiscal year 1997 for high-performing grantees in four of its six new block grants since adequate performance measures and supporting information systems had not been developed.
- HUD, SBA, and FEMA revised their strategic plans to comply more fully with the requirements of the Government Performance and Results Act.
- HUD directed its field offices to discontinue utilities once HUD acquires an FHA foreclosed property. This will reduce costs by \$5.5 million over a 2-year period.
- FHA now conducts an annual analysis of recent multifamily rental property loan defaults to test the validity of its loan loss reserve assumptions about defaults, which will allow FHA to better estimate its billions of dollars in loan loss reserves.

- HUD has established procedures to monitor the financial performance of facilities in its nursing home portfolio and issued new program underwriting guidance, which will help prevent loan defaults and make underwriting loans less risky.
- FHA has established a data base that will allow lenders and investors to evaluate and price the risk of multifamily housing loans and issued new program guidance for participating institutions.
- The Rural Housing Service implemented centralized servicing of their single family housing loan portfolio, which will save the federal government about \$69.7 million over a 2-year period.
- The Federal Housing Finance Board issued new regulations that we consider key in ensuring that the Federal Home Loan Banks continue to meet their statutory and regulatory obligations under the Affordable Housing Program.
- HUD has taken steps to improve oversight of approximately 3,000 public housing authorities through training and increased emphasis on mandatory oversight activities.
- HUD implemented new lead-based paint regulations that will help ensure safe housing and that children are protected from further exposure to lead-based paint hazards.
- For surplus properties to be used to shelter the homeless, HHS revised its lease to include language holding the federal government harmless for injuries that may occur.
- HUD revised its Community Development Block Grant regulations that includes an incentive for grantees to fund projects that will produce high quality jobs.
- SBA has improved its oversight and management of its Small Business Investment Company (SBIC) Program, which will help identify financially troubled firms and allow the federal government to recover an estimated \$304.4 million in losses.
- We identified an error that substantially inflated SBA's estimates of the costs of its loans. Correction of this error enabled SBA to make \$2.47 billion in additional small business loans.

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- FEMA has modified its appropriation request to show the estimates of funds required for past disasters, which should prevent depletion of the Disaster Relief Fund and subsequent suspension of disaster assistance to stricken communities.

High-Risk Area

We have designated HUD as a high-risk area in 1994.

HUD

HUD's missions have resulted in a Department that is intricately woven into the nation's financial and social framework and that interacts with a number of diverse constituencies, such as public housing authorities, private property owners, and nonprofit groups. HUD also spends a significant amount of tax dollars in carrying out its missions. The total budget outlays for HUD's programs were just over \$36 billion in fiscal year 1996, the vast majority of which was for assisted and public housing programs. HUD is also responsible for managing more than \$426 billion in mortgage insurance, \$497 billion in guarantees of mortgage-backed securities, and about \$170 billion in prior years' budget authority for which it has future financial commitments. In 1994, we designated HUD as a high-risk area because of four long-standing, department-wide deficiencies: weak internal controls, inadequate information and financial management systems, an ineffective organizational structure, and an insufficient mix of staff with the proper skills.

In February 1997, we reported that HUD had formulated approaches and initiated actions to address these deficiencies. However, we also reported that HUD's efforts were far from reaching fruition; that HUD programs continued to pose a high risk to the government in terms of their vulnerability to waste, fraud, abuse, and mismanagement; that HUD needed to complete its corrective actions; and that HUD and the Congress needed to work together to implement a restructuring strategy that focuses HUD's mission and consolidates, reengineers, or reduces HUD's programs so as to bring the Department's responsibilities in line with its management capacity. In June 1997, HUD announced its HUD 2020 Management Reform Plan that seeks to realign the agency's programs and activities, increase accountability, and restore the public's trust. The plan calls for reducing the number of programs or activities from over 300 to 70; reducing staffing levels from about 10,600 to 7,500 by the end of fiscal year 2000; retraining the majority of staff; reorganizing the 81 field offices; modernizing and integrating the financial and management information systems; developing and strengthening internal controls; and increasing program monitoring

and measurement. Many of the reforms are expected to be implemented by the end of fiscal year 1998.

Key Open Recommendations

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. HUD's 2020 Management Reform Plan contains a strategy to address the very poor physical conditions at properties supported by HUD's project-based assistance. Under its reform plan, HUD would create a Department-wide Real Estate Assessment Center, which would review projects' physical inspection results and financial performance data to identify problem properties early. A Multifamily Center would also be created to provide improved asset management. If HUD's strategy is successfully implemented, it would meet the intent of 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 pending legislation to merge current programs. (GAO/RCED-89-20)

Lead-Based Paint Hazards

The risk of poisoning from lead-based paint continues to threaten the lives of 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, we issued a report that found (1) public housing authorities were not complying with emergency abatement or relocation regulations for children with elevated blood lead levels and (2) HUD was not complying with 1988 legislative requirements aimed at abating lead-based paint hazards from public housing nor ensuring that public housing administrations were complying with its testing, abatement, and notification requirements. In the June 7,

1996, Federal Register, HUD published a proposed rule covering notification, evaluation, and reduction of lead-based paint in federally-owned and assisted housing. However, HUD has not yet published a final rule. ([GAO/RCED-93-138](#))

Transportation and Telecommunications Issue Area (Budget Function 400)

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

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.

In the wake of major airline crashes in 1996, we provided numerous reports and testimonies which highlighted the need for the Federal Aviation Administration (FAA) to undertake actions more quickly to protect the flying public from the threat of explosives. During 1997, in response to our recommendations, FAA

- convened consortia at major airports to develop vulnerability assessments and action plans for addressing identified vulnerabilities; and
- assessed commercially available explosive detection equipment for screening checked baggage and purchased 54 such systems for deployment at airports.

During 1997, FAA also took action on two of our key open recommendations concerning a long-term national strategy to improve aviation security and monitoring progress in implementing a series of safety improvements. FAA

- has established short- and long-range target dates to address the recommendations of the White House Commission Report on Aviation Safety and Security, which provides a comprehensive framework for improving aviation security;
- is deploying a computerized training and testing system to improve screener performance; and
- created an implementation plan that outlines the objectives for its safety improvements, provides points of contact for each, and links those recommendations to ones made by other FAA safety studies.

Our work also influenced the Congress to enact legislation which impacted aviation funding. For instance, the Congress passed legislation which reinstated the taxes which financed the Airport and Airway Trust Fund, averting a major funding shortfall and providing \$2.7 billion in tax revenue for fiscal year 1997. Also, based on our recommendations, the Congress

- eliminated the set-aside funding for reliever airports, resulting in cost reductions of \$123 million for fiscal years 1997 and 1998; and
- reduced FAA's fiscal year 1997 appropriations by \$34.5 million.

Finally, in response to findings that FAA's culture was contributing to persistent problems in its air traffic control system modernization efforts, FAA issued a report entitled "Strategy for Acquisition Culture Change." This report will serve as an important building block toward long-term efforts to change FAA's culture.

In 1997, DOT, its agencies, and the Congress took action on several recommendations dealing with surface transportation and the Coast Guard. For example,

- DOT provided the Congress with the estimated cost and funding sources for each of the 55 action items that it identified to improve highway-rail crossing safety;

- The Federal Highway Administration (FHWA) increased its role in state environmental planning by assisting the Council on Economic Quality in (1) publishing a handbook that explains how to assess a project's cumulative impact on the environment, and (2) planning a series of workshops for environmental assessment practitioners on how to use the handbook;
- FHWA corrected errors in programming transportation enhancement funds and took steps to ensure that future funds were programmed only for eligible projects;
- the Congress eliminated a total of \$122.6 million in federal funding from two very large transportation projects—San Francisco's rapid transit extension to its airport and the Los Angeles Red Line Subway; and
- the Congress decided not to fund the Coast Guard's \$6 million request for procurement of additional systems and reduced the agency's 1997 budget request by \$15.9 million.

Finally, in 1997, the Coast Guard took action on our key recommendation to explore less costly alternatives to its plans to expand installation of Vessel Traffic Service systems.

**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.

Aviation Security and Safety

During their first 5 years of operations, new airlines, on average, had nearly twice the accident and incident rates of established airlines and received more than twice the number of enforcement actions that established airlines received. However, our analysis showed that FAA is not targeting inspections on those airlines with the most serious safety problems. For example, ValuJet—a new airline that experienced an accident in which 110 passengers and crew died—had an incident rate that was 40 percent higher than average, but was inspected one-third as frequently as all new large airlines through calendar year 1994. We recommended that the FAA closely monitor the performance of new airlines, particularly during the early years of operations and conduct increased and/or comprehensive inspections of those new airlines that experience elevated rates of safety-related problems. FAA is in the process of developing a national certification team to assist in reviews of newly certified air carriers and is developing handbooks for use in evaluation and

surveillance of these carriers. However, the certification team is not yet fully staffed. (GAO/RCED-97-2)

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. For example, the use of the Global Positioning System might 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 the augmented system, and updating the plan regularly. The plan should include, among other things, schedule and cost estimates for developing and implementing the wide and local area augmentation systems as well as information on the probability that FAA will meet these estimates. FAA completed the public version of the Global Positioning System Transition Plan in July 1996, and is initiating work on the Global Positioning System Transition Plan Library which is intended to address other users' needs. The Library's completion is expected late in 1997. However, FAA has not yet developed plans for developing, acquiring, fielding, or implementing a local area augmentation system—needed to support precision approaches—as we had recommended. (GAO/RCED-95-26)

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. 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 March, 1998. (GAO/RCED-93-135)

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. In November, 1996, FAA formed a working

group to focus on this issue. FAA anticipates issuance of a Notice of Proposed Rulemaking to establish such fees in late 1997. (GAO/RCED-96-8)

See also Information Resources Management—Federal Aviation Administration in this chapter.

Boston Central Artery/Tunnel

Since 1995, we have been monitoring the cost and financing plans for the Central Artery/Tunnel project—one of the largest, most complex, and most expensive highway construction projects ever undertaken. As of March 1997, Massachusetts estimated the project's total cost at \$10.8 billion. The state's cost estimate depends on meeting the aggressive cost containment goals established for the project. If current trends continue, further cost increases seem likely and the project's cost could increase by between \$100 million and \$500 million. Additionally, the State's December 1996 feasibility study identified a funding gap of \$1.8 billion to \$2.3 billion between fiscal years 1998 and 2002. Massachusetts has implemented a plan to finance its share of the project's cost, including a strategy to finance funding shortfalls. However this plan may not be sufficient to meet the project's funding needs because, among other things, it does not recognize cost increases that occurred through March 1997. We recommended that the project's next finance plan include (1) a revised estimate of the project's costs and funding needs that more closely reflects the state's actual experience with its cost containment program, and (2) a contingency plan for financing the project if costs increase further or if the sources of financing are not sufficient. (RCED-97-170)

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 issued a Notice of Proposed Rulemaking in July, 1997, and expects to issue revised guidance to its inspectors by December 1997. (GAO/RCED-94-56)

Information
Resources
Management—
Federal Aviation
Administration
(Budget Function 990)

GAO Contact: Rona B. Stillman, 202/512-6412

Impact of GAO's Work

Our work has been aimed at strengthening FAA's ability to meet its mission of providing safe and efficient air travel. To this end, we have designated FAA's air traffic control modernization, a \$34 billion dollar effort to develop and implement over 200 projects ranging from facility upgrades to software-intensive information system projects, as a high risk area and focused our attention on identifying the root causes of past modernization project failures, and making recommendations to correct these problems. We have also continued to follow-up on past recommendations concerning other aviation safety functions that FAA performs.

During this fiscal year, we issued several reports on FAA's air traffic control system modernization. These reports addressed systemic weaknesses in the modernization's management structure and processes, including the organizational placement of the Chief Information Officer, the definition and enforcement of a complete systems architecture, the maturity of software acquisition processes, and the adequacy of cost estimating and cost accounting practices. FAA has acted to address many of the recommendations made in the reports.

During this year, FAA implemented our recommendations to improve a key modernization project, which contributed to the project being completed ahead of schedule, as well as our recommendations to improve the quality of the data used by FAA's safety analysis system, which will strengthen FAA's ability to target limited inspection resources. Each of these accomplishments is discussed below.

Display Channel Complex
Rehost

We reported that acquisition of software-intensive systems, like the Display Channel Complex Rehost, is inherently risky. Best practices used in government and private sector acquisition and development activities include the use of formal risk management to proactively and continually identify, assess, track, control, and report risks. While FAA had formal strategies and efforts underway to address certain key risks, two

risks—associated with FAA’s plan to concurrently conduct factory acceptance testing, site acceptance testing, and operations testing—were not being formally managed. These two risks were (1) contention for human test resources and (2) control of the test baseline configuration. Therefore, FAA could not assure that either risk would be carefully and effectively mitigated. The Department of Transportation and FAA officials agreed with our recommendation and began formal management of both risks. FAA subsequently completed this acquisition ahead of schedule.

**Safety Performance Analysis
System**

In 1995, we reported that the Safety Performance Analysis System—a decision support system to better target limited inspection resources—would not be effective if its data quality were not improved. We recommended that FAA develop and implement a comprehensive and coordinated strategy specifying how the quality of all data residing on source data systems would be brought to the minimum level needed for the Safety Performance Analysis System to meet operational requirements. We specified that the strategy must include, among other things, (1) clear statements of organizational responsibility and authority for improving the source systems’ data quality, (2) both interim and long-term milestones for attaining stated quality objectives that tie closely to the development schedules, and (3) estimates of resource requirements to meet stated objectives and agency commitments to providing these resources. FAA officials agreed and, in response, are implementing a “Comprehensive Data Quality Plan” for the Flight Standards Service that satisfies these specifications.

High-Risk Area

We have designated the FAA’s Air Traffic Control Modernization program as a high risk area.

**Air Traffic Control
Modernization**

Faced with rapidly growing air traffic volumes and aging air traffic control equipment, the FAA in 1981 initiated an ambitious Air Traffic Control modernization program. This effort—expected to cost \$34 billion through fiscal year 2003—mostly involves investments in a multitude of software-intensive computer systems.

Over the past 15 years, the modernization program has experienced cost overruns, schedule delays, and performance shortfalls of large proportions—particularly in the \$7.6 billion former centerpiece of the modernization known as the Advanced Automation System, which FAA restructured in 1994. The acquisition of that system failed because FAA did not recognize the technical complexity of the effort, did not realistically

estimate the resources required, did not adequately oversee its contractors' activities, and did not effectively control system requirements. With \$11 billion planned to be spent on the Air Traffic Control program from fiscal years 1998 through 2003, and billions more to follow, it is critical that FAA overcome the weaknesses that threaten the effort.

FAA continues to face formidable challenges. For example, the many systems comprising the modernization effort have long proceeded without a complete systems architecture, or overall blueprint, to guide development and evolution. The result has been unnecessarily high spending to buy, integrate, and maintain hardware and software. Also exacerbating the modernization's problems is unreliable cost information—both future estimates of costs and accumulations of actual costs. The lack of adequate cost estimating processes and cost accounting practices needed to measure actual cost performance against cost estimates leaves FAA at risk of making ill-informed decisions on critical multimillion, even billion, dollar Air Traffic Control systems. Additionally, FAA's Air Traffic Control modernization software acquisition processes are ad hoc and sometimes chaotic, and are not repeatable even on a project-by-project basis.

Key Open Recommendations

Our work on FAA's Air Traffic Control modernization showed pervasive and fundamental problems in FAA's approach to managing the modernization. To address these problems, we have made a series of detailed recommendations aimed at correcting key modernization management problems.

- Our report on FAA's system architecture recommended that FAA ensure a complete architecture is defined and enforced before FAA decides on the architectural characteristics for replacing the Host Computer System. We also recommended that FAA establish an effective management structure for developing, maintaining, and enforcing the complete Air Traffic Control systems architecture, including adopting a Chief Information Officer (CIO) structure similar to that required under the Clinger-Cohen Act. The agency has actions underway to expand on past architectural efforts. ([GAO/AIMD-97-30](#))

- Our report on FAA's cost estimating processes and cost accounting practices found numerous weaknesses. We recommended that FAA institutionalize defined processes for estimating Air Traffic Control projects' costs that include (1) a corporate memory, (2) structure approaches for estimating software size and complexity, (3) cost models calibrated to past experiences, (4) audit trails that record cost model inputs, (5) approaches for dealing with cost and schedule constraints, and (6) data collection and feedback processes. We also recommended that FAA should disclose the inherent uncertainty in all Air Traffic Control projects' official cost estimates presented to the Congress and executive oversight agencies, should acquire or develop and implement a managerial cost accounting capability, and should report its lack of a cost accounting capability as a material internal control weakness in the Department's FMFIA reports. FAA agreed to implement all but the final recommendation. It has since formed a life cycle cost estimating working group to develop cost estimating processes in line with GAO's recommendations; it has committed to disclosing the inherent uncertainty in projects' cost estimates; and it plans to implement an initial cost accounting capability by October 1, 1997, and a full cost accounting system by October 1, 1998. FAA did not implement the final recommendation because it believes that its current lack of a cost accounting capability is not a material weakness. We disagree and until FAA has a full cost accounting capability system, it will continue to lack adequate cost information needed to effectively manage Air Traffic Control system acquisitions. Disclosure of such a management control weakness is one of the objectives of the FMFIA, and therefore should be reported as a material weakness. (GAO/AIMD-97-20)
- Our report on FAA's software acquisition process maturity reiterated our earlier recommendation for FAA to implement a CIO structure similar to that specified in the Clinger-Cohen Act and recommended that FAA improve its software acquisition processes by (1) assigning responsibility for software acquisition process improvement to FAA's CIO, (2) providing FAA's CIO with the authority to implement and enforce Air Traffic Control modernization software acquisition process improvements, (3) requiring the CIO to develop and implement a formal plan for Air Traffic Control software acquisition process improvement based on GAO's software acquisition capability maturity model (SA-CMM) evaluation results, (4) allocating adequate resources to ensure that planned initiatives are implemented and enforced, and (5) requiring that, before being approved, every Air Traffic Control modernization acquisition project have software acquisition processes that satisfy at least SA-CMM level 2 requirements. FAA has efforts underway to address some of the recommendations. (GAO/AIMD-97-47)

Chapter 2
Improving Resources, Community, and
Economic Development Programs

See also Transportation and Telecommunication Issue Area of this chapter.

Improving Human Resource Programs

Education and Employment Issue Area (Budget Function 500)

GAO Contact: Carlotta C. Joyner, 202/512-7014

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 protections. 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 education work continues to alert the Congress and executive branch agencies to important issues. In this regard, the next section discusses the multibillion dollar federal student financial aid programs—one of the high-risk areas that GAO has identified as being vulnerable to waste, fraud, abuse, and mismanagement. Our latest high-risk series report summarizes and updates both our continuing concerns about the Department of Education's vulnerabilities in managing and overseeing the student aid programs as well as progress in strengthening the programs' fiscal and management control systems. Our work on proprietary schools revealed that students are obtaining federal student financial aid for training in occupations with a surplus of trained workers. In May 1997, we reported the potential inability of the District of Columbia Public Schools to manage the magnitude of work involved in doing repairs before the 1997-98 school year. As a result, a request for supplemental federal funds for this purpose was withdrawn, creating a \$37 million savings for taxpayers. We have also provided the Congress information on numerous other education topics, including the existence of multiple federal youth programs, comparative per pupil funding in poor and wealthy school districts, the relationship between school performance and reliance on federal student financial aid in the proprietary school sector, comparative levels of activity in the direct and guaranteed student loan programs, and

the role of state commissions in implementing the AmeriCorps national service program.

The focus of our workforce skills and jobs work has been on identifying 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. Our work on various aspects of Job Corps has been a major part of this effort. For example, we reported on the extent to which Job Corps participants are served in centers located within their state of residence and the Job Corps program capacity within each state relative to the number of participants from that state. With respect to the Employment Service, which is administered jointly by the Department of Labor and the states, we recommended that the Secretary of Labor work with the states to identify and solve problems affecting Employment Service quality and performance. As a result, the Labor Department now recognizes states as partners in program management. Several Employment Service revitalization projects involve state and local partners as standard operating practice in efforts to improve program performance.

With respect to worker protection, our work has focused on the maintenance of workplace protections for employees while minimizing the regulatory compliance burden on employers. Our work played a major role in the development of recent initiatives that the Department of Labor's Occupational Safety and Health Administration (OSHA) took to improve its policies and procedures. We recommended that OSHA promulgate a regulation requiring employers to submit evidence of the corrective actions taken to abate safety and health hazards. On March 31, 1997, OSHA issued an abatement verification regulation requiring employers to document the corrective actions that have been taken to abate hazards. We also recommended that OSHA implement procedures for ensuring that employers accurately record occupational injuries and illnesses. In response, OSHA has initiated a records audit program under which it will conduct 250 record audits each year. In addition, we recommended the National Labor Relations Board identify labor law violators who receive federal contracts. Procedures have been established for the Board to obtain tax identification numbers, which will allow the Board to use Treasury Department records to determine if a labor law violator is also a federal contractor. These procedures will enable the National Labor Relations Board to use federal administrative and income tax refund offsets to enforce compliance with orders to restore wages.

Further, in other work involving unemployment insurance, we made recommendations that would prevent military reservists from being overpaid in unemployment insurance benefits. We recommended that the components of the military notify all reservists of their income-reporting responsibilities with respect to state unemployment insurance benefits in a message included on their leave and earnings statement. Such messages are now included annually in reservists' leave and earnings statements. We also recommended that the Department of Labor provide assistance to state unemployment insurance programs in reviewing the administrative forms or procedures used to gather information about a prospective or continuing claimant's wages and making revisions to clearly identify to claimants the types of reserve income they must report for the offset of benefits. The Department has provided assistance through correspondence.

Finally, we reviewed several of the draft strategic plans that federal agencies were required to prepare under the Government Performance and Results Act of 1993 (the Results Act). The agencies used many of our observations and suggestions to produce substantially improved final plans. For example, we highlighted numerous ways Labor's draft plan could be improved so that Labor could most benefit from this strategic planning process and be in compliance with the Results Act. In a letter to the House Committee on Education and the Workforce transmitting a revised version of its plan, Labor noted that our findings provided the impetus and guidance to advance its plan. The final plan addressed many concerns we had raised. As a result of the improvements made in Labor's plan and in others, the agencies will now be able to take greater advantage of the strategic planning process envisioned by the act and be in a better position to manage their organizations.

High-Risk Area

We have designated student financial aid as a high-risk area.

Student Financial Aid

Although the Department of Education has shown a commitment to improving its management of the student financial aid programs, the financial risk to U.S. taxpayers remains substantial. The major student aid programs—the Federal Family Education Loan Program, Federal Direct Loan Program, and Pell Grant Programs—employ complex and cumbersome processes with many participants, as they provide over \$35 billion of aid for postsecondary education students. The addition of the Federal Direct Loan Program made the management of the student aid

programs an even greater challenge for the Department. Also, to maximize access to aid funds, the Higher Education Act placed nearly all the financial risk of loan defaults (which totals over \$2.5 billion in 1996) on the federal government.

Management shortcomings are another major problem. Reviews by us, congressional committees, and the Department's Inspector General have shown that the Department (1) did not adequately oversee schools that participate in the programs; (2) relied too heavily on managing each title IV program through separate administrative structures, with poor or little communication among programs; (3) used inadequate management information systems that contained unreliable data; and (4) did not have sufficient and reliable student loan data to determine the liability associated with outstanding loan guarantees.

The Department has generally been responsive to addressing problems in its student aid programs, and many of those actions appear to be achieving some results. For example, annual collections on defaulted loans have increased over the last 5 years from \$1 billion to \$2.4 billion. The Department has also begun a major reengineering effort that it expects will resolve problems with data reliability and communication among programs in the next several years. It is envisioned as a student-based, integrated data system through which all management and control functions will be conducted.

Key Open Recommendations

Department of Education Management

In our 1992 transition series report, 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 continuing the redesign of its core financial management systems. However, in September 1997, the Department suspended all computer purchases to focus its management information systems resources on solving the problem of how to handle information pertaining to January 1, 2000, and beyond. Although the Department has made progress in implementing our recommendation, even without the need to refocus resources on the year 2000 problem, its

initiatives are long term efforts that will require more time to complete.
(GAO/OCG-93-18TR)

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

Head Start

In our April 1997 report on research studies of the impact of the current Head Start program, we reported that although research has been conducted, it does not provide information on whether today's Head Start is making a positive difference in the lives of participants. While we acknowledged the difficulties of conducting impact studies of programs such as Head Start, we concluded that research could be done that would allow the Congress and the Department of Health and Human Services (HHS) to know with more certainty whether the \$4 billion investment in Head Start is making a difference. We recommended that the HHS Secretary include in HHS' research plan an assessment of the impact of Head Start programs. In commenting on a draft of our report, the Department indicated that it plans to evaluate the feasibility of conducting impact studies such as we recommended; however, the Department has not yet initiated action on our recommendation. (GAO/HEHS-97-59)

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

Davis-Bacon Act Wage Determinations

During our 1996 study of the Department of Labor's prevailing wage determination process under the Davis-Bacon Act, we found that Labor's wage determination process is based on voluntary participation by employers and third parties in surveys that report wage and fringe benefits data on construction projects. We also found that this process contains weaknesses that could permit the use of fraudulent or inaccurate data in the setting of prevailing wage rates. We recommended that the Department request a sample of participating employers to submit appropriate documentation to support their data submissions or to conduct a limited number of on-site inspection reviews of employer wage data. In response, in July 1996, Labor officials advised regional offices to start collecting documentation of wages paid from a selected group of employers included in its current and ongoing wage survey process. Three of five regional offices have begun selective verification, and Department officials will review the results. Department officials are also changing survey training materials to emphasize verification of reported wage data. Further, in its report accompanying the bill to provide fiscal year 1998 funds for the Department, the House Committee on Appropriations

directed the Department to ensure that an appropriate portion of the funds appropriated for the Davis-Bacon wage survey program be expended to randomly sample all data submissions to verify their accuracy, and that a sample of all data submissions be selected for on-site data verification against actual payroll records. The Congress also directed GAO to review the Department's activities to determine whether they will improve the timeliness, accuracy, and reliability of Davis-Bacon wage determinations. (GAO/HEHS-96-130)

**U.S. Commission on Civil
Rights**

We recommended that the U.S. Commission on Civil Rights develop and document policies and procedures that (1) assign responsibility for management functions to the staff director and other Commission officials; and (2) provide mechanisms for holding them accountable for properly managing the Commission's day-to-day operations. We specified that this effort should include establishing a management information system for commissioners and staff to use to plan projects and track progress using the best information available about projects' expected and actual costs, time frames, staffing levels and completion dates. The Commission is in the process of implementing our recommendation. For example, a management information system that will track the status of projects and the resources committed to them is nearing completion. (GAO/HEHS-97-125)

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

GAO Contact: Stephen P. Backhus, 202/512-7101

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 the Department of Veterans Affairs (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 and cost 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 objectives are to (1) identify opportunities to improve existing VA and DOD health care systems' and VA benefit programs' management and accountability; (2) assess efforts to structurally reform VA and DOD health care and VA benefits systems to better accomplish their missions; (3) evaluate the implementation of, and lessons learned from, managed health care strategies in VA and DOD; and (4) determine whether federal agencies are effectively serving the unique health care needs of special populations.

DOD Programs

In fiscal year 1997, 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 in 1995 and is continuing to phase in across the country. On the basis of previous GAO recommendations, DOD is making substantive changes to its TRICARE contracting process. For example, DOD has (1) made improvements in how

it monitors contractor performance; (2) initiated procedures for reviewing, approving, and budgeting for proposed contract modifications; (3) begun redesigning its health care contract specifications to reflect best industry practices; and (4) initiated actions to recover millions of dollars in overpayments to contractors.

Our study on options to enhance older military retirees' health benefits was influential in Congress' decision to authorize a 3-year test of the Medicare subvention option, rather than moving ahead systemwide. Moreover, our previous work on DOD health issues has resulted in significant financial benefits. DOD has now substantially implemented our recommendation that its CHAMPUS reimbursement rate structure be in line with Medicare rates, for example. DOD savings are estimated to be nearly \$1.5 billion in fiscal year 1997 and future years. Actions the Congress has taken, upon our recommendation, to prevent double billing for Uniformed Services Treatment Facilities care provided to Medicare-eligible DOD beneficiaries and to reduce the Uniformed Services Treatment Facilities fiscal year 1997 appropriation level, will save millions.

VA Health Care Programs

During the past year, our work has examined VA's efforts to increase the efficiency of its health care system, adopt managed care strategies, and serve special populations, including Persian Gulf War veterans.

We testified that VA's 5-year plan to reduce its per patient cost by 30 percent, increase patients served by 20 percent, and finance 10 percent of its expenditures using nonappropriated revenues by the year 2002 could limit VA's contributions to deficit reduction and potentially put low-income, uninsured veterans at risk. We determined that VA could operate as a health care safety net for several years at its current \$17 billion appropriation or less, without increasing users or expanding revenues. However, VA's plans to attract new users focus primarily on attracting insured and higher-income veterans with other health care options rather than on addressing the unmet needs of veterans with service-connected conditions and low-income veterans. Moreover, we concluded that VA will have difficulty increasing recoveries from private health insurance—a key component of its planned efforts to increase nonappropriated revenues.

We continue to examine ways in which VA could more cost-effectively operate its hospital system. We identified lessons learned from VA's medical facility integrations that could help enhance VA's process for planning and implementing integrations, including adopting a more

comprehensive planning approach and completing planning before implementing changes. Our previous work on VA's proposed \$278 million hospital construction project at Travis Air Force Base identified several more efficient alternatives that are available to VA which could effectively meet veterans' demand for VA health care. On the basis of our conclusion that the hospital project was not justified, VA has abandoned its plans to construct a new hospital and instead plans to open new outpatient clinics to improve veterans' access to care.

We reported that VA's new resource allocation method, the Veterans Equitable Resource Allocation system, shows promise for correcting long-standing regional funding imbalances that have impeded veterans' equitable access to services. On the basis of our recommendations, VA has linked the Veterans Equitable Resource Allocation system to its strategic planning process so that allocations are more closely associated with VA's long-range goals, performance standards, and workload priorities. However, VA monitoring and oversight efforts are inadequate to ensure that Veterans Equitable Resource Allocation system's potential for creating equitable access to services will be realized.

Regarding special populations, we testified that Persian Gulf War veterans appeared to be confused by, and frustrated with, VA and the care they received for their illnesses. We are continuing to examine VA's diagnosis, treatment, and monitoring of Persian Gulf War veterans and the health problems they report.

Moreover, our past work on VA's pharmacies' dispensing practices has resulted in significant benefits. VA has now substantially implemented our recommendation that pharmacies dispense maintenance drugs in 90-day supplies (rather than in the 30 or 60 day supplies previously dispensed) when VA physicians prescribe veterans' use of such drugs for periods of 90 days or longer. VA pharmacies reported that 90-day supplies had allowed pharmacies to dispense drugs almost 16 million fewer times in 1997, reducing costs about \$29 million in that year alone.

VA Nonhealth

Our work in this area has addressed VA's services to Benefits Programs veterans, including vocational rehabilitation, disability compensation, and burial benefits. We have emphasized the need for VA to focus on program results as well as cost-effective service delivery, as envisioned by the Government Performance and Results Act of 1993. In testimony and a report, for example, we noted that the most significant deficiency in the

draft strategic plan VA has developed is the lack of results-oriented goals for major VA programs, particularly for benefit programs.

Our past work has demonstrated that, despite legislation requiring VA to focus its vocational rehabilitation program on finding disabled veterans suitable employment, VA continues to place few veterans in jobs. On the basis of our recommendations, VA has established a multiagency task force to strengthen working relationships between VA, the Department of Labor, and state rehabilitation agencies, and conducted an attrition study to examine reasons why veterans drop out before successfully completing their vocational rehabilitation programs.

We also reported that VA's disability rating schedule, which has served as a basis for distributing compensation among disabled veterans since 1945, does not reflect the many changes that medical and socioeconomic conditions may have had on veterans' earning capacity over the last 51 years. Thus, the ratings may not accurately reflect the levels of economic loss that veterans currently experience as a result of their disabilities.

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. On the basis of our recommendations, VA has directed the Service to develop a systematic approach for evaluating, on a continuing basis, the effectiveness of Vet Centers in meeting veterans' psychological needs.

On the basis of our concerns about Persian Gulf War veterans' undiagnosed illness claims, VA agreed to provide veterans with better information regarding acceptable claims evidence. We are continuing to monitor VA's efforts to improve its processing of these claims. We are also examining VA's efforts to improve its disability claims processing and adjudication, a subject of continuing concern to the Congress.

Key Open Recommendations

DOD

We reported that DOD resource-sharing arrangements with TRICARE support contractors were resulting in about 5 percent of the estimated \$700 million in new savings, potentially causing financial losses for both DOD and the contractors and higher TRICARE costs. We recommended that DOD pursue promising resource sharing arrangements while also

seeking alternatives to resource sharing in its existing and future contracts. We also recommended that DOD continue to focus on implementing needed contract change order process improvements, and to link TRICARE contractors' administrative payments to actual health care costs. DOD is in the process of improving its TRICARE contracting procedures. (GAO/HEHS-97-130 and GAO/HEHS-97-141)

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-96-128)

VA

VA has struggled for years to develop a method for equitably allocating resources among its facilities nationwide. To enhance the potential for success of VA's new allocation system—the Veterans Equitable Resource Allocation system, we recommended that VA (1) develop more timely and detailed indicators of changes in key system workload measures and medical care practices, and (2) improve oversight of Veterans Integrated Services Networks' allocation of resources to their facilities to help ensure that veterans receive equitable access to appropriate care. (GAO/HEHS-97-178; 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 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. On the basis of our recommendation, VA has directed its Veterans Integrated Services Networks to establish preadmission certification programs. However, the program VA established did not involve contracts with independent external reviewers or establish any financial risk/incentives for VA physicians to adhere to the review findings. (GAO/HEHS-96-121)

As the number of veterans aged 65 and older increases, nursing home care is becoming an increasingly important health care service. As part of VA's ongoing efforts to improve nursing home resource management decisions, we recommended that VA more accurately accumulate and report nursing home costs, assess the availability of community nursing home resources, and identify locations where current reimbursement rates are not competitive. (GAO/HEHS-97-27)

In an effort to enhance veterans' access to health care and place more emphasis on primary care, VA has begun to establish free-standing outpatient clinics. In doing so, VA has identified what could be a cost-effective way to enhance the availability of health care, especially for veterans residing in underserved areas. However, VA has not developed a plan to ensure that outpatient clinics are established in an affordable manner. We recommended that VA provide the Congress with a report that presents the overall VA plan and time schedule for the systemwide establishment of outpatient clinics to assist Congress in determining the affordability of the VA plan. VA has stated its intent to establish a work group to develop a plan for the systemwide establishment of outpatient clinics. ([GAO/HEHS-97-7](#))

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](#))

In response to our recommendations focusing on preventing overpayments in compensation and benefits claims, VA is determining the causes of overpayments and developing strategies for targeting preventive efforts. ([GAO/HEHS-95-88](#))

Health Financing and Systems Issue Area (Budget Function 550)

GAO Contact: William J. Scanlon, 202/512-7114

Impact of GAO's Work

Our work on the nation's public and private health insurance programs encompasses some of the most important and expensive issues facing the country. Medicare and Medicaid are the primary insurers for more than 70 million people and the federal government will spend an estimated \$315 billion on these programs in fiscal year 1997 with the states contributing an additional \$72 billion to Medicaid. Although enactment of the Balanced Budget Act of 1997 shored up the Medicare Hospital Insurance trust fund, extending its expected depletion data from 2001 to 2010, the program still faces longer term problems with the aging of the baby boom generation who will begin turning 65 in 2010. As the main insurer of long-term care, Medicaid also will be facing increased costs as the population ages, and especially as the number of those over 85 increases.

We continued to assess the ongoing transition in the Medicare and Medicaid programs from fee-for-service to various forms of managed care, including the effects of this evolution on the insured as well as on providers of care. At the same time, we examined new developments in the private insurance sector, helping congressional decision making on issues such as (1) the new children's health insurance program, authorized by Balanced Budget Act of 1997, that is envisioned to cover uninsured children with expenditures of \$20 billion over 5 years; (2) federal efforts to help citizens gain access to insurance through implementation of new provisions enacted in the Health Insurance Portability and Accountability Act of 1996; and (3) other trends in coverage under employer-sponsored health plans, such as decreasing coverage for retirees.

One unifying theme to much of our work this year was a focus on improving the design of public health insurance programs. During the Congress' consideration of the Balanced Budget Act of 1997, we provided, through reports and testimonies, many suggestions for how Medicare and Medicaid reform proposals could be made more effective, the kinds of issues that needed to be addressed, and information on the likely effects of actions. We also raised a number of issues surrounding the design of prospective payment systems for Medicare home health and skilled nursing facility services including selection of the unit of service for payment purposes, the adequacy of current data for rate-setting purposes,

the importance of utilization and quality monitoring systems under prospective payment, and the potential effect of payment systems design decisions on these monitoring systems. We addressed problems with how Medicare sets payment rates for health maintenance organizations and the need for enhanced monitoring of, and furnishing beneficiaries more information about, these organizations. Many of these matters were addressed in the final legislation.

GAO also provided key information on a public health insurance design issue that preceded the landmark Balanced Budget Act of 1997 provisions. Under 1993 legislation, HHS had been required to establish a data bank containing information on about 160 million employees and their dependents covered by employer group plans. Its purpose was to identify those Medicare and Medicaid beneficiaries with other insurance that they should have used to pay medical bills before drawing on their Medicare or Medicaid coverage. In 1994 and 1995, we reported and testified that the proposed data bank would create an avalanche of unnecessary paperwork for both HCFA and employers and would likely achieve little or no savings while costing millions. In fiscal year 1997, Congress repealed the Medicare and Medicaid Coverage Data Bank, resulting in identifiable budgetary savings of \$55 million.

In another area, the debate over the creation and design of a children's health insurance program last year, a critical issue was how to allocate federal monies to the states, particularly because the new program—unlike Medicaid—has a limit on funding. We provided information to the Congress and assisted in devising a method of allocating federal funds to the states. We also provided assistance in the revision of an Older Americans Act formula for allocating federal monies among the states to assist the elderly with independent living. In addition, we assisted the Substance Abuse, Mental Health Services Administration in implementing an improved cost of services indicator to be used as a criterion for allocating federal funds among the states.

We also provided important information to Congress showing the share of federal dollars—in the form of state Medicaid disproportionate share payments—that were going to institutions for mental diseases. Limits on such payments, which became part of the budget agreement, will result in substantial savings in future years.

High-Risk Area

We designated Medicare as a high-risk area.

Medicare

Numerous GAO reports have highlighted problems the nation's insurers in general and Medicare in particular face in controlling waste, fraud, abuse, and mismanagement. Our high risk series report on Medicare summarized our work in the area and where the program stood in addressing waste, fraud, abuse, and mismanagement issues. We pointed out that many of Medicare's vulnerabilities are inherent to its size and mission which make it an attractive target for exploitation requiring constant vigilance for the foreseeable future to protect the program. In July 1997, the Department of Health and Human Services' (HHS) Office of Inspector General (OIG) reported that the estimated amount of Medicare fee-for-service payments attributable to fraud, abuse, or error ranged from \$17.8 billion to \$28.6 billion, or about 11 percent to 17 percent of payments.

The Health Care Financing Administration (HCFA), which administers Medicare, has invested substantially in developing a new claims processing system, the Medicare Transaction System, to provide, among other things, better protection from fraud and abuse. In the past, GAO has reported on risks associated with this project, including a plan to implement the system in a single stage, rather than incrementally; difficulty in defining requirements; and significant schedule problems. Although HCFA had responded to these concerns in various ways, including changing its single-stage implementation approach, the Medicare Transaction System project all but collapsed in August 1997 when HCFA terminated the contract. This is a significant setback for HCFA's anti-fraud-and-abuse efforts, bringing into question the ability of HCFA and its contractors to perform the data-intensive analyses needed to detect abusive billing schemes. We will continue to monitor and evaluate HCFA's efforts to modernize this important information system as a key anti-fraud-and-abuse mechanism.

Two recent laws—the Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act of 1997—incorporated many of our recommendations designed to help control waste, fraud, and abuse. For example, the former addressed our longstanding call to provide stable funding for program safeguard activities by appropriating an annually increasing amount over the fiscal year 1997-2002 period. The Balanced Budget Act of 1997, among other things, mandated that prospective payment systems replace cost-based reimbursement methods in paying for certain Medicare services. Adoption of these prospective payment

provisions responded in part to concerns that we and the HHS OIG have raised about the overutilization and billing abuse problems reflected in Medicare's expenditures for home health and skilled nursing facility services. Other provisions gave HCFA and the OIG many new tools to fight waste, fraud, abuse, and mismanagement.

Key Open Recommendations

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; and
- 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 technologies. ([GAO/HRD-92-59](#))

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 and 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)

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. HCFA has proposed salary guidelines for various therapy services. In addition, the Balanced Budget Act of 1997 required that, beginning July 1998, skilled nursing facilities begin consolidated billing for the many services provided to Medicare beneficiaries. 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, for HCFA to make such an adjustment can take 3 years or more. 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. The Balanced Budget Act of 1997 provided HHS some flexibility to adjust fees through a somewhat

less onerous process; however, this flexibility is applicable only when the fee adjustment is 15 percent or less. ([GAO/HEHS-95-171](#))

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 HMO's performance and on known deficiencies and (b) assigning sufficient, trained staff to monitor and verify the effectiveness of HMOs' quality assurance practices. The Balanced Budget Act of 1997 mandated that Medicare beneficiaries be provided comparative information on HMOs, including disenrollment rates, enrollee satisfaction, health outcomes, and managed care plans' compliance record with Medicare requirements. HCFA has efforts in process that will begin to respond to these recommendations and the new Balanced Budget Act mandates. ([GAO/HEHS-95-155](#))

Medicaid Excluded Providers

Providers are removed from state Medicaid programs for health care fraud, abuse, or quality-of-care problems. Such excluded providers should also be removed from participation in other federal programs including Medicare and Medicaid programs in other states. We found that weaknesses in the HHS Office of the Inspector General's excluded provider process had allowed providers excluded from one state's Medicaid program to continue to provide services in another state or in other federal health programs and sometimes inappropriately receive thousands of dollars in program payments. In response to our concerns, the OIG implemented a tracking system to provide improved accountability over case referrals for exclusion actions. In addition, at our urging, HCFA began transmitting exclusion data to states over the Internet.

In addition to these changes, we recommended that the OIG:

- clarify to states that settlements and provider withdrawals to avoid formal sanctions should be reported to the OIG, in accordance with its regulations;
- provide ongoing, clear, and consistent guidance to the state on the documentation needed for timely processing of exclusion actions; and

Oversight of Care in
Intermediate Care Facilities for
the Mentally Retarded

- establish consistent standards—including performance goals or benchmarks—for the timely processing of state referrals. (GAO/HEHS-97-63)

Medicaid funds provide support to more than 400 large intermediate care facilities for the mentally retarded that are owned and operated primarily by state governments. In 1996, we reported that serious quality-of-care deficiencies continued to occur in some of these institutions despite federal standards, oversight by state agencies and HCFA, and on going Justice Department investigations. While state agencies have primary responsibility for ensuring that their institutions meet federal standards, they do not identify all deficient care practices nor take sufficient enforcement actions to prevent their recurrence. Although HCFA has recently taken steps to improve the inspection process and more efficiently target limited federal and state resources, several oversight weaknesses remain.

We identified several means to address these weaknesses and strengthen accountability for quality of care. Specifically, we recommended that HCFA assess the effectiveness of its new inspection process, address the potential conflict of interest that occurs when states are both the operators and primary inspectors of such intermediate care facilities, and determine whether a wider range of enforcement mechanisms would lead to more effective correction of deficient care. In response, HCFA has increased federal oversight of these institutions and will maintain increased oversight if warranted. Also, through the Balanced Budget Act, HCFA acquired legislative authority to apply alternative enforcement sanctions to non-compliant facilities. Pending the results of an evaluation of alternative sanctions in nursing homes expected in 1998, HCFA plans to assess whether a similar approach for intermediate care facilities for the mentally retarded will be appropriate. (GAO/HEHS-96-131)

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

Health Services
Quality & Public
Health Issue Area
(Budget Functions
550 and 570)

GAO Contact: Bernice Steinhardt, 202/512-7119

Impact of GAO's Work

The Health Services Quality and Public Health issue area focuses on evaluating access to high-quality health care and on measuring the outcomes and effectiveness of federally funded health and medical programs, research, and regulatory activities.

GAO's work on health services quality and public health issues concentrates on:

- evaluating whether the programs administered by public health service agencies are ensuring the public's health efficiently and effectively,
- assessing opportunities for ensuring the quality of health care under fee-for-service and managed care payment arrangements,
- assessing opportunities for improving the nation's access to health care and improving accountability, and
- appraising the implications of emerging biomedical research, health care technologies, and information systems.

In the course of our work, we have examined the ongoing transformation of U.S. health care, its effects on local markets and public health institutions, information about health care quality, and the performance of public health agencies. The federal public health agencies, including the Food and Drug Administration (FDA), the National Institutes of Health, the Centers for Disease Control and Prevention, the Health Resources and Services Administration, the Substance Abuse and Mental Health Services Administration, the Indian Health Service, the Agency for Health Care Policy and Research, and the Office of Public Health and Science (formerly the Office of the Assistant Secretary for Health), spend \$24 billion annually. More efficient and effective use of these resources could improve agency performance in promoting the public's health.

Access to Health Care

Many communities contain populations that may have difficulty obtaining health care services for reasons such as geographic isolation or, more often, inability to pay for care. Our work has identified many instances in which federal programs have provided aid to communities without ensuring that this aid has been used to improve access to primary care. The rural health clinic program, established two decades ago, allows higher Medicare and Medicaid reimbursements to support health care professionals in underserved areas that are too sparsely populated to sustain a physician's practice. We found that many of the recently established clinics are in fairly well-populated areas that already have extensive health care delivery systems in place. To bring about improvements needed to direct assistance toward those rural areas that the program was originally intended to serve, we recommended that both the Congress and the Secretary of Health and Human Services establish additional eligibility criteria and controls over the cost-reimbursement benefit of the program. Congress incorporated these recommendations into the Balanced Budget Act of 1997.

To address physician shortages in underserved areas in the country, a growing number of locations are turning to non-U.S. citizens who have just completed their graduate medical education in the United States. These physicians generally enter the United States under a visa which requires them to leave the country when their medical training is done, but this requirement can be waived at the request of a federal agency or a state. We reported that four federal agencies and 23 states requested waivers for foreign physicians to practice in underserved areas in 1995, but found that these efforts are not coordinated among the federal agencies or with the states and that monitoring efforts and accountability are limited. Based largely on our review, the Department of Housing and Urban Development continued a moratorium on its visa waiver activities and stopped processing requests for waivers for physicians to practice in underserved areas. In addition, to address our concerns, the Appalachian Regional Commission changed its policies and instituted additional measures to improve monitoring and to ensure that the waived physicians will be providing substantial services to those segments of the population that are underserved.

Quality of Care

The best method known to reduce breast cancer mortality is early detection, and mammography is the single most effective tool for detecting breast cancer at its earliest stages. To address concerns about the quality of mammography services offered by more than 10,000 facilities throughout the United States, Congress passed legislation in 1992

requiring the accreditation and annual inspection of mammography facilities. Our review of FDA actions during the first 18 months of the inspection program revealed two problem areas. First, FDA's inspection procedures for an important test of mammography equipment were inadequate. Second, FDA lacked procedures to guarantee that all violations of standards were both promptly and adequately corrected. Our report contained several recommendations to the Commissioner of FDA to establish procedures, guidance, and training to help ensure timely compliance with mammography quality standards by facilities. FDA has implemented all of our recommendations.

Preventive services for early detection and treatment of a condition can save lives and dollars. Diabetes is a chronic condition that affects at least 10 percent of Medicare beneficiaries. Although experts agree that close medical and patient monitoring is important to slow or prevent costly complications of the disease, we reported that diabetic Medicare beneficiaries are not receiving recommended levels of physicals, eye exams, blood tests, and other screening services. We testified about our findings, and Congress included Medicare preventive services provisions for diabetes self-management training and blood testing strips in the Balanced Budget Act of 1997.

Quality of care issues and quality of life issues are closely intertwined. In 1990, Congress passed the Patient Self-Determination Act, requiring health care providers to increase public awareness about the use of "advance directives"—a living will or health care power of attorney that spells out how life-support decisions should be carried out should the patient become terminally ill and unable to communicate his or her wishes. In 1995, we reported the act's implementation and the effectiveness of advance directives in ensuring patient self-determination. Our report was used in reopening the Congressional debate on end-of-life care issues and to make changes in the act. As a result, the Balanced Budget Act of 1997 requires that an individual's advance directive be placed in a prominent part of that individual's current medical record.

Key Open Recommendations

Medical Device Monitoring

FDA is responsible for protecting the American public from unsafe and ineffective medical devices, which range from simple household items, such as thermometers, to implanted heart valves. FDA uses an adverse

event reporting system that records problems associated with medical devices after they have been approved for public use. The Safe Medical Devices Act of 1990 expanded the reporting requirements to include user facilities, such as hospitals and nursing homes, and medical device distributors. We found that although FDA collects reports from users, hospitals, nursing homes, manufacturers, and others about problems with medical devices, FDA does not act systematically to ensure that reported problems are resolved promptly, thus defeating the system's usefulness as an early warning about defective medical devices. We made recommendations to the Commissioner of the Food and Drug Administration to improve FDA's adverse event reporting system's ability to serve as an early warning system about medical device problems. FDA has several actions underway to address our recommendations. For example, FDA's reengineering task force is using our report to identify the actions needed to address problems with post marketing surveillance of medical devices. ([GAO/HEHS-97-21](#))

Safety of Blood Supply

We assessed the current risks of transfusion, examined the content and quality of data collected to assess these risks, and evaluated the FDA's safeguards and their ability to ensure the safety of the nation's blood supply. Our analysis showed that the U.S. blood supply is safer today than at any time in recent history, with risks from blood transfusions quite small compared with the benefits of transfusion in saving lives. We reported, however, that FDA can strengthen the safety of the blood supply in some areas. For example, the lack of mandatory notification to donors whose blood donations must be deferred allows some donors who have tested positive for viruses to unwittingly attempt to donate again; untested units donated for self-use may be mistakenly used for unintended recipients; and unlicensed facilities—those that do not sell or exchange blood products across state lines—are not required to report errors and accidents. FDA inspections of both licensed and unlicensed blood facilities appear to be inconsistent in focus, scope, and documentation. Moreover, FDA does not maintain a central repository for inspection reports and, therefore, does not examine national trends. We made recommendations by which the Secretary of Health and Human Services (HHS) could improve the safety of the nation's blood supply. Six of the recommendations concern gaps in the layers of safety, one has to do with error and accident reporting, and two relate to HHS's regulations and FDA inspection processes. Thus far, in response to our recommendations, FDA has established a group of specialized investigators with the goals of improving consistency, timeliness, and quality in inspections of blood facilities. ([GAO/PEMD-97-1](#) and [GAO/PEMD-97-2](#))

Health Professions Education

During the past decade, the supply of nearly all health professionals has increased faster than has the population. For most health professions, however, data are unavailable to show whether this increased supply has translated into more access to care in rural and underserved areas. Our findings are similar for minority recruitment. Although the number of minority health professionals is increasing, data are inconclusive about whether further increases will improve access to health care for underserved populations. Although nearly \$2 billion has been provided to 30 programs under title VII and VIII of the Public Health Service Act during the last 10 years, HHS has not gathered the information necessary to evaluate whether these programs have had a significant effect on changes in the national supply, distribution, and minority representation of health professionals or their impact on access to care. 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 goals, outcome measures, and reporting requirements. We recommended that the Congress establish or direct the Secretary of Health and Human Services to establish more specific goals, outcome measures, and funding criteria. Our work was used as the basis for program reauthorization hearings and proposed legislation to reauthorize the programs. ([GAO/HEHS-94-164](#))

Hospital Construction

The Federal Housing Administration's (FHA) Hospital Mortgage Insurance Program insures loans to finance hospital renovation and construction. FHA mortgage insurance protects lenders against losses they might incur if hospitals fail to make their mortgage payments. The concentration of insured projects and the largest loans amounts in New York exposes the program and threatens its stability. Further, trends in health care and changes in state and federal health care policies that reduce hospitals' revenues will affect hospitals participating in the program. The implications of these health care trends for program hospitals were not factored into FHA's methodology for estimating potential loan losses. In addition, FHA's approach to determining default and loss rate assumptions was unreliable. FHA did not consider the full loss exposure in estimating reserves for hospitals that it had identified as having high default probabilities. As a result of these flaws, the reliability of FHA's loan loss reserve estimate is limited. We made recommendations to the Secretary of Housing and Urban Development (HUD) to improve the reliability of FHA's loan loss reserve estimate, ensure future compliance with federal performance measurement requirements, and minimize potential financial losses from future projects. HUD officials have said that they are monitoring each individual loan and, to date, have not had a claim. FHA has hired a management consultant to develop timeliness measures and

expects to implement them in fiscal year 1998. FHA is drafting regulations for risk sharing, and HUD has established a reserve to cover uncertainty stemming from changes in health care payment policies. (GAO/HEHS-96-29)

Methadone Maintenance

We reviewed the activities of a number of methadone maintenance treatment programs. Methadone maintenance is the most commonly used treatment for heroin addiction. Many of the methadone programs are established by private not-for-profit organizations while others are private for-profit or public programs. We found wide variation among program policies with respect to urine testing, dismissing patients, counselor staffing levels, and methadone dosage levels. For example, in the 24 programs we visited, average methadone dosage levels ranged from 21 to 67 milligrams. Nearly one-half the programs that we visited were not effective in achieving the benefits of methadone maintenance. We recommended that the Secretary of Health and Human Services direct FDA or the National Institute on Drug Abuse to monitor and assess methadone maintenance treatment programs. The National Institute on Drug Abuse is developing and testing a performance evaluation system for methadone treatment programs and anticipates issuing a report about its feasibility and utility in the summer of 1998. (GAO/HRD-90-104)

Income Security Issue Area (Budget Functions 600, 650)

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

Impact of GAO's Work

Income security programs operating through the Social Security Administration (SSA), the Department of Health and Human Services (HHS), and the Department of Labor (DOL) 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 means-tested programs for financial support and services. In addition, Americans are dependent on DOL to provide oversight of 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 service to the public at reduced cost, (3) evaluating the adequacy of Social Security and public and private pension systems for future retirees, (4) redesigning the nation's disability programs to provide disabled people with greater opportunities to work, (5) monitoring implementation of the 1996 welfare reform legislation, and (6) assessing government efforts to protect children's welfare.

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, relying on our analysis of weaknesses in administering the Individualized Functional Assessment, as a part of last year's welfare reform law, Congress eliminated the Individualized Functional Assessment as a basis for awarding benefits to disabled SSI children. Specifically, SSI eligibility criteria for disabled children have been tightened, and less severely impaired children are no longer eligible for SSI. As a result, SSA anticipates removing 135,000 children from the disability rolls and awarding benefits to fewer children, at an estimated savings of nearly \$5.4 billion over the next 6 years.

Based on the results of our work, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 contained a provision that allows states to use recoupment to collect any Food Stamp overpayments, including those caused by agency error. This provision will result in a

yearly \$40 million savings from 1997 through 1999 and a yearly \$45 million savings from 2000 through 2002.

Our work has resulted in several actions taken to improve SSA's disability claims process. For example, in response to our recommendations, SSA revised its implementation strategy for redesigning its disability claims process to address major program delays and management obstacles. It reduced the number of initiatives and selected those critical in producing significant measurable reductions in claims-processing time and administrative costs to ensure that dramatic results could be achieved. Further, we had reported that the management of the Administrative Law Judges underlies many of the problems affecting SSA's disability programs and that SSA had not consistently defined what actions it could legally employ to better manage Administrative Law Judges' activities. Citing our work, the Commissioner of SSA requested a review of any conflict between Administrative Law Judges' decisional independence and SSA's management authority over them. As a result of the review, SSA's authority in setting program policy and ensuring those policies are carried out was clarified. This authority also included the ability to establish production targets and similar goals critical to addressing the appeals backlog. Finally, we reported that SSA's Short Term Disability Plan had enhanced the Office of Hearings and Appeals' ability to dispose of appealed cases, helped decrease the number of cases awaiting a written decision, and reduced processing time for some cases. Based on our recommendation, SSA extended the Short Term Disability Plan's key initiatives, which will result in SSA's disposing of approximately 39,000 additional cases between January 1, 1997, and September 30, 1997.

High-Risk Area

We have designated the Supplemental Security Income program as a high-risk area.

Supplemental Security Income Program

SSA administers the SSI program, which pays cash benefits to the low-income aged, blind, and disabled. About 6.6 million SSI beneficiaries now receive roughly \$22 billion in federal benefits. To date, our work has shown that several longstanding problems have affected SSA's ability to manage the program and protect taxpayer dollars from being overspent. These problems involve SSA's failure to adequately (1) verify recipients' initial and continuing financial eligibility, (2) minimize and collect overpayments, (3) address program fraud and abuse, (4) determine whether SSI recipients remain disabled, and (5) help SSI recipients enter the

workforce and ultimately leave the program. The above deficiencies have affected program size and integrity and contributed to significant annual increases in SSI overpayments. During 1996, more than \$2.3 billion in overpaid benefits was owed to the agency, including \$895 million in newly detected overpayments for the year.

While attempts have been made by SSA in the past to make the SSI program more efficient, significant problem areas remain unaddressed. As a result, our concerns continue about underlying SSI program vulnerabilities and the level of SSA attention devoted to these vulnerabilities. To more precisely identify “root” causes of longstanding SSI problems and the actions necessary to address them, we are presently conducting a broad-based review of the program. This work is designed to explore program design issues, operational policy, management philosophy and agency culture, and programmatic and legislative options for achieving substantive change. We anticipate issuing our report in early 1998.

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. SSA completed its strategic plan on September 30, 1997, 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. (GAO/HRD-94-22)

Disability Programs

SSA’s plan for achieving self-support (PASS) program was established in 1972 as an SSI work incentive program to help SSI and DI recipients achieve self-support, 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. We found that, among other things, the impact of PASS on employment is unknown because SSA lacks basic data on PASS participation and outcomes and recommended that SSA gather additional management data on PASS program participation and impact and use these data to evaluate the impact of PASS program

participation on employment. SSA has experienced many technical problems establishing such a database, and SSA does not consider the data to be reliable. SSA officials, however, are continuing efforts to develop a data base that would provide needed data for managing the PASS program. In addition, we recommended that the Congress consider legislation to eliminate DI beneficiary eligibility for SSI benefits through the use of PASS. While SSA has proposed such legislation, the Administration has not submitted it. (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 disabilities, 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 more accurately identify and expand beneficiaries' work capacities and (2) better implementing existing return-to-work mechanisms. Similarly, in July 1996, we reported return-to-work strategies and practices employed by the private sector in the U.S and by social insurance programs in Germany and Sweden may hold the potential for improving federal disability programs by helping people with disabilities return to productive activity in the workplace and at the same time reduce program costs. We recommended that, in line with placing greater emphasis on return to work, SSA should develop a comprehensive return-to-work strategy that integrates, as appropriate, earlier intervention, earlier identification and provision of necessary return-to-work assistance for applicants and beneficiaries, and changes in the structure of cash and medical benefits. In both reports, we also recommended that SSA identify legislation needed to implement the recommended program changes. SSA noted that it is currently placing a high priority on return to work, citing its expansion of the pool of vocational rehabilitation providers and its proposed "tickets to independence" (vouchers for vocational rehabilitation) as a new demonstration to attempt to improve return-to-work outcomes. In addition, SSA has affirmed its interest in determining whether return-to-work practices of other systems could help improve the return-to-work rate in its disability programs. While such

steps are in the right direction, they do not constitute the fundamental redirection of goals and practices needed to move the disability programs to much greater emphasis on return to work. Finally, SSA emphasized that efforts to improve the return-to-work rate in its disability programs can be fruitful only if all parties affecting federal disability policy are involved. While we agree that all relevant parties must be involved, we believe that, as the primary manager of the disability programs and the entity with fiduciary responsibility for the trust funds, SSA must take the lead in forging the partnerships and cooperation needed to redesign federal disability programs. (GAO/HEHS-96-62 and GAO/HEHS-96-133)

In August 1996, we reported that for many years, SSA has lacked an effective program to detect SSI recipients in county and local jails. It has relied primarily on (1) recipients or their representative payees to voluntarily report incarceration and (2) redetermination. Neither of these mechanisms has been completely effective; as a result, SSA has erroneously paid millions to thousands of prisoners in county and local jails. While SSA initiated action to obtain better information on SSI recipients currently in jail, they had not attempted to develop information on SSI recipients who may have been incarcerated and received payments in prior years. We recommended that SSA obtain information on former prisoners from county and local facilities and identify and attempt to recover any erroneous payments. SSA has initiated a pilot project to determine the feasibility and cost benefit of implementing our recommendations. (GAO/HEHS-96-152)

We also reported in August 1996 that the SSI program could be administered more efficiently and, more importantly, millions in overpayments could be prevented or more quickly detected if information needed for claims processing were available immediately on-line during initial and subsequent assessments of eligibility. We estimated that direct on-line access to state computerized income information could have prevented or more quickly detected about \$131.3 million in overpayments caused by unreported or underreported income nationwide in one 12-month period. However, in SSA field offices where such direct access to computerized state information has been implemented, its staff did not use it for overpayment detection. They did use it, however, to process claims more efficiently, and SSA's preliminary results have shown that its use has reduced the administrative costs of the program. We recommended that SSA require claims representatives to use online access to routinely check for unreported sources of income when initial and subsequent assessments of eligibility are done, provided it is cost-effective to do so

and that the data available online pertain to the time periods covered by SSI payments. Further, we recommended that SSA develop automatic interfaces with state databases that comply with laws and standards governing computer matching, privacy, and security that can (1) more fully automate the earnings and Unemployment Insurance computer matches and (2) identify additional income sources that do not currently have computer matches. SSA has requested a study of the cost-effectiveness of these recommendations. (GAO/HEHS-96-163)

SSA is required by law to conduct periodic examinations, called continuing disability reviews, to determine whether a beneficiary has medically improved to the extent that the person is no longer considered disabled. In October 1996, we recommended that, to ensure that as many disabled individuals as possible become self-sufficient, SSA should test the use of continuing disability reviews' contact with beneficiaries to determine individuals' rehabilitation service needs and help them obtain the services and employment assistance they need to reenter the workforce. SSA is currently in the process of testing various strategies to better identify applicants and beneficiaries with rehabilitation potential to better encourage their return to work. The agency has developed an agenda to conduct demonstrations that would assist in encouraging return to work and intends to test using continuing disability reviews' contact to assess recipients' potential for and to promote vocational rehabilitation services. (GAO/HEHS-97-1 and GAO/HEHS-97-2)

In June 1997, we reported that although benefits paid to persons receiving SSI must be reduced when they enter nursing homes covered by Medicaid, SSA is not always notified of the change and full benefits continue to be paid. These overpayments may exceed approximately \$100 million annually. To prevent the overpayments or detect them sooner, we recommended that HHS direct the Health Care Financing Administration to require states, as part of their Medicaid Management Information Systems requirements, to make nursing home admissions data available to SSA electronically. In its comments on our report, HHS noted HCFA's willingness to provide the data it receives from states to SSA on a quarterly rather than annual basis. However, we believe that having HCFA involved in the pass-through of information causes unnecessary expenditures for HCFA and delays for SSA. SSA needs to obtain nursing home admissions data as quickly as possible after the actual admissions to minimize the overpayments it makes. We further recommended that SSA (1) electronically obtain nursing home admissions data directly from states, (2) obtain computer tapes or paper listings of nursing home

admissions to identify overpayment situations, while states adapt their systems to provide the information electronically, and (3) determine the reliability of state data for implementing an automated computer interface to automatically adjust the benefits of SSI recipients admitted to nursing homes. SSA is considering a study in the fall of 1997 to determine the best mechanism for obtaining nursing home admissions data in a timely manner and will assess the reliability of state Medicaid data to cause automatic benefit reductions. ([GAO/HEHS-97-62](#))

Child Support Enforcement

In June 1992, GAO reported on the opportunity to defray the burgeoning federal and state non-AFDC costs in the child support program by charging a minimum percentage fee on collections. Non-AFDC administrative costs increased from \$644 million in 1990 to \$1.4 billion in 1995, while recovered costs remained stagnant at about \$33 million in 1995. As part of an overall effort to revise the child support financing structure, the Congress currently is developing legislation to revise the child support incentive formula used to reward the states. As program costs continue to increase, measures to increase cost recovery, such as charging fees, may eventually be considered. ([GAO/HRD-92-91](#) and [GAO/T-HEHS-95-181](#))

Improving Justice and General Government Programs

Administration of Justice Issue Area (Budget Function 750)

GAO Contact: Norman J. Rabkin, 202/512-8777

Impact of GAO's Work

Americans continue to rank crime and fear of crime as top national concerns. The Administration of Justice issue area focuses on the federal role in protecting the public. We provide analysis and information on, and recommendations for improvements to, federal criminal justice programs. Within our purview are issues related to (1) law enforcement; (2) grant programs supporting criminal justice research and evaluation and assisting states and localities in meeting their public safety needs; (3) immigration; and (4) litigative and judicial activities. Criminal justice program responsibilities cross the jurisdictions of several federal departments and agencies, and they involve close interaction with state and local law enforcement officials, as well as private academicians and researchers. As a result, a broad theme of our work is to seek coordination among policymakers across jurisdictions to avoid duplication and put available resources to the most effective use.

Law Enforcement

Over the years, we have issued numerous reports on the nation's drug control efforts. These reports show a consistent theme: the effort to control illegal drugs is complex, fragmented among more than 50 agencies, and hindered by the absence of meaningful performance measures to gauge programs and to guide decisionmaking. As a result of these findings, we have concluded that there is a continuing need for a central planning agency to coordinate the national drug control strategy. We advised a House Government Reform and Oversight Subcommittee to reauthorize the Office of National Drug Control Policy—an executive office created in 1988—with this mission.

The Attorney General identified health care fraud as a top national law enforcement priority. We reported on the advantages and disadvantages of establishing a centralized health care fraud database to better coordinate enforcement efforts among the law enforcement agencies that investigate health care fraud. Reference to our work, citing the extent of health care fraud and the need for enforcement coordination, was contained in the legislative history of the Health Insurance Portability and Accountability Act of 1996. The law established a national health care fraud and abuse program, which included a requirement to report certain final adverse actions against health care providers, suppliers, and practitioners.

Since the Waco siege and other incidents, the Treasury Department's Bureau of Alcohol, Tobacco, and Firearms (ATF) has come under public criticism and congressional scrutiny concerning allegations of using excessive force in carrying out its enforcement responsibilities. Our report on ATF's use-of-force policies provided objective, independent information on this highly sensitive issue. Subsequently, the House Appropriations Committee report and the Conference report on the fiscal year 1997 Treasury appropriation included recommendations calling for the creation of an Office of Professional Responsibility within Treasury's Office of the Undersecretary for Enforcement. The new office would oversee, among other things, use-of-force allegations involving ATF and other Treasury law enforcement agencies. The Committee report also called for outside representation on ATF's Shooting Incident Review Board and Professional Review Board. In response, Treasury is in the process of creating an Office of Professional Responsibility within its Office of Enforcement. In March 1997, ATF added two outside representatives—one each from the Customs Service and the Internal Revenue Service—to its review boards.

We also reported on ATF's compliance with legal restrictions on maintaining firearms licensee data. We determined that ATF was narrowly interpreting an annual appropriations rider prohibiting the consolidation or centralization of data from firearms licensee records and, as a result, had not systematically reviewed its data systems and its information practices. In response, ATF (1) adopted our broader interpretation of the appropriations rider; (2) reviewed the applicable data bases and found them to be in compliance with the revised interpretation; and (3) reported the results of its review to a House Appropriations Subcommittee.

With regard to federal fugitive apprehension activities, we reported that different federal agencies used different time criteria for entering fugitives' data into the National Crime Information Center's Wanted Person File. Many fugitives, even those classified as dangerous, were entered into the File long after their arrests were authorized. Justice and Treasury generally implemented our recommendations to improve agencies' policies and practices relating to the timing of entering fugitives' data into the Wanted Person File.

Grant Programs

The Violent Crime Control and Law Enforcement Act of 1994 (Crime Control Act) established what officials describe as the largest grant program ever administered by the Department of Justice. It authorized \$8.8 billion in grants for fiscal years 1995 to 2000, with the goals of promoting community policing and adding 100,000 officer positions to the

streets of communities nationwide. In view of its large size and scope, we reviewed the community policing grant program's design, operation, and management. We found that Justice did limited monitoring of how state and local law enforcement agencies spent the community policing grants they were awarded during the first two and a half years of the program. This was due, in part, to an early program focus on processing applications to get officers on the street. During the course of our review, Justice was taking steps to increase its level of monitoring and improve its oversight of this multibillion dollar program.

Also funded under the 1994 Crime Control Act was a program providing grants for state and local drug courts. The purpose of the drug court programs is to use the authority of the court to reduce crime by changing defendants' drug-using behavior. Under this concept, in exchange for the possibility of dismissed charges or reduced sentences, defendants are diverted to drug court programs in various ways and at various stages of the judicial process depending on the circumstances. Components common to most drug court programs include provisions for treatment of offenders, prescribed sanctions and rewards, and frequent court status hearings. Based on data from federal funding sources and drug court program officials, over \$125 million had been made available for drug court programs since 1989. Over \$80 million was from federal sources—primarily from the Departments of Justice and Health and Human Services. In response to a legislative mandate, we provided information on drug court programs and made recommendations for improving evaluations of them. In addition to assisting Congressional decisionmakers, the report will assist state and local jurisdictions in their efforts to implement or enhance drug court programs, and help evaluators and researchers to improve upon their efforts to study the impact and effectiveness of the drug court programs.

Immigration

The Department of Justice's Immigration and Naturalization Service (INS) has received considerable public attention in recent years as immigration, especially illegal immigration, has become a focus of national attention. From fiscal year 1993 to fiscal year 1997, INS' budget more than doubled, and its personnel resources increased by about 45 percent to more than 26,000 positions. At the same time, we have reported that INS experienced severe management problems in a variety of areas.

In July 1997, we issued a follow-on report on selected management problems that we had discussed in our 1991 general management review of INS. We reported that INS had made progress toward addressing some

management problems that we had identified in 1991, but that much remained to be done, and the attention of top management was required to make improvements. More specifically, we found that internal communications continued to be problematic, guidance on policies and procedures were not current, workload information was not consistently factored into resource allocation decisions, and budgetary decisionmaking was hampered by inaccurate financial data and an antiquated financial management system.

We testified on the need for INS to improve processes under its Institutional Hearing Program for identifying imprisoned aliens and deporting them when they are released from prison. We found that INS had not fully complied with statutory requirements that it initiate deportation proceedings against certain types of felons while they are in prison and take them into custody upon their release. Among the reasons for problems in the Institutional Hearing Program were staff attrition, delays in hiring, and the use of lower level INS agents to replace rather than supplement higher level agents. Had INS completed proceedings for all aliens released from state and federal prisons before they were released, it could have avoided nearly \$63 million in detention costs during fiscal year 1995.

In a December 1994 report, we found that procedures in effect at the time of our review for verifying completion of criminal record and fingerprint checks needed to be improved. We pointed out that INS' assumption that an applicant for naturalization had no criminal history because there was no record of a criminal history in his or her file could prove to be incorrect. Results of criminal history reports might have been delayed or not filed in a timely manner. We also reported that INS examiners could not determine whether FBI fingerprint checks had been completed because, at INS' request, the FBI returned a report only if a criminal history record was found.

Litigative and Judicial Activities

In our 1995 report on defender services, we found that costs were rising for court-appointed attorneys for eligible federal criminal defendants and that data explaining the reasons for the increases were either not available or unreliable. In 1997, we critiqued a report from the Administrative Office of the Courts on the causes of the rapid rise in the cost of defending capital cases. We have continued to provide Congressional appropriations subcommittees with analyses of defender services budget requests. Based on our support, a House subcommittee directed the Administrative Office

of the Courts to do a new study on increased defender services costs and consult with us on the methodology to be used.

High-Risk Area

We designated the federal government's management of its asset forfeiture programs as a high-risk area.

Asset Forfeiture Management

Property seized from criminals and forfeited to the federal government in asset forfeiture programs includes businesses, cash, bank accounts, automobiles, jewelry, and real estate, as well as thousands of tons of illegal drugs and counterfeit items. Inventories were valued at about \$2 billion in 1995.

The federal asset forfeiture programs, administered by the Departments of the Treasury (Customs Service) and Justice (Marshals Service), were part of our original high-risk list in 1990 because the programs did not adequately focus on managing the items seized. Since then, we have continued to make recommendations to improve the management of the programs and to monitor the progress being made. Although Treasury and Justice have made many improvements to their asset forfeiture programs over the years, we continue to include asset forfeiture as a high-risk area. We found that significant enhancements to internal controls and property management were still needed in order to effectively reduce the vulnerability of the programs to theft and misappropriation of seized property.

Legislation enacted in 1988 required Customs and Justice to develop a plan to consolidate postseizure administration of certain properties. In June 1991, we recommended that Customs and Justice consolidate the postseizure management and disposition of all noncash seized properties. A 1995 House Appropriations Committee report stated that "the consolidation of asset management and disposition functions of Justice and Treasury could address duplication and provide cost savings to the management and disposal process." In our February 1995 and 1997 high-risk reports, we pointed out that the issue of the consolidation of postseizure management and disposition of seized properties still needed to be addressed.

Key Open Recommendations

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 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. Various bills relating to our recommendation have been introduced since our testimony in 1993.

(GAO/T-GGD-93-41)

Grant Programs

In our study on drug court programs, we identified significant limitations in available evaluation studies that prevented us from drawing firm conclusions on the impact of drug court programs. We noted that outcomes of future evaluations of drug court programs may be hindered by the lack of follow-up data on program participants, which drug court programs do not currently collect. We pointed out that if issues raised by Congress and others about the efficacy of drug court programs are to be addressed, following up on program participants and similarly situated nonparticipants for some period after they leave their respective program(s) would be important. Accordingly, we recommended that the Attorney General and the Secretary of Health and Human Services require drug court programs funded by various federal grants to collect and maintain follow-up data on program participants' criminal recidivism to the extent permitted by law. We also recommended that they collect data, to the extent feasible, on participants' drug use relapse. We also recommended that the Attorney General, the Secretary of Health and Human Services, and the executive director of the State Justice Institute require that future impact evaluations of drug court programs funded by their respective agencies include an assessment of program participants' postprogram criminal recidivism and drug use relapse. We noted that whenever feasible, they should compare drug court program participants with similar nonparticipants. The recommendations were generally agreed to by the federal agencies involved and are currently under consideration.

(GAO/GGD-96-106)

Immigration

In our report on INS management problems, we recommended that INS clarify roles and responsibilities under its four executive associate commissioners and establish milestones for issuing manuals of current policies and procedures. INS agreed with our findings concerning

improvements needed in internal communications and written guidance and indicated that its staff was working to implement these recommendations. (GAO/GGD-97-132)

We made several recommendations to improve the operations of and outcomes from INS' Institutional Hearing Program, under which INS is to initiate deportation procedures against deportable aliens while they are still in prison so that they can be quickly removed from the country upon their release. We recommended that the INS Commissioner give priority under the program to aliens serving time for aggravated felonies by establishing controls to ensure that these aliens are identified from among the universe of foreign-born inmates provided by the Bureau of Prisons and the states, are placed into deportation proceedings while in prison, and are taken into custody upon their release. Other recommendations included (1) establishing and using a nationwide data system to track the status of each foreign-born inmate reported to INS by federal and state corrections systems; (2) identifying the causes of immigration agent attrition and taking steps to ensure that staffing is adequate to achieve the goals of the Institutional Hearing Program; (3) establishing and effectively communicating a clear policy on the role of special agents in the program; and (4) setting program goals for district directors, through the use of a workload analysis model. INS is currently focusing on trying to reduce the attrition of agents in the Institutional Hearing Program. The agency is considering ways to revamp the jobs to make them more attractive and reduce turnover. (GAO/GGD-97-154)

We also recommended, as a result of work on INS' procedures for determining the criminal history of aliens applying for benefits such as permanent residency and naturalization, that INS obtain the results from the FBI of all of its record and fingerprint checks, including those for aliens who did not have criminal history records. INS agreed to implement the recommendation, but it had not done so as of September 1996. Subsequently, INS found that of the 1 million aliens who were naturalized between September 1995 and September 1996, almost 180,000 of them may not have been checked by the FBI for their criminal history. Had INS implemented our recommendations, it would not have naturalized these 180,000 aliens without first obtaining the results of the FBI's criminal history check. (GAO/GGD-97-154)

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

Federal Management and Workforce Issue Area (Budget Function 800)

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

Impact of GAO's Work

The Federal Management and Workforce issue area focuses on 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, and the quality, reliability, and dissemination of census and other social and economic statistical data. Agencies within the purview of the issue area are the Executive Office of the President, the Office of Management and Budget, Office of Personnel Management, Merit Systems Protection Board, Office of Special Counsel, Federal Labor Relations Authority, Office of Government Ethics, Department of Commerce, Government Printing Office, Bureau of Labor Statistics, Library of Congress, and the National Archives.

However, managerial, personnel, and statistical/information issues involve all other agencies as well.

In 1997, GAO continued to contribute to congressional oversight of the implementation of the landmark Government Performance and Results Act (known as GPRA or the Results Act) and the use of the Act to improve decisionmaking. The issue area's support for Congress was centered on three key efforts: (1) assisting Congress as it reviewed agencies' draft strategic plans, highlighting the key strategic planning issues most in need of sustained attention, (2) providing Congress with information and perspectives on how the Results Act can be used to improve congressional decisionmaking, and (3) assessing agencies' progress in implementing the Act. Most prominently, our June 1997 report on the prospects for effective implementation of the Results Act showed the progress that had been made during the Act's pilot phase, but also pinpointed the key challenges that remain.

In addition to work on the Results Act, we analyzed other major management initiatives as well. For example, the issue area's often cited work on states' experiences with public sector privatization initiatives has been used within Congress to consider how best to structure federal efforts. We also testified on initiatives to bring a more market-like

orientation to federal management and the proposed creation of performance based organizations.

In response to recommendations in GAO's report on 185 "reinvention labs" established under the National Performance Review (NPR), an NPR task force announced that the National Academy of Public Administration would serve as a needed clearinghouse for propagation of validated operational improvements.

We have also contributed to oversight of the federal regulatory system. For example, the Unified Agenda of Federal Regulatory and Deregulatory Actions is used to satisfy the requirements of section 610 of title 5, which requires agencies to identify the rules it will review pursuant to the Regulatory Flexibility Act during the next 12 months to determine whether they should be amended, rescinded, or continued. However, we concluded that the size of the Unified Agenda makes it difficult for the public to locate those items that are being reviewed. Therefore, we recommended that the Unified Agenda contain an index or special section for rules that agencies plan to review. In June 1997, the Administrator of OMB's Office of Information and Regulatory Affairs notified all regulatory policy officers that the October 1997 edition of the Unified Agenda would have a separate index for section 610 entries.

During 1997, Congress and the executive branch continued to press for a more streamlined, effective, and efficient civil service system. Trimming the federal workforce continued, but we found that six agencies' fiscal year 1997 buyouts were better planned and implemented than was generally the case among non-defense agencies in 1994 and 1995. These agencies generally linked their buyouts to achieving specific organizational objectives and implemented their buyout programs in ways that tended to increase savings. Indeed, based on our analysis of five agencies where demographic data was readily available, we estimated that by using buyouts to separate 887 employees, three agencies generated over \$3.75 million more in fiscal year 1997 savings than if they had used reduction-in-force. The two remaining agencies we examined will start accruing savings in fiscal year 1998. The improvements in agencies' buyouts came on the heels of our earlier work which found that buyouts typically offer greater savings than reductions-in-force. It also followed our work demonstrating that agencies needed better workforce and strategic planning to guide their downsizing decisions. Congress incorporated requirements for such planning in recent buyout legislation.

Although downsizing has reduced the federal workforce to levels not seen since the 1960s, the federal government remains a major employer with attendant personnel management concerns. We published several reports that contributed to deliberations on possible changes to federal compensation and benefits. For example, our report comparing federal physicians compensation under title 5 and compensation of physicians in private practice and under other federal pay plans contributed to Congress' decision to reauthorize physicians' comparability allowances. Our seven reports on federal retirement program issues, including our comparison of federal and private sector retirement program benefits and our analyses of options for potential budgetary savings, added a factual foundation and valuable perspectives for decisions affecting this core element of the federal employee compensation system.

As agencies move toward the Results Act mandate of managing for results and being held accountable for achieving those results, agencies are increasingly interested in gaining greater flexibility in the management of their human resources. DOD and the Internal Revenue Service (IRS) are but two of the largest agencies seeking revamped personnel systems more tailored to their circumstances. Our report on the excepted service profiled the agencies already having statutory flexibilities differing from those available under title 5 and identified the complexities of determining whether those flexibilities have paid off in improved performance.

In the information and statistics area, we issued reports detailing the governmentwide costs of subscriptions and news clippings, as well as the costs and distribution of government-maintained web sites on the Internet. We also contributed to the growing congressional debate on the best way to conduct the 2000 Census, concluding that incomplete information on the effects of the Census Bureau's plan to incorporate sampling into its design was contributing to its inability to reach agreement with Congress over the design and funding.

High-Risk Area

We designated the 2000 Decennial Census as a high-risk area..

2000 Decennial Census

The decennial census, the nation's most comprehensive statistical data-gathering program, is required by the Constitution. The results are critical for apportioning seats in the House of Representatives and are also used to (1) draw district boundaries within states, cities, and counties, (2) allocate billions in federal funding for numerous programs, (3) provide

a baseline for comparative data collection and analysis for the ensuing decade, and (4) guide the plans and decisions of government, business, education, and health institutions in the multibillion dollar investments they make. Agreement is needed between the administration and Congress on an approach that will both minimize risk of an inaccurate census and keep the cost within reasonable bounds. Over the years, the methodology used by the Census Bureau to conduct the decennial census has produced results that were less accurate and more expensive. On several occasions since 1992, we have testified on the need for careful advance planning to avoid the risk of a very expensive and seriously flawed census in 2000.

The Congress has the authority to approve the manner in which the census will be taken, but the Census Bureau has not demonstrated convincingly to the Congress what effects sampling and estimation would have at different levels of geographical detail.

The longer the delay in securing agreement over design and funding, the more difficult it will be to execute an effective census, and the more likely it will be that we will have spent billions and still have demonstrably inaccurate results. Given the dependence of many decisions affecting governments, businesses, and citizens on the results of the census, the country can ill afford an unsatisfactory census at the turn of the century, especially if it comes at a substantially higher cost than previous censuses.

**Key Open
Recommendations**

We reported in 1994 that one reason for agencies' lack of compliance with the Regulatory Flexibility Act is that the act does not expressly authorize the Small Business Administration (SBA) to develop criteria for agencies to follow in reviewing their rules. Although the act says SBA should monitor agencies' compliance, SBA has not issued guidance defining key terms in the act. Therefore, we recommended that, if Congress wishes to strengthen the implementation of the act, it should consider amending the act to provide SBA with clearer authority and responsibility to interpret the act's provisions. Although the Small Business Regulatory Enforcement Fairness Act of 1996 made several changes to the Regulatory Flexibility Act, it did not clarify SBA's authority or responsibility to interpret the act's provisions. ([GAO/GGD-94-105](#))

In reviewing the fiscal year 1997 buyout programs of six agencies, we found that they had been better managed than was generally the case governmentwide during the 1994 and 1995 non-defense buyout window. However, we also concluded that opportunities for still further savings

may have been identified if OMB had required agencies to not only estimate the savings generated by buyouts, but to compare them to estimated savings produced by alternative separation strategies, such as reductions-in-force. To achieve the full potential savings consistent with other organizational objectives, we recommended that the Director of OMB require all agencies to include in any future requests for buyouts information comparing the costs and savings of buyouts versus other separation strategies for the separation year and a reasonable number of subsequent years for which accurate assumptions and estimates could be made. (GAO/GGD-97-124)

In the area of equal employment opportunity, our recommendations addressed the guidance that the Equal Employment Opportunity Commission provides to federal agencies for affirmative employment planning. According to the Commission, it has made substantial revisions to its proposed management directive and continues to discuss these changes with the Department of Justice. Once these discussions are complete and the proposed directive is approved within the Commission, the directive will be sent to external agencies for comment. (GAO/GGD-91-86, GAO/T-GGD-92-2, GAO/GGD-94-71)

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 vigorous congressional oversight. We therefore recommended that Congress schedule oversight hearings throughout the decade to ensure that consistent progress is being made in designing and planning the 2000 census. In a 1997 report we concluded that the Bureau of the Census needed to provide Congress with detailed data, updated as necessary to meet the objective of full and open disclosure, on the expected effects of the Bureau's census design proposals. (GAO/GGD-97-142)

We reported that the current practice of updating the expenditure weights used in the Consumer Price Index only every 10 years was a source of inaccuracy in this key economic indicator. We recommended that the Commissioner of the Bureau of Labor Statistics update the weights on a more frequent schedule. (GAO/GGD-98-2)

**Financial Institutions
and Markets Issue
Area (Budget
Function 800)**

GAO Contact: Thomas J. McCool, 202/512-8678

Impact of GAO's Work

Financial institutions and markets continue to change at a rapid rate. Banks and thrifts, which used to be clearly distinct institutions, perform increasingly similar functions. In an attempt to increase profits and maintain a customer base, banks are increasingly taking on new lines of business—such as mutual funds and securities underwriting—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 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 has led to improvements in their effectiveness.

Our recent review of the operations of the Federal Reserve suggests that the 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 System 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 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 on the Federal Home Loan Bank System identified the need for major reform. We expressed concerns about the System's 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 an ongoing debate in this Congress on how to reform the System.

Key Open Recommendations

Financial Institution Reforms

In our reports on credit unions, we recommended 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. The National Credit Union Administration is addressing our concerns. ([GAO/GGD-91-85](#) and [GAO/GGD-95-107](#))

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. The report also 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 reviews of the Community Reinvestment Act, the Equal Credit Opportunity Act and the Fair Housing Act concluded that the lending and regulatory communities 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 Home Mortgage Disclosure Act 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 Act and the Fair Housing Act. In addition, we suggested that 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](#) and [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](#))

Our testimony and report on modernizing the U. S. bank structure made suggestions that incorporate the many of the advantages we found in foreign bank regulatory systems. We noted that consolidation of agencies responsible for bank oversight was one logical step in modernization. We recommended that the Federal Reserve System and Treasury be part of the oversight structure in any financial modernization effort. Congress is considering these proposals as part of proposed financial services modernization legislation. ([GAO/GGD-97-23](#) and [GAO/T-GGD-96-117](#))

Securities

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 are in the process of implementing many of our recommendations. ([GAO/GGD-94-133](#) and [GAO/GGD/AIMD-97-8](#))

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, Corporate Audits and Standards Issue Area, and Information Resources Management Issue Area.

Government Business Operations Issue Area (Budget Function 800)

GAO Contact: Bernard L. Ungar, 202/512-4232

Impact of GAO's Work

Our work focuses primarily on two of the government's largest business entities: the General Services Administration (GSA), which controls or oversees over \$60 billion in annual government spending, and the United States Postal Service (USPS), which has annual revenues of more than \$55 billion. 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.

Also, this past year, our work has involved the activities of other entities, including the Treasury, Federal Communications Commission, National Oceanic and Atmospheric Administration, Smithsonian Institution, Kennedy Center for the Performing Arts, Library of Congress, Government Printing Office, Architect of the Capitol, Federal Prison Industries, Administrative Office of the U.S. Courts, and governmentwide assignments dealing with construction project labor agreements, user fees, and employee relocation costs.

The reforms that GSA has made in recent years appear responsive to many of the concerns we and NPR have continued to express. GSA is deeply involved in government downsizing and reinvention issues, contracting out some of this effort while adjusting to new leadership. It 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 continue 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. Key areas of work this past year have involved the design, construction, and use of federal courthouses; construction of and the housing plan for the Ronald Reagan Federal Building and International Trade Center; proposed disposal of the Toledo Federal Building; federal building security upgrades; and GSA actions to deal with the \$846 million Federal Buildings Fund shortfall in fiscal year 1997.

Our efforts at USPS have continued to focus on persistent problems as well as the prospect that major reform legislation may place USPS in a more competitive arena with its private-sector counterparts. The problems include poor labor-management relations, an inability to properly control the receipt of mail and ensure proper revenue collection, as well as the need to control costs in order to reap projected benefits from major automation investments. In both reports and testimonies, we have highlighted the major issues facing 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 efforts to improve labor-management relations have been fragmented and difficult to sustain. Our postal work made major contributions to the postal reform legislation reintroduced in 1997.

We also handled a wide range of congressional requests covering diverse agencies and issues. For example, we reported that, contrary to reports in the press, the Library of Congress did not violate the Buy America Act in its contracts to convert printed materials into electronic formats, portions of which were done in Jamaica and the Philippines. In the currency area, we testified that pending proposals to change the denominational mix of the coins and currency could significantly affect capital investment plans of the Mint and the Bureau of Engraving and Printing; Treasury studies on merging the two agencies were inconclusive; Treasury has not pursued further outsourcing of money production; and strategic plans of the Mint and the Bureau do not consider total government production and distribution costs or alternative mixes of coins and currency. In another area, we reported on the potential for duplication of audit efforts resulting from a mandated GAO audit of the Kennedy Center's use of appropriated funds. Further, we reported on the Center's development of a facility management structure and the related systems required to manage and operate the facility since Congress gave the Center's Board responsibility for operation and maintenance and capital improvement in 1994.

Examples of our contributions this past year include the following:

- GSA ended its virtual monopoly in providing leased office space to federal agencies by delegating authority to lease general purpose space, regardless of geographic location, to the heads of all federal agencies.

- Congress approved a measure, which the President signed, barring the payment of surcharges to sponsors of commemorative coins until all of the Mint's costs associated with that coin are recovered.
- The Postal Service implemented actions to reduce Express Mail Corporate Account Losses, which amounted to about \$800,000 in revenue during fiscal year 1995.
- The Smithsonian Institute and the Library of Congress collaborated in the acquisition of artifacts, thereby ensuring that the government's cost of acquiring material for its collections were not driven up by competitive bidding by the agencies.
- The National Archives implemented a new systemic approach to identify customers' needs, compare those needs with services provided, and examine how to meet shortfalls.
- GSA increased direct delivery of supplies by adding supply system features such as (1) ordering direct-delivery products over the Internet, (2) lowering the direct-delivery threshold for items that have limited shelflives, and (3) adding a supplies contract that promotes the use of a contractor to supply agencies directly.

Key Open Recommendations

General Services Administration

The Congress, the Judiciary, and GSA have embarked on a \$10 billion courthouse construction initiative. In response to various criticisms about inadequate management and oversight, GSA established a courthouse management group to develop a more disciplined approach that would reduce costs 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 that 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 framework on an agreement to change the workplace climate in mail processing and delivery functions. 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 facilitators/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 taken some initial steps toward arranging a summit at which they can discuss approaches to try to address persistent labor-management relations problems. (GAO/GGD-94-201A)

If the Congress wants 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 USPS, in which all customers would be given the same volume discounts, would result in undue or unreasonable discrimination among mailers and undue or unreasonable preference being 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 it 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 USPS as a nation-wide, 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 dollar coin. Hearings were held in 1995, but no legislation was passed. (GAO/GGD-93-56)

Tax Policy and Administration Issue Area (Budget Function 800)

GAO Contact: Lynda D. Willis, 202/512-9110

Impact of GAO's Work

The Tax Policy and Administration issue area's mission is to provide 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—and the federal agency responsible for tax administration—the Internal Revenue Service (IRS).

The federal treasury will realize over \$1.8 billion in increased tax revenues and cost reductions over 2 years as a result of statutory and administrative changes we recommended during the last few years. Of that total, (1) about \$1.1 billion comes from a phaseout of the Section 936 tax credit in U.S. possessions; (2) about \$514 million from a reduction in the fiscal year 1997 Tax System Modernization appropriation; (3) about \$90 million from the cancellation of IRS' corporate accounts processing system; (4) about \$82 million comes from additional tax collections by sending semiannual reminder notices to delinquent taxpayers; and (5) about \$27 million comes from the termination of a pilot program for private debt collection assistance.

The increased tax revenues represent only one aspect of our work's impact. For example, in response to our recommendations, (1) federal agency Chief Financial Officers must certify that procedures for issuing information returns on payments to corporations providing services are in place; (2) IRS developed a definition of taxpayer complaints; (3) IRS created the Office of the Taxpayer Advocate; (4) IRS changed the requirement that Treasury's General Counsel review all offers-in-compromise greater than \$500; (5) IRS reduced the volume of its undeliverable mail; (6) IRS has limited the prior audit protection rule in Section 530; (7) IRS made changes to improve the processing of undeliverable mail; (8) IRS initiated a program to use private companies in collecting delinquent debt; (9) IRS established a government program management office; and (10) congressional

spending limits for IRS' fiscal year 1997 information systems appropriation were approved.

High-Risk Areas

At IRS, we designated the problems in the management and collection of billions in taxes and the significant levels of tax filing fraud as two high-risk areas.

Tax Accounts Receivable

IRS is the government's primary tax collection agency and collects over a trillion dollars annually. However, since many taxpayers are either unable or unwilling to pay their taxes when due, IRS has accumulated accounts receivable estimated to be in the tens of billions of dollars. Unfortunately, IRS' long-term efforts to efficiently and effectively collect these delinquent taxes have been seriously hampered, primarily by outdated equipment and processes, old accounts that are difficult to collect, incomplete information needed to better target collection efforts, and the absence of a comprehensive strategy and detailed plan that address the systemic nature of the underlying problems.

IRS has undertaken many initiatives to deal with some of its accounts receivable problems. These include correcting errors in the accounting records of tax receivables, developing more information on the makeup of the inventory of tax debts, developing research systems to identify characteristics of delinquent taxpayers and appropriate collection techniques, attempting earlier telephone contact with delinquent taxpayers, revising the format of bills sent to taxpayers, and automating many of the processes performed by collection employees in field offices.

While some of these initiatives appear to have had some positive impact, correcting the problems and improving collections will require long-term and continuous efforts. To ensure that these efforts are on the right track, IRS needs a comprehensive strategy that involves all aspects of IRS' operations. As part of this strategy, IRS must set priorities; modernize outdated equipment and processes; and establish goals, timetables, and a system to measure progress.

Filing Fraud

We first identified filing fraud as a high-risk area in February 1995 after the amount of fraudulent refunds identified by IRS had risen from \$42.9 million in 1991 to \$160.5 million in 1994. A great majority of those fraudulent refunds involved Earned Income Credit claims. More recently, as noted in our 1997 high-risk series, the amount of detected fraud had declined, but there was insufficient information available to determine whether the

decline was due to staff reductions in IRS' primary fraud detection program, changes in the program's operating or reporting procedures, or a general decline in the incidence of fraud.

Since our high-risk series was issued, IRS released a report on the results of its study of Earned Income Credit claims on tax year 1994 individual income tax returns. That study, which provides the most recent data on a major source of filing fraud, showed that of the \$17.2 billion in Earned Income Credit claims on tax year 1994 returns, 25.8 percent was erroneously claimed. It was unclear from IRS' study, however, how many of those erroneous claims were due to fraud. IRS expected some of this noncompliance to be mitigated by a provision in the Welfare Reform Act of 1996 that allowed IRS, beginning in 1997, to treat missing or incorrect Social Security Numbers as math errors and to automatically reduce the taxpayer's refund.

Other provisions enacted as part of the Taxpayer Relief Act of 1997 are intended to further reduce Earned Income Credit noncompliance. Those provisions include certain restrictions on future Earned Income Credit claims by persons who are found to have fraudulently claimed an Earned Income Credit and certain penalties against tax return preparers who are found to have failed to exercise due diligence against improper Earned Income Credit claims in preparing tax returns. In testimony before the House Committee on Ways and Means before those provisions were enacted, we stated that various questions about the provisions needed to be answered, the most significant being whether they get at the real causes of EIC noncompliance. ([GAO/T-GGD-97-105](#))

Key Open Recommendations

Taxpayer Compliance

The Low-Income Housing Tax Credit is the largest federal program to fund the development and rehabilitation of rental housing for low-income households. Under the program, states allocate federal tax credits as an incentive to the private sector to develop these projects. The annual cost of the credits could be as much as \$3 billion. IRS is responsible for ensuring that taxpayers take no more credits than allowed and that the states allocate no more credit than they are authorized to allocate. We recommended that IRS (1) establish clear requirements to ensure independent verification on sources and uses of funds submitted to states by developers that form the basis of decisions about the value of tax

credits granted for low-income housing projects; (2) require that states report sufficient information about monitoring inspections or reviews, including the number and types of inspections made so that IRS can determine whether states have complied with their monitoring plans; (3) require that states' monitoring plans include specific steps that will provide information to permit IRS to more effectively ensure that the Internal Revenue Code's habitability requirements are met; and (4) explore alternative ways to obtain better information to verify that states' allocations do not exceed tax credit authorizations and to evaluate taxpayers' and housing projects' compliance with the requirements of the Code. IRS is taking steps to address these recommendations.

(GAO/GGD/RCED-97-55)

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 Congress consider compliance-enhancing legislation, for example, extending withholding and information reporting requirements to cover independent contractors. Since January 1995, at least four legislative proposals for clarifying the rules have been submitted. We had testified annually from 1992 to 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 collects only about \$1 of every \$5 of recommended tax assessments. We recommended that IRS take a number of steps to help ensure that it meets its mission of collecting the proper amount of tax at the least cost. They are that IRS (1) provide more authority over budget and staffing allocations in the field to the National Office executive who manages this audit program, (2) improve controls to ensure that the auditors receive the information that the corporations submitted to IRS' appeals function, and (3) analyze recurring tax disputes and propose legislative changes for minimizing such recurrence. IRS is taking steps to address these recommendations. (GAO/GGD-94-70)

IRS also has an audit program dealing with tax returns filed by about 45,000 other large corporations. Between 1988 and 1994, IRS had been investing additional time in doing these audits but recommending fewer additional taxes per hour invested. IRS had been collecting about \$1 of every \$4 in additional taxes recommended during the audit. These results raised issues about the productivity of such audits. Our recommendations strove to improve that productivity. For example, we recommended that IRS (1) develop more specific criteria to guide the selection of tax returns and tax issues on those returns with high audit potential, (2) encourage the management of the field auditors and lawyers to work together on finding cost-effective ways for auditors to get the necessary legal assistance, and (3) provide feedback to auditors on how IRS' appeals function settled tax disputes with the large corporations so that the auditors could prepare better support for tax issues that could be sustained if appealed. (GAO/GGD-97-62)

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. While IRS subsequently took steps directed at taxpayer reporting, we believe that IRS needs to do more to identify and 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 existed 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 IRS believes its new compliance research approach will uncover ways to help meet this goal. We recommended that IRS (1) develop support from its employees for the new approach and monitor the success of its 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 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 Collection

IRS is losing the potential to collect hundreds of millions in overdue taxes because of shortcomings in its processes for determining which accounts are currently collectible and which are not. We 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, among other things, 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, and identify ways to increase cooperation with state governments. (GAO/GGD-93-67)

Tax Simplification

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

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, businesses 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 and 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)

IRS Management

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, take orders for tax 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, that is, to 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](#) and [GAO/GGD-92-132](#))

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. 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. Currently there are 7 interactive applications located in 10 customer service centers. According to IRS, fiscal year 1997 will provide the best overview of the role interactive telephone systems will play and fiscal year 1998 will provide the best data for determining how well the interactive systems are working and what problems may still exist. ([GAO/GGD-96-74](#))

See also chapter 4, Improving Justice and General Government Programs, Information Resources Management—Internal Revenue Service Issues and chapter 5, Financial and Information Management Programs, Civil Audits Issue Area, and Information Resources Management Issue Area.

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

GAO Contact: Rona B. Stillman, 202/512-6412

Impact of GAO's Work

Over the last decade, IRS has been trying to modernize its tax processing systems, which are used to annually collect and account for over \$1 trillion in revenue. IRS' efforts to modernize these systems have been largely unsuccessful. Our work has concentrated on identifying the causes of the agency's past modernization failures and recommending solutions to these problems. Our work has also focused on strengthening security over IRS' computer resources and facilities and its taxpayer data.

In July 1995, we identified serious management and technical weaknesses in the modernization program that jeopardize its successful completion, recommended many actions to fix the problems, and designated IRS' modernization as a high-risk area. During this year, we closely monitored IRS' progress in implementing these recommendations, particularly its efforts to develop and enforce a systems architecture, develop and enforce disciplined investment management processes, and implement mature software development and acquisition processes. Through report recommendations, testimonies, and congressional briefings, we worked to restrict IRS spending until it fully implements these recommendations, thereby putting in place the internal capability to effectively invest in systems. Additionally, this year we identified and recommended corrective action for many weaknesses in IRS' computer security program that place tax processing operations at risk of being disrupted and taxpayer data being improperly used, modified, or destroyed.

IRS has started implementing virtually all of our recommendations to improve its modernization management and technical capability and to strengthen computer security. This has resulted in hundreds of millions in cost reductions through the cancellation of poorly managed modernization projects—initial steps in improving modernization management and technical capabilities, greater attention to computer security, and elimination of some computer security weaknesses. Each of these accomplishments is discussed below.

Tax Systems Modernization

Responding to our recommendations and congressional direction, the Department of Treasury increased its management oversight of IRS' modernization efforts. For example, it (1) established a Modernization Management Board as the primary review and decision-making body for modernization and for policy and strategic direction; (2) scaled back the overall size of the modernization by approximately \$2 billion; (3) reduced IRS' fiscal year 1997 budget request for modernization from \$850 million to \$664; and (4) has guided IRS to obtain additional contractor staff to accomplish modernization efforts.

During the past year, the Congress has continued to oversee the modernization and, more specifically, Treasury's and IRS' efforts to correct management and technical weaknesses. In the fiscal year 1997 Omnibus Consolidated Appropriations Act, Congress directed IRS to (1) submit by December 1, 1996, a schedule for transferring a majority of its modernization development and deployment to contractors by July 31, 1997, and (2) establish a schedule for implementing our recommendations by October 1, 1997. In its conference report on the act, Congress directed the Secretary of the Treasury to (1) provide quarterly reports on the status of IRS' corrective actions and modernization spending and (2) submit by May 15, 1997, a technical architecture for the modernization that has been approved by Treasury's Modernization Management Board. Additionally, the Board was directed to prepare a request for proposal by July 31, 1997, to acquire a prime contractor to manage modernization deployment and implementation. Congress also reduced IRS' budget request for modernization from \$664 million to \$336 million.

Treasury and IRS have responded by continuing to take steps to implement our recommendations and respond to congressional direction. For example, IRS hired a new Chief Information Officer. It also created an investment review board to select, control, and evaluate its information technology investments. Thus far, the board has reevaluated and terminated selected major modernization development projects, such as the Document Processing System, avoiding the costs of over a billion dollars. Additionally, IRS provided a report to Congress that set forth IRS' strategic plan and schedule for shifting modernization development and deployment to contractors.

Further, IRS prepared a schedule for implementing our recommendations and provided it to Congress. In May 1997, IRS issued levels one and two of its four-level "Modernization Blueprint."

IRS initiated or continued to work on other actions we recommended to strengthen tax systems modernization management. For example, it is finalizing a comprehensive strategy to maximize electronic filing that is scheduled for completion in late 1997. It is also updating its system development life cycle methodology and is working across various IRS organizations to define disciplined processes for software requirements management, quality assurance, configuration management, and project planning and tracking.

In our testimonies before the Congress during this year, we reported that although we recognize that IRS has initiated a number of actions and is making some progress in correcting its management and technical weaknesses, IRS has not yet fully implemented any of our recommendations, and we remain concerned because a great deal remains to be done to fully implement essential improvements.

Furthermore, despite persisting weaknesses in both software development and acquisition capabilities, IRS continues to request hundreds of millions of dollars for systems modernization efforts. Specifically, in its fiscal year 1998 budget request, IRS is seeking \$131 million for system development initiatives. However, the request does not include a credible, verifiable justification and states that IRS does not know how it plans to spend these funds because its modernization architecture and deployment plan have not yet been completed. In addition, the Administration is proposing to establish an Information Technology Investments Account to fund future modernization investments at IRS. It is seeking \$500 million in each of the next two fiscal years (\$1 billion in total) for "yet-to-be-specified" modernization efforts. This request is also not based on analytical data or derived using formal cost estimating techniques. Accordingly, we recommended that the Congress consider not funding either the \$131 million request for system development or the \$1 billion capital account until the management and technical weaknesses in IRS' modernization program are resolved and justifications completed.

Computer Security

IRS has also taken steps to address many serious computer security weaknesses, including the continued browsing of electronic taxpayer records by IRS employees. For example, in response to our recommendations, IRS (1) appointed a single official to be responsible for computer security agencywide, (2) developed an action plan to correct all weaknesses and corrected some weaknesses at some facilities, and (3) reported to the Congress on an evaluation of the adequacy of IRS' current management approach to computer security.

High-Risk Area

We have designated IRS Tax System Modernization as a high-risk area.

Tax Systems Modernization

In 1995, we added IRS' modernization to our high-risk list. Since then, IRS and Treasury have together taken steps, some of which are described above, to implement our recommendations. However, none of our recommendations have been fully implemented and much remains to be done to fully implement essential improvements. Increasing the use of contractors, for example, will not automatically increase the likelihood of successful modernization because IRS does not have the technical capability needed to manage all of its current contractors. As a case in point, IRS' Cyberfile—a system development effort led by contractors to enable taxpayers to personally prepare and file their tax returns electronically—exhibited many undisciplined software acquisition practices as well as inadequate financial and management controls. Eventually, IRS canceled the Cyberfile project after spending over \$17 million and without fielding any of the system's promised capabilities. Therefore, if IRS is to use additional contractors effectively, it will have to first strengthen and improve its ability to manage those contractors. Likewise, until disciplined systems life cycle processes are defined and implemented throughout IRS, and all systems life cycle products (including the architecture) are completed and validated, IRS will not be ready to begin developing or acquiring information systems.

IRS needs to continue to make concerted, sustained efforts to fully implement our recommendations and respond to congressional direction. It will take both management commitment and technical discipline for IRS to do this effectively. Accordingly, we plan to continue assessing IRS' progress in its critical endeavor to modernize.

**Key Open
Recommendations**

Our work on Tax Systems Modernization identified pervasive management and technical weaknesses with IRS' approach to managing its modernization. It also highlighted that IRS does not have disciplined software acquisition practices and requisite financial and management controls to effectively manage all of its contractors.

Our work on computer security found many serious weaknesses remain uncorrected, leading us to conclude that IRS' current approach to computer security is ineffective. To address these problems, we made a series of specific recommendations aimed at correcting key modernization

management and technical weaknesses and strengthening the effectiveness of IRS' management of computer security.

- Our report on IRS' modernization weaknesses recommended that IRS (1) formulate a comprehensive business strategy for maximizing electronic filings; (2) improve IRS' strategic information management by implementing a process for selecting, prioritizing, controlling, and evaluating the progress and performance of all major information systems investments, (3) implement disciplined, consistent procedures for software requirements management, quality assurance, configuration management, and project planning and tracking, and (4) complete and enforce an integrated systems architecture, including security and data subarchitectures. In June and September 1996, we reported that although IRS had initiated actions to implement our recommendations, none had been fully implemented. Over the past year, we have reported to the Congress that although IRS continues make some progress in correcting its management and technical weaknesses, a great deal remains to be done to fully implement essential improvements specified in our recommendations. ([GAO/AIMD-95-156](#) and [GAO/AIMD-96-106](#))
- In our report on IRS' acquisition of its Cyberfile electronic filing system, we recommended, among other things, that the Commissioner report to congressional appropriations, authorization, and oversight committees on (1) the weaknesses in IRS' acquisition and financial management processes and controls that permitted Cyberfile mismanagement to occur, (2) actions to correct the weaknesses, and (3) IRS' plans for completing the project. While IRS subsequently canceled the project, it has yet to report to the congressional committees as recommended. An IRS official told us that IRS had prepared a report and submitted it to the Department of the Treasury for approval. Until we can assess the report's contents, we will not know what steps IRS has taken to (1) correct these serious problems and (2) ensure that it has the disciplined processes and controls in place to effectively acquire and manage all of its contractors. ([GAO/AIMD-96-140](#))

- Our report on IRS' computer security weaknesses recommended that the Commissioner (1) prepare a plan for correcting all the weaknesses identified at the five data processing facilities that we visited as well as identifying and correcting security weaknesses at the other IRS facilities, (2) provide the plan to congressional appropriations, authorization, and oversight committees, (3) report on IRS' progress against the plan in its fiscal year 1999 budget submission, and (4) identify the computer security weaknesses we found as being material in IRS' Federal Managers' Financial Integrity Act report to Treasury. In addition, because longstanding computer security problems continue to plague IRS operations, the report reiterated our prior recommendation that the Commissioner, through the Deputy Commissioner, strengthen computer security management, including reevaluating IRS' current approach to computer security, preparing plans for improvement, and reporting the results to the congressional committees cited above. The report also recommended that the Commissioner (1) ensure that IRS completely and consistently monitors, records, and reports the full extent of electronic browsing for all systems that can be used to access taxpayer data and (2) report disciplinary action taken against employees caught browsing and include these statistics and an assessment of progress in eliminating browsing in IRS' annual budget submission. (GAO/AIMD-97-49)

IRS is working to correct the computer security weaknesses and implement our recommendations. For example, IRS assigned sole responsibility for computer security, including employee browsing, to a single office within the Office of the Chief Information Officer. In addition, IRS provided to congressional committees an action plan for correcting the weaknesses and a report containing the results of its computer security management reevaluation. IRS also has taken the necessary steps to correct some of the identified weaknesses. Taken together, these steps represent a good start for the IRS, but a sustained, disciplined effort will be needed to ensure that all the remaining weaknesses are corrected in a timely fashion. Until then, IRS runs the risk of its tax processing operations being disrupted and taxpayer data being improperly used, modified, or destroyed. (GAO/AIMD-97-49)

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

Financial and Information Management Programs

Budget Issue Area (Budget Function 990)

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Impact of GAO's Work

During fiscal year 1997, we focused on deficit reduction and opportunities to improve the budgetary information available to policymakers and the public. We are the primary issue area in GAO examining the budget and budget process of the U.S. government. An important part of our mission is to make GAO's work more accessible to and usable by those involved in the congressional budget debate. The following paragraphs discuss our work in various areas.

Deficit Reduction

In the area of deficit reduction, we produced the fourth annual report on the budgetary implications of selected GAO work. The report, a collaborative effort with the Congressional Budget Office (CBO) and the Joint Committee on Taxation, provided the Congress with 147 deficit reduction options—most with associated savings estimates—based on GAO's work.

Also, we identified the long-term economic impact of current fiscal policy by updating our simulations of the long-term economic impact of the deficit and provided basic information on the composition and size of the federal debt. Lastly, our report on the design of federal grants has been used by both GAO staff and outside experts when considering the devolution of responsibilities to the states and how grant design improvements can help scarce federal resources go further.

Improving Budgetary Choices

Our work in the area of structuring, presenting, and analyzing the budget to assist the Congress in making resource allocation decisions was extensive. It included studies and analysis on proposed changes to the current budget process, budgeting for federal insurance programs, linking accounting and budgeting to improve financial management and budget decision-making, and ways that performance measures might be integrated into the budget process. We provided information to the Chairman of the Senate Appropriations Committee on the difficulty in tracking whether agencies were deferring needed maintenance on plant and equipment, and we analyzed the ways agencies successfully budget for federal capital. We provided a compendium of budget accounts developed to give users a convenient way to sort out the budgetary structure of the federal government and to determine the level of resources used for individual departments, bureaus, and accounts. We issued reports on

federal fiscal trends over the past 24 years and on federal investment outlays. We worked with audit groups on the consolidated financial statement audit and on translating financial audit findings into terms and concepts familiar to the House and Senate budget committees.

This past year we saw some of our previous work on budget structure and process bear fruit in legislative proposals and changes in law. GAO's work assisting in the early stages of the implementation of the Government Performance and Results Act (GPRA) has included our widely used report comparing GPRA to earlier initiatives, as well as our work on account structures, on the relationship of GPRA to the appropriations process, and on program overlap and fragmentation.

We worked closely with the Federal Management and Workforce Issues group on several joint products dealing with management in the federal government and on GPRA implementation. Our previous work on divestiture and privatization practices in other nations led to the President's proposal in the fiscal year 1998 budget request to create an office of privatization within the Department of the Treasury.

In addition, we continue to work on the linkage of budgeting and accounting concepts. We have worked to draw road maps from financial statement information to the budget process. Our forthcoming report on budgeting for insurance explores an area in which federal commitments are under-recognized in the budget. Several staff serve on the Federal Accounting Standards Advisory Board (FASAB) and CFO task forces and subgroups. In addition, we are active participants in discussions about the audit of the consolidated financial statement and how to make that information most useful in debates about fiscal and budget policy. We also worked with the Environmental Protection Issues group on a joint product that assessed the process for budgeting and setting operating priorities at the National Park Service and with the Government Business Operations Issues group on a report on GSA's cost estimates for obtaining office space.

We have also worked with OMB on a range of products. We were involved extensively from the outset in shaping OMB's guide to agencies on capital programming. Our best practices examples from our ongoing work will be folded into OMB's capital guide. We participated in an OMB-led task force on cost accounting and the budget culminating in a CFO Council guide to agencies.

Key Open Recommendations

Federal Credit Reform

We have 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. Although the fiscal year 1998 Budget included some changes in budgetary treatment for GNMA, it did not include a requirement that GNMA budget for guarantees using the issuance dates. It is possible, however, that recent changes to the Credit Reform Act may prompt GNMA acceptance of our recommendations. ([GAO/AIMD-94-57](#))

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

Tax Expenditures

In a joint effort with the 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. 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 expenditure performance reviews before developing the governmentwide framework 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/GGD/AIMD-94-122](#))

Chapter 5
Financial and Information Management
Programs

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

Civil Audits Issue
Area (Budget
Function 990)

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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 much remains to be accomplished to successfully implement the Chief Financial Officers (CFO) Act—especially as it relates to improving systems and the quality and accuracy of the information maintained and produced by them for decision makers.

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 and the enactment of the Government Management Reform Act of 1994, financial statement preparation and audit coverage have significantly increased. The Government Management Reform Act expanded the CFO Act's requirements by requiring that, beginning with fiscal year 1996, financial statements be prepared on an organization-wide basis, i.e., cover all of an agency's programs and activities. However, most of the agencies did not receive unqualified audit opinions on their fiscal year 1996 financial statements.

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, highlighting control weaknesses and high-risk areas that need to be resolved, and identifying actual and potential savings. In fiscal year 1997, we continued our work with OMB and with agency CFOs and IGS in connection with the audits of the agencywide financial statements and our first audit of the Federal Government's consolidated financial statements.

**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 and Inspectors General in identifying problems and potential solutions as agencies continue to work to meet the audit and reporting requirements of the CFO Act and the Government Management Reform Act.

Agencies have long had problems in managing credit programs and collecting tax and nontax debt. As of September 30, 1996, governmentwide delinquent debt reached \$51 billion. In our June 1997 report on debt collection, we noted that better data and key analyses are crucial aspects of federal efforts to measure success in accomplishing the charter for a more business-like credit management environment as set out by the Debt Collection Improvement Act of 1996. Such data is central to effective day-to-day management in terms of selecting collection strategies and deploying available staff and contract resources. We have recommended that Treasury, in conjunction with major credit agencies and OMB, revise the framework and data requirements for agency reporting on debt collection to ensure that reports to the Congress offer an evaluation of agency use of individual collection tools and highlight any significant backlogs in collection activity meriting administrative or legislative consideration.

For the first time IRS received a qualified opinion on its fiscal year 1996 Statement of Administrative Financial Position. In our report on IRS' 1996 Administrative financial statements, we noted that progress has been made and actions are underway by IRS to try to resolve the material weaknesses in internal controls and financial management problems reported in our prior year audits. For example, IRS' inadequate procedures for reconciling its Fund Balance with Treasury accounts resulted in years of accumulated unreconciled amounts that were not regularly researched and were difficult to resolve when the amounts were required to be audited. Over the past 3 years, IRS has implemented procedures for reconciling and reducing these significant unreconciled amounts. At the completion of our fiscal year 1996 audit, IRS had reconciled its September 30, 1996, Fund Balance with Treasury accounts.

Federal agencies use the OMB credit subsidy model to calculate the subsidy cost of direct loan and loan guarantee programs for budget and financial reporting purposes. With outstanding direct loan and guaranteed loan balances for federal credit programs approaching a reported \$1 trillion,

accountants, auditors, and budget analysts need to have assurance that the OMB model calculates a reliable subsidy cost and is maintained and operated under a system of adequate controls. As a result of our work with the OMB credit subsidy model, certain issues surfaced relating to the use of the OMB model that need to be addressed as part of the financial statement audits of user agencies. With assistance from the Federal Audit Executive Council, credit agencies' inspectors general, representatives of the Governmentwide Credit Reform Subgroup, and OMB, we prepared a list of supplemental audit procedures to help provide assurance that federal credit agencies are using the model properly. These audit procedures were sent to all credit agencies' inspectors general.

The monthly process used by federal departments and agencies, and Treasury in reconciling the Fund Balances with Treasury accounts is a primary control over federal receipts and disbursements. With disbursements and receipts each amounting to over \$1 trillion annually, accountants and auditors need to have assurance that this reconciliation process is operating effectively. Based on our work on the overall reconciliation process and with the assistance of the Federal Audit Executive Council, we issued correspondence to the Inspectors General and Chief Financial Officers of the 24 agencies covered under the Chief Financial Officers Act. This correspondence (1) provided information on key Treasury and agency processes and procedures for reconciliations of Fund Balance with Treasury accounts and alerted the IGS to concerns and certain issues related to these reconciliations that emerged during our work, and (2) provided guidance and suggested audit procedures for Fund Balances with Treasury accounts to assist the IGS in developing audit plans for their audits of fiscal year 1997 financial statements.

High-Risk Areas

During the past year, we focused on two high risk areas—Customs financial management and IRS financial management. Congress has shown significant interest in both areas in 1997.

Customs Financial Management

Customs continues to address significant weaknesses in its financial management and internal control systems. These actions include, for example, statistically sampling compliance of commercial importations through ports of entry to better focus enforcement efforts and to project and report lost duties, taxes, and fees due to noncompliance. Customs also developed a methodology to estimate and disclose the liability for future claims for drawback payments and other refunds. In addition, meaningful steps toward correcting its computer access problems were taken.

Further, Customs reorganized its Office of Finance and established financial advisor positions in key organizational units to more effectively meet financial management responsibilities.

Although these actions have resulted in substantial progress, Customs still has not fully corrected problems in these areas, which continue to be identified during audits of Customs' financial statements under the CFO Act. These problems continue to hinder Customs' ability to reasonably ensure that duties, taxes, and fees on imports are properly assessed and collected and refunds of such amounts are valid; sensitive data maintained in its automated systems, such as critical information used to monitor Customs' law enforcement operations, are adequately protected from unauthorized access and modification; and core financial systems capture all activities that occurred during the year and provide reliable information for management to use in controlling operations.

We have made several recommendations to Customs in an effort to promote better financial management and strengthen its controls. Although actions have been initiated on all key open recommendations and improvements continue, recommendations deemed critical to improving the assessment and collection of revenue, strengthening automated systems security, and integrating core financial systems remain open. We realize that most of these problems require long-term efforts to effectively plan and implement solutions to address the long-standing root causes. ([GAO/AIMD-94-119](#) and [GAO/HR-97-30](#))

IRS Financial Management

IRS has made progress in addressing its financial management problems and has developed an action plan, with specific timetables and deliverables, to address the issues our financial statement audits have identified. For example, as noted above, IRS has identified substantially all of the reconciling items for its Fund Balance with Treasury accounts. Additionally, it has begun designing both a short-term and a long-term strategy to fix the problems that contribute to its nonpayroll expenses being unsupported or reported in the wrong period. Further, in the revenue accounting area, IRS has designed an interim approach to capture the detailed support for revenue and accounts receivable until longer-term solutions can be identified and implemented. The issues with IRS' revenue accounting operations are complex, and the remedies needed are multifaceted and encompass organizational, managerial, technological, and procedural improvements. IRS' revenue accounting problems are complicated by automated data processing systems that were implemented many years ago and thus not designed to support the

financial reporting requirements ushered in by the CFO Act. IRS is working on a long-term systems improvement plan that would ultimately result in software, hardware, and procedural changes needed to create reliable subsidiary accounts receivable and revenue records that are fully integrated with the general ledger.

Over the past 4 years, we have made 59 recommendations to improve IRS' financial management systems and reporting. IRS has completed action on several of these recommendations and has efforts under way to address almost all of the remaining areas. ([GAO/T-AIMD-97-34](#) and [GAO/HR-97-2](#))

Key Open Recommendations

Agency-Specific Recommendations

We continue to make 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 are needed to restore integrity to the federal government's financial management operations. Key elements of successful federal financial management reform are high-quality leadership; an effective CFO organizational structure; effective long-range planning; and preparation of meaningful and auditable 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.

Bureau of Indian Affairs

Our work at the Department of the Interior's Office of the Special Trustee for American Indians and its Bureau of Indian Affairs showed continuing trust fund management problems, and the need for the Secretary to (1) adequately 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, and (3) provide additional information to support proposals in the Special Trustee's strategic plan for Indian trust funds management improvements. ([GAO/T-AIMD-95-94](#) and [GAO/T-AIMD-97-138](#))

OMB Subsidy Credit Model

Our review of OMB's credit subsidy model resulted in the following recommendations for improving the model's reliability and controls:

(1) revise the model's discounting equations to follow standard finance theory; (2) implement a structured software development methodology to ensure the production of quality, reliable, software; (3) improve documentation; (4) enhance the model's printed output to provide an audit trail showing which data the model used to calculate the subsidy cost; and (5) provide credit agencies with guidance to establish logical access controls surrounding use of the model. OMB has indicated that it plans to take actions consistent with our recommendations when it develops a new model that is tentatively expected to be completed in mid-1998. (GAO/AIMD-97-145)

Federal Family Education Loan Program

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. Because the Department of Education has begun corrective actions in these areas and has demonstrated a commitment to resolving financial management problems, we believe the Department is making progress. However, because guaranty agencies and lenders have a crucial role in the implementation and ultimate cost of this education loan program, the Department should complete steps underway for improving oversight of guaranty agencies and lenders. The Department of Education has issued revised audit guidance for its lenders, lender servicers and guaranty agencies which requires their independent auditors to perform procedures to report on the integrity of billings. However, to use this guidance as an effective monitoring tool for the guaranty agencies, the Department needs to monitor the receipt of audit reports and follow-up on audit findings in a timely manner. Furthermore, the Department needs to continue its plans for (1) revising the role of guaranty agencies and the manner in which they are compensated, (2) establishing and maintaining subsidiary ledgers for the Federal Family Education Loan Program, and (3) finalizing reasonability edits and analyzing variances between the Department of Education's Federal Family Education Loan Program subsystems and lenders' billing data. (GAO/AIMD-96-22).

District of Columbia

Our work at the District of Columbia has shown that little progress has been made to improve its financial condition, its health care, or its prison system. We identified structural issues relating to the District's limitation on significantly increasing its revenue at the District and federal level. Congress recently addressed these issues in the Balanced Budget Act of 1997 which provided financial relief to the District. The legislation (1) transferred the responsibility for the \$4.8 billion unfunded pension

liability to the federal government (2) reduced the District's non-federal share of medicaid expenditures from 100 percent to 30 percent resulting in a \$273 million savings based on the 1997 budget submission, and (3) transferred certain responsibilities for the prison system to the federal government. Our work also shows continuing financial and management problems and the need to (1) clean up existing data in financial systems and place special emphasis on ensuring that basic accounting policies and procedures are followed, and (2) establish a process of accountability for implementation of management initiatives. (GAO/T-AIMD-96-126 and GAO/T-AIMD-95-176)

Corporate Audits and Standards Issue Area (Budget Function 990)

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Impact of GAO's Work

The issue area includes accounting and auditing standard setting in both the public and private sectors. The issue area also includes audit work at largely independent government agencies referred to as government corporations and mandated assistance related to legislative entities.

Accounting and Auditing Standards

In cooperation with OMB and the Department of the Treasury, GAO sets accounting standards for the federal government based on standards recommended by the Federal Accounting Standards Advisory Board (FASAB). GAO also establishes audit standards for audits of government organizations, programs, activities, functions, and assistance.

We have continued to focus on evaluating whether generally accepted accounting principles and auditing standards provide an adequate basis for fairly and consistently reporting financial condition and operating performance. As a member of FASAB, we provided leadership in developing the recently completed accounting standards to facilitate consistent and reliable agency financial reporting as envisioned by the Chief Financial Officers Act of 1990 (CFO Act). These standards have provided a unique financial reporting model and “core” standards to guide federal agencies in accounting and financial reporting on many of the major categories of items under their cognizance. They are designed to provide information on the federal government’s financial condition, as well as on the cost of its programs and related exposures to high risk. Moreover, the new standards that have resulted from FASAB’s work are central to effectively meeting the CFO Act’s financial management goals. We were also instrumental in developing an improved reporting model that focuses users on an entity’s costs of programs and the relationship of those costs to its budgetary obligations. We have continually provided technical assistance on the application of FASAB accounting standards. GAO also works with the Financial Accounting Standards Board (FASB), the Government Accounting Standards Board (GASB) for state and local governmental entities, the American Institute of Certified Public Accountants (AICPA), the International Federation of Accountants (IFA), and others to provide input to accounting and auditing standards established for the private sector and state and local governments.

Over the past year we have also conducted a variety of activities to increase the understanding of Government Auditing Standards, to help ensure the consistent application of these standards, and to broaden the acceptance of the standards by the auditing community. For example, GAO staff have provided technical assistance in response to frequent telephone inquiries, made numerous speeches at major conferences, provided technical training throughout the government auditing community, and explained the standards in several videotapes, which have been viewed by thousands of auditors.

We have also reinstituted the Advisory Council on Government Auditing Standards to advise the Comptroller General on revisions to Government Auditing Standards. The Council met twice during fiscal year 1997. Results of the meetings include (1) a revised approach to issuing auditing standards which should result in issuing standards more timely, (2) agreement to issue other product lines in addition to the standards, such as interpretive guidance and a question and answer forum on the INTERNET to provide answers to frequently asked questions concerning government auditing standards and Single Audit Act audit requirements, and (3) the identification of several audit issues that may necessitate revisions to the auditing standards.

We also worked with OMB over the past year to develop audit requirements for the annual financial statement audits required by the CFO Act for the government's 24 major agencies, the Federal Financial Managers Improvement Act of 1996 (FFMIA), and the Single Audit Act Amendments of 1996.

Regarding the CFO Act, we issued the CFO Act Checklist in 1995 to assist agencies and auditors in complying with the requirements of accounting standards when preparing financial reports mandated by the Act. We are revising the checklist to incorporate the requirements of several standards issued after 1995, and will release the revised checklist for comment in December 1997. Regarding the FFMIA, we have prepared a detailed checklist (similar to the CFO Act Checklist) to assist agencies and auditors in complying with the systems requirements of the Act. The checklist is out for comment. Regarding the Single Audit Act amendments, we have worked closely with OMB to make the necessary revisions to OMB Circular A-133 and the related Compliance Supplement, and are currently working with the AICPA and OMB to issue guidance for auditing federal awards.

GAO's Policy and Procedures Manual For Guidance of Federal Agencies provides accounting and internal control standards and guidelines for executive agencies to follow. GAO provides interpretations and explanations of the standards and guidelines to assist agencies in operating effective systems and reporting reliable information. As a result of (1) the National Performance Review's effort to create better government at less cost, (2) the downsizing taking place, and (3) the ability of technology (computer systems) to automate traditional manual controls, a number of agencies have sought GAO's approval to implement compensating controls involving interpretations of GAO's fiscal and internal control standards. We have worked effectively with the agencies to streamline operations in their payments processing, document retention, and travel voucher processing resulting in estimated cost reductions of over \$7 million. We have also revised the portion of the manual covering reporting standards to reflect the issuance of Volume I of the codification of the new federal accounting standards. This revision should assist the CFO, IG, and accounting/auditing community by providing one document containing all federal accounting standards. GAO is also revising the internal control standards (Appendix II of Title 2) which will be released for comment.

In response to our 1996 report on the accounting profession that discussed concerns over auditor independence, the Securities and Exchange Commission and the AICPA jointly created the Independence Standards Board. The Board, which is responsible for setting improved independence standards for auditors of public companies, is expected to provide solutions to challenges facing auditing firms that pursue new service areas and form new, complex business and professional relations.

Government Corporations

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 two insurance funds administered by the Federal Deposit Insurance Corporation (FDIC), as relatively few institution failures

occurred over the past several years. However, billions of dollars in assets from past failed institutions still remain that need to be managed and disposed of.

In March 1995, we reported to the Congress that FDIC, and ultimately the taxpayers, were facing significant exposure from problems remaining from the thrift industry crisis. In September 1996, in response to issues raised in our report which contained a range of policy options to address this exposure, the Congress passed the Deposit Insurance Funds Act of 1996 which authorized FDIC to charge a special assessment on assessable deposits of the Savings Association Insurance Fund. The special assessment resulted in a net inflow of \$4.5 billion and fully capitalized the insurance fund.

In response to issues identified through our audits, FDIC has made several significant improvements in key processes and systems affecting its accounting and financial reporting for the deposit insurance program and the continued liquidation activities for failed thrifts. FDIC has improved its process for estimating the recoveries from assets from failed institutions, thus improving the information used to record key estimates in the financial statements. FDIC has also improved its time and attendance reporting process, resulting in improved accounting for expenses. FDIC also took actions to improve weaknesses we identified in its electronic data processing controls.

Our financial audit of FDIC for fiscal year 1996 resulted in an unqualified (clean) opinion on each of FDIC's three funds—the Bank Insurance Fund, the Savings Association Insurance Fund, and the Federal Savings and Loan Insurance Corporation Resolution Fund—financial statements. However, our audits identified needed improvements in internal controls over (1) the integrity of information used to calculate the allowance for losses on receivables from resolution activities and investment in corporate-owned assets, and (2) FDIC's oversight of asset servicers contracted to manage and dispose of failed financial institution assets. We are currently working closely with FDIC in its development of action plans to address the above weaknesses.

To address our recommendations to the Federal Reserve Board concerning the quality of bank examinations and inspections of bank holding companies, the Board developed internal control review procedures and inspection procedures that are based on a risk assessment

of controls and bank activities. The Board also developed documentation and supervisory review procedures.

We 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. In addition to the general purpose financial statements, we reported on the Commission's financial viability to meet its financial liabilities on December 31, 1999, and that the Commission's liability for severance pay could greatly increase from \$10 million to as much as \$68 million if a proposed rule to amend the severance pay regulations is not issued by the Office of Personnel Management. During the past year, the Commission acted on our recommendations to improve its methodology for estimating post retirement medical care costs. The Commission's previous methodology had underestimated the cost by about \$1 million. Also, the Commission corrected an error we identified in its process for calculating interest payments to the U. S. Treasury on the government's investment. This resulted in the U. S. Treasury receiving about \$213,000 additional interest from the Commission.

Legislative Branch Entities

We continued to work with the Congress and legislative entities to provide timely and effective audit and other assistance and to encourage consideration of annual financial audits for legislative entities similar to those being conducted for the executive branch under the CFO Act. Specifically, our audit and assistance efforts have included financial audits of the Congressional Award Foundation, Capitol Preservation Fund, and the Senate Restaurants; review and related procedures related to the House Interparliamentary Groups and Committee on House Oversight financial reports; and advice and/or other assistance to the Secretary of the Senate and Senate Sergeant at Arms. We provided the Congress and the management for the legislative entities with valuable assurance on the reliability and accuracy of their financial information and reports and made recommendations designed to strengthen financial operations and controls and to improve the usefulness of financial information and reports.

We are monitoring the Library of Congress' efforts to address internal control and system-related weaknesses identified previously in the audit of the Library's fiscal year 1995 financial statements. Although the Library has made considerable progress, several of the problem areas, such as conducting risk assessments of its collections, require long-term efforts.

Key Open Recommendations

FDIC's Internal Controls

In our 1996 financial audits of FDIC's three funds, we found that the corporation 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 the integrity of information used to calculate the allowance for losses on receivables from resolution activities and the oversight of asset servicers contracted to manage and dispose of failed financial institution assets. FDIC is addressing these internal control issues. We agree with the Corporation's planned corrective actions and will monitor its progress. ([GAO/AIMD-95-102](#) and [GAO/AIMD-97-111](#))

Bank Examinations

Our 1993 report on the quality of bank examinations performed by the Office of the Comptroller of the Currency contains a recommendation concerning sampling methodologies. In response to our recommendation, the Office of the Comptroller of the Currency is revising the statistical section of its examiner handbook, and plans to issue the revision by the end of 1997. We will monitor the Office of the Comptroller of the Currency's progress in addressing our recommendation. ([GAO/AFMD-93-13](#))

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 1996 financial statements, conducted by a CPA firm under the direction of the Library's IG, confirmed the Library's progress in improving financial management and in implementing recommendations made as part of the audit of the Library's fiscal year 1995 financial statements. However, the 1996 audit noted that more needs to be done to strengthen accounting and security controls, including conducting a comprehensive risk assessment for the Library's collections and developing a security plan to safeguard its collections. We will monitor the Library's efforts to respond to the recommendations made as part of the fiscal year 1995 audit. ([GAO/T-GGD/AIMD-96-115](#))

Defense Financial Audit Issue Area (Budget Function 990)

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

Impact of GAO's Work

Long-standing, serious weaknesses in DOD's financial operations continue not only to severely limit the reliability of its financial information, but also have resulted in wasted resources, and undermined the Department's ability to carry out its stewardship responsibilities. While DOD prepared its first set of DOD-wide financial statements for fiscal year 1996, they were unauditible. Nonetheless, the effort to produce and attempt to audit these statements has generated increased pressure on DOD to fix its serious financial problems. As envisioned by the Chief Financial Officers Act of 1990, and expanded by the Government Management Reform Act of 1994, audited financial statement will provide an annual public scorecard to measure DOD's other agencies' progress in resolving financial management deficiencies.

Effectively addressing DOD's widespread and severe financial management problems is critical to effectively managing the Department's vast resources.

DOD is responsible for over \$1 trillion in assets, 3 million military and civilian personnel, and a budget of an estimated \$250 billion for fiscal year 1997. We now have a multi-faceted audit approach that focuses on identifying (1) opportunities to improve DOD's ability to comply with current and upcoming financial statement preparation and audit requirements and (2) actions needed to address the fundamental problems contributing to the Department's inability to produce reliable financial information. We are also continuing to work with the Inspectors General at the Department of State, AID, and NASA to ensure that financial audit work at these agencies is sufficient, reliable, and conducted in accordance with applicable standards.

This audit approach focuses on promoting more efficient and cost-effective program operations, as well as on strengthening accountability. Our efforts this past year have gone a long way in contributing to this objective. Many of our key recommendations, as outlined in the following section, are intended to help the Congress, as well as top DOD and other cognizant agencies' officials, to better understand the full extent and nature of the financial management challenges confronting them.

Examples of our contributions this past year include:

- developing an approach for conducting the first world-wide verification of DOD's estimated multi-billion dollar investment in mission assets;
- improved controls over the DOD system used to process payments to hundreds of thousands of DOD civilian employees;
- correction of errors and related improvements in the overall reliability of the system used to track the Air Force's billions of dollars invested in aircraft and missiles; and
- improvements in NASA's ability to effectively carry out its cost accounting and property accountability responsibilities.

High-Risk Area

In February 1995, we designated DOD's financial management operations as a high-risk area.

DOD's Financial Management

We characterized DOD's financial operations as "one of the worst in government and the product of many years of neglect". Since 1990, we and DOD auditors have made over 400 recommendations to correct DOD's most pressing financial management weaknesses.

In our February 1997 high-risk series, we reported that the past few years have been marked by DOD leadership's recognition of the importance of tackling the broad range of problems in this area. However, we added that DOD had a long way to go to meet the challenges of managing its vast and complex operations with the business-like efficiency demanded by the Congress and the American public. DOD has a number of reform initiatives underway that are intended to address its financial management deficiencies. If its envisioned financial management reforms are to realize meaningful financial management improvements, they must address challenging problems in six critical areas—systems, cost accounting, disbursements, personnel, internal controls, and business processes. It will take a focused, sustained effort for DOD to fully resolve these fundamental deficiencies.

Key Open
Recommendations

The following are among our most important recommendations that have yet to be fully implemented.

DOD-wide Programs

In January 1997, we reported that DOD does not have a complete inventory of the systems it uses to record, accumulate, classify, and report financial information. An accurate inventory is a critical first step if DOD is to develop reliable financial management systems and resolve its long-standing financial management problems. (GAO/AIMD-97-29)

According to DOD, its disbursement transactions paid at one location, but accounted for at another location—commonly referred to as Transactions-by-Others—have been the costliest, most time-consuming, complicated, and error-prone segment of its disbursement accounting operations. In March 1997, we reported on key issues that limited DOD’s ability to effectively and promptly achieve its goal of improving processing for Transactions-by-Others. We recommended that DOD develop more comprehensive information on the causes of problems and ensure that resources dedicated to addressing those problems are properly prioritized. (GAO/AIMD-97-45)

In September 1997, we reported that the system DOD selected to account for its multi-billion dollar investment in real and personal property, as designed, did not provide the information needed to meet new federal accounting requirements. We recommended a number of actions to improve DOD’s ability to achieve its desired goal of financial control and accountability over its general property, plant, and equipment by the year 2000. Specifically, we recommended that DOD take a number of actions, including: (1) develop a concept of operations for the property function, (2) develop a detailed implementation plan, and (3) expand the system functionality to ensure that it can meet both current and pending federal accounting requirements. (GAO/AIMD-97-150)

In September 1997, we identified significant control deficiencies concerning the actuarial process and in the general controls over the electronic data processing support operations for the DOD Military Retirement Trust Fund. This Fund is used to finance an estimated \$548 billion DOD liability for military retirement and survivor benefits. We recommended a number of actions to address weaknesses in the Fund’s actuarial process and electronic data processing general controls. (GAO/AIMD-97-128)

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, DOD needed to consider additional steps to fix its longstanding weaknesses. Specifically, we reported that to turn the Secretary’s

“Blueprint” for reforming the department’s financial management into substantive improvements, DOD should (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)

Army Programs

In December 1993, we reported that the Army’s budget execution system had fundamental weaknesses that limited the Army’s ability to ensure its compliance with the Antideficiency Act. The report also pointed out that inaccurate reporting could cause the Army to underestimate its future required outlays. In addition, we reported that the lack of sustained DOD leadership had impaired Army’s ability to strengthen financial accountability. 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

A critical factor in achieving the financial management improvement objectives envisioned by the Chief Financial Officers Act and other recent reform legislation is ensuring that agencies have well trained and experienced financial personnel in key positions. In the Navy, comptrollers serve in positions of critical importance for ensuring that the Department effectively manages its operations and meets the requirements of recent reform legislation. However, we reported in May 1997 that Navy personnel practices did not provide a career path for Navy officers to develop and maintain the core competencies needed by a comptroller. We recommended a number of actions to address this situation, including establishing a financial management career path that will ensure that military officers are prepared, both in terms of education and work experience, for comptrollership responsibilities. (GAO/AIMD-97-58)

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 DOD'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 reported on improvements needed in the Standard Accounting and Reporting System (STARS), which had been selected to serve as Navy's system for general fund accounting. We found that the planned STARS implementation was 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)

In August 1996, we reported that Navy's item managers did not have adequate visibility over \$5.7 billion in operating materials and supplies. This lack of visibility increased the risk that millions 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 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. 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 March 1996, we issued a report to complete our initial reviews of each of the military services' financial management operations. 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 hampering the Navy's financial operations. We concluded that the Navy and Defense Finance and Accounting Service 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)

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

Audit Oversight and Liaison Issue Area (Budget Function 990)

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

Impact of GAO's Work

This issue area focuses on four objectives: (1) improving the quality and use of single audits, (2) strengthening the inspector general concept, (3) improving the financial accountability of several federal activities, and (4) making the intergovernmental auditing process more useful.

We have worked with OMB, federal program and IG offices, and state organizations to improve the quality and use of single audits. The Single Audit Act requires annual audits of federal financial assistance—over \$200 billion annually received by state and local governments and nonprofit organizations. We have worked closely with OMB to revise and reissue Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, dated June 1997, and the related Compliance Supplement that assists non-Federal entities and auditors in meeting their responsibilities under the Single Audit Act. We have met with representatives of IG organizations to determine their intended use of single audit results, and to stress the critical role that single audits often play in the agencywide financial statement audits required by the Chief Financial Officers Act. We also frequently interact with representatives of program and IG offices and state and local organizations to respond to questions on the Single Audit Act in such areas as the use of the recently developed risk-based audit approach and the interpretation of various provisions of Circular A-133 and the related Compliance Supplement.

Federal IGs have devoted considerable effort since passage of the IG Act in 1978 to establishing controls to ensure compliance with professional standards and to measuring savings and other accomplishments from their work. At the request of a congressional committee, we recently began a comprehensive review of the current IG concept, including key areas such as strategic planning, performance measures, quality assurance, reporting, expertise, and independence in order to identify and assess opportunities to strengthen IGs' effectiveness.

We perform financial audits of several federal activities, such as independent counsels, commemorative coin recipients, and White House operations. These audits, typically mandated by law, have resulted in numerous recommendations and suggestions that the audited organizations have implemented, including improvements in internal

controls over financial operations. We also review the results of mandated financial audits of federally chartered corporations to ensure that those audits are conducted in accordance with generally accepted government auditing standards, as required by law.

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 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 ensure accountability over public funds. In that regard, the forums have been an excellent resource in developing and implementing recommendations to make the single audit process more useful for program oversight and in preparing and auditing federal agency financial statements.

Key Open
Recommendations

Audits of employee benefit plans are a key safeguard for protecting assets held by plans. As of 1988, the most recent 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 those audits 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 in the Act. (GAO/AFMD-92-14)

Information
Resources
Management Issue
Areas (Budget
Function 990)

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Impact of GAO's Work

The federal government's dependence on computer systems, networks, and electronic records to carry out its work continues to accelerate. Information systems are now integral to virtually every aspect of over \$1.5 trillion in annual government operations and spending—from national defense and air traffic control to revenue collection and benefit payments. Yet despite an annual investment of approximately \$26 billion for information technology (IT) products and services, agencies continue to face chronic problems in reducing operating costs, improving performance, supporting sound financial management, and providing quality service to the American public.

Our work focuses on the most complex and difficult technology challenges facing the federal government today, including

- multi-billion dollar, high-risk efforts to modernize government information systems,
- initiatives to improve mission performance by adopting the best public and private sector practices for strategic information management,
- the Year 2000 problem which, for many agencies, will be the largest project ever managed and implemented by their information resource management organizations,
- the increasing need for agencies to provide adequate security over the integrity, privacy, and availability of the data they rely on, and
- the government's ability to use its telecommunications resources to improve service to the public and reduce the cost of operations.

Examples of some of our accomplishments include the following.

- The Bureau of Land Management has saved millions on its Automated Land and Mineral Record System, identified system performance problems, and strengthened testing and evaluation.
- The Department of Education is developing a departmentwide systems architecture to guide the development of its student financial aid systems.
- We published a Guide for Evaluating Federal Agencies' IT Investment Decision-making which provides agencies with detailed guidance on the best practices for selecting, controlling, and evaluating their information technology projects. This approach was embodied in the Clinger-Cohen Act of 1996 and in subsequent OMB guidance on capital investments in technology.
- The Department of Housing and Urban Development consolidated several grant management systems to save millions.
- The National Oceanic and Atmospheric Administration revised its procurement plans for satellites in the Geostationary Operational Environmental Satellite program. Specifically, the procurement of follow-on satellites will use open competition.
- DOD is reengineering temporary duty travel processing, a traditionally wasteful and burdensome operation. Pilot results reported nearly a 100 percent increase in customer satisfaction, a 48 percent decrease in both average cycle time and travel process steps, a 63 percent decrease in average voucher processing time, and a 56 percent decrease in average processing costs. The Congress reduced DOD's request for operations and maintenance funds for fiscal year 1996 by \$128.5 million.
- The U.S. Department of Agriculture has initiated a moratorium on IT purchases and restructured its overall IT program. USDA has deferred spending millions on major IT investments for its field service centers until business processes are fully reengineered.
- NASA has revised its telecommunications network consolidation strategy with the expectation of achieving cost reductions. For example, officials at the Goddard Space Flight Center estimated that the agency can save an additional \$94.5 million, beyond the savings originally estimated for the consolidation effort.

High-Risk Areas

The management of information as well as information technology continues to be a high-risk area for the government. Of particular concern across the government is the Year 2000 conversion and information security. Two other multibillion dollar technology programs—DOD's Corporate Information Management Initiative and the National Weather Service's modernization—are also designated as high-risk.

Year 2000 Conversion

The Year 2000 conversion is one of the rapidly emerging problems in information technology. This problem stems from the common practice of abbreviating years by their last two digits. Computer systems could interpret "00" as the year 1900 instead of the year 2000, "01" as 1901, and so on. The resulting miscalculations involving dates and the computation of elapsed time could cascade through all kinds of activities, such as loans, mortgages, pensions, tax records, and benefit payments. Moreover, the impact of Year 2000 failure could be widespread, costly, and debilitating to important warfighting and military missions. Our Year 2000 audit effort has focused on assessing whether agencies are sufficiently prepared to handle the massive and complex management task of correcting their information systems and to assist governmentwide efforts to improve the effectiveness of Year 2000 programs.

Our series of reviews of Defense Year 2000 computer problems revealed critical flaws in DOD's processes for addressing Year 2000 problems, particularly with respect to (1) project planning, (2) risk assessments, (3) contingency plans, (4) identifying and correcting interfaces, and (5) availability of testing resources.

In response, DOD has agreed to address specific weaknesses we identified. The Defense Finance and Accounting Service and the Defense Logistics Agency, for the most part, have agreed to implement our recommendations. These actions should greatly improve the DOD's ability to address the problem successfully.

As a result of our 1997 efforts involving the Veterans Benefit Administration's year 2000 problem, the Veterans Benefit Administration is taking steps to avert serious future disruptions in its ability to disseminate benefits to millions of people.

Information Security

Electronic information and increasingly interconnected automated systems are essential to virtually all major federal operations. These factors, combined with serious weaknesses in agency security controls, are placing billions of dollars in federal assets at risk of loss, critical

operations at risk of disruption, and enormous amounts of sensitive data at risk of inappropriate disclosure. Over the past year our efforts in this area have concentrated on identifying for the Congress ways in which to manage the risks and develop solutions to this complex problem.

Our recent reports have highlighted these risks and raised the visibility of this issue among congressional oversight committees and groups with central management responsibilities, such as the CIO and CFO Councils. As a result, information security is beginning to be recognized as a high priority issue in strategic plans, and congressional interest in balancing the benefits of new technology with security and privacy concerns is growing. In particular, our work at individual agencies has assisted the Congress in monitoring progress on long-standing problems, such as security weaknesses at IRS, and in understanding the security implications of new issues, such as the Social Security Administration's move to allow access to individuals' earnings data through the Internet.

Our review of DOD's computer security disclosed that unknown and unauthorized individuals are increasingly attacking and gaining access to highly sensitive, but unclassified information on DOD's computer systems. In response, DOD initiated action to implement several of the recommendations. Most notably, it has updated its computer security policies and procedures, included computer security as one of four cornerstones of its strategic information technology plan, begun to recruit and train additional information systems security professionals, and begun to use more intrusion detection software in its computer networks.

Our May 1997 testimony highlighted general privacy and security considerations that federal agencies must address to safeguard sensitive information made available as a public service via the Internet.

DOD's Corporate Information Management

In a series of reports on DOD's Corporate Information Management initiative related to depot maintenance, materiel management, and the transportation business areas, we found that DOD's on-going migration system strategies were not likely to produce the dramatic gains in efficiency and effectiveness that were anticipated. Partially as a result of our work, DOD has revised these business area implementation strategies resulting in savings of over \$330 million, primarily from elimination of unnecessary systems development work.

National Weather Service's Modernization

We continued to identify major risks associated with the development of the National Weather Service's \$550 million Advanced Weather Interactive

Processing System. The Weather Service is currently pursuing our recommendations on the need for a systems architecture and more rigorous software testing and contract oversight.

Key Open Recommendations

The following paragraphs discuss some of the key open recommendations in the areas of information technology, information security, and telecommunications management as well as agency-specific recommendations.

Information Technology

Office of Management and Budget

Under the Clinger-Cohen Act, the Director of OMB is given significant governmentwide IT leadership and oversight responsibilities. In September 1996, we made extensive recommendations to OMB based upon our review of several agencies' IT investment decision-making processes. Specifically, we recommended that OMB develop guidance requiring agencies to (1) implement IT investment decision-making 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 data quality standards for data used to assess cost, benefit, and risk decisions. In addition, we recommended that OMB develop its recommendations for the President's budget based on agency actual track records in delivering mission performance for IT funds expended. OMB agreed with these recommendations and has issued implementation guidance to assist agencies in designing their IT investment processes. (GAO/AIMD-96-64)

Department of Defense

Our past work on DOD's logistics system improvement actions resulted in 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 strategies in these logistics areas until they can be linked with evolving outsourcing/privatization plans and show a favorable return on investment. While some actions were taken in response to these recommendations—notably a strategic plan was developed, and the depot maintenance and material management strategies were significantly modified—none of these actions were justified within the guidelines of the Clinger-Cohen Act's investment criteria. Further, oversight and review of the modified strategies that would verify an acceptable return on

investment prior to continued implementation of the strategies has not occurred. ([GAO/AIMD-96-81](#), [GAO/AIMD-96-109](#), [GAO/AIMD-97-6](#) and [GAO/AIMD-95-110](#))

See also chapter 1, Improving National Security and International Affairs Programs, Defense Management Issue Area.

U. S. Department of Agriculture

While USDA has taken some actions to reengineer its business processes for the Department's farm service and rural development agencies, these actions have not been fully responsive to our recommendations. Therefore, it is unclear how successful USDA will be in improving the way it does business as it implements the revised process. We are monitoring USDA's efforts to modernize information technology for the field service and are working with agency officials, OMB, and congressional committees to ensure that sound business process reengineering principles and practices are followed. ([GAO/AIMD-94-156](#))

To correct its financial management systems problems, USDA has taken steps to provide more authority to the CFO but has yet to fully address all our other recommendations. We are continuing to work with USDA on actions underway to integrate and improve financial management systems. ([GAO/AIMD-95-222](#))

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

Year 2000 Conversion

We have issued four reports identifying weaknesses and recommending corrective actions for the Year 2000 programs of specific DOD components. We recommended that Defense quickly modernize its departmentwide systems inventory with state-of-the-art access capabilities and additional data fields that will allow Defense agency personnel to enter system status information and use this data to track progress of correction efforts. At the Defense Finance and Accounting Service and the Defense Logistics Agency our recommendations included the need for improved project planning, formal system risk assessments, contingency plans, interface agreements, and testing resource assessments. Defense has concurred with all of our recommendations and plans to take corrective actions. ([GAO/AIMD-97-106](#), [GAO/AIMD-97-112](#), [GAO/AIMD-97-117](#) and [GAO/AIMD-97-120R](#))

See also chapter 1, Improving National Security and International Affairs Programs, Defense Management Issue Area.

Information Security

Office of Management and Budget

In September 1996, we recommended that the Director of OMB promote the CIO Council's (1) adoption of information security as one of its top priorities and (2) development of a strategic plan for increasing awareness of the importance of information security, especially among senior agency executives, and improving information security program management governmentwide. As of August 1997, the CIO Council's draft strategic plan included "Privacy and Security" as one of nine strategic goals. The goals will be finalized later in 1997. Although performance goals have been specified in the draft plan, a more detailed approach has not yet been developed. ([GAO/AIMD-96-110](#))

Department of Defense

Our report issued last year on computer attacks at the DOD highlighted risks to our national security and the damage that has already been caused. DOD agreed with our report and acknowledges, however, that it has much more to do to improve its information security posture. More attention needs to be given to increasing the awareness and accountability among computer users as to their security responsibilities. Many installations still do not have full-time dedicated information systems security officers and are not fully aware of the security risks of computer systems connected to the Internet. And, securing DOD systems will require an ongoing concerted process whereby risks are identified and controls are implemented as appropriate. ([GAO/AIMD-96-84](#))

See also chapter 1, Improving National Security and International Affairs Programs, Defense Management Issue Area.

National Weather Service Modernization

In our report on the National Weather Service's modernization program, we recommended that more rigorous software testing and contract oversight to reduce major risks associated with the development of its \$550 million Advanced Weather Interactive Processing System. In addition, we identified planning risks associated with the National Oceanic and Atmospheric Administration's multi-billion dollar weather satellite

program and we are monitoring the Administration's actions to address these risks. (GAO/AIMD-94-28, GAO/AIMD-95-24 and GAO/AIMD-97-37)

Telecommunications Management

Department of Defense

In our November 1996 report on the Defense Information Systems Network acquisition, we recommended that DOD develop performance measures needed to gauge the success of the program. At a minimum, these measures should address the concerns of customers and should correspond to the five factors—requirements, technology enhancement, schedule, management, and cost—that the Defense Systems Information Agency used to select its acquisition strategy. While DOD concurred, it has yet to finalize any Defense Information Systems Network performance measures. (GAO/AIMD-97-9)

In August 1997, we reported the Defense Finance and Accounting Service (DFAS) had not thoroughly reviewed or revalidated its requirements for telecommunication equipment and services as prescribed by DOD. Our study of utilization data for DFAS' data communication lines indicated that many of the lines may have excess capacity. DOD's Deputy Chief Financial Officer agreed with our recommendation that DFAS reassess its telecommunication requirements stating that such a reassessment would be performed in September and October 1997. (GAO/AIMD-97-100)

See also chapter 1, Improving National Security and International Affairs Programs, Defense Management Issue Area.

U.S. Department of Agriculture

We reported on the need for telecommunications management improvements at Interior and U.S. Department of Agriculture (USDA) and identified missed opportunities to save hundreds of millions of dollars because the Departments were not sharing telecommunications resources. For instance, Interior and USDA's Forest Service often use parallel radio systems. However, they were planning to collectively spend up to several hundred million dollars acquiring their own separate radio systems over the next 8 years and had failed to jointly determine the extent to which they could reduce these costs by sharing radio equipment and services. In response to our recommendations, both agreed to implement a systematic process for identifying opportunities to share telecommunications resources and to stop further radio purchases until radio sharing opportunities are fully analyzed. (GAO/AIMD-97-67)

Similarly, at USDA, after acknowledging the potential for saving tens of millions of dollars each year, the Department also acted on our recommendations to improve telecommunications management, consolidate telecommunications resources, and eliminate unnecessary services. Initial efforts have already yielded millions in savings. (GAO/AIMD-95-97, GAO/AIMD-95-203, and GAO/AIMD-96-59)

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

Agency-Specific Recommendations

Veterans Benefit Administration

In our continuing review of the Veteran Benefits Administration modernization project, we have noted that it has taken steps toward fulfilling our recommendations. However, as discussed in our 1996 testimony, it still needs to take aggressive action to effectively address serious management and technical weaknesses if its modernization effort is to succeed. (GAO/T-AIMD-96-103)

In response to our review which found its software development capability to be ad hoc and chaotic, the Veterans Benefit Administration has made progress. However, its actions have not yet fully addressed needed software development improvements. These include a need for a defined strategy to reach the repeatable level, a baseline to measure improvements, and a process to ensure that its software development contractors have a repeatable maturity level. The Veterans Benefit Administration generally agrees that these issues need to be addressed. (GAO/AIMD-96-90)

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

National Student Loan Data System

In our review of the Department of Education's efforts to integrate the National Student Loan Data System with other student financial aid databases that support title IV programs, we recommended that Education (1) develop and enforce a departmentwide systems architecture and (2) ensure that the architecture addresses the title IV systems integration. We also recommended that the Secretary direct that, as of July 1, 1998, the Department's information technology investments conform to the developed architecture and funding for all projects be predicated on such conformance, unless careful, thorough, and documented analysis supports

an exception. Education agreed with our recommendations.
(GAO/AIMD-97-122)

See also chapter 3, Improving Human Resource Programs, Education and Employment Issue Area.

Child Support

At HHS, our review of efforts by the states to develop automated child support enforcement systems found that HHS' Office of Child Support Enforcement (OCSE) had not provided adequate leadership and oversight of these efforts. Consequently, states have not always made efficient and effective use of the government's \$2 billion investment for these systems and many state systems may not be certified on time. We recommended a number of actions to strengthen OCSE leadership and increase the likelihood of developing more effective state automated child support enforcement systems. HHS is acting on our recommendations.
(GAO/AIMD-97-72)

See also chapter 3, Improving Human Resource Programs.

Medicare Transaction System

Since 1994, we have reported and testified on the need for the Health Care Financing Administration (HCFA) to reduce risks associated with its acquisition of the Medicare Transaction System. While HCFA has made some improvements, we reported in 1997 that serious management and technical weaknesses persist. To address these weaknesses, we recommended a number of actions to (1) improve management of the interim Medicare processing environment and the changes necessary for operating beyond the year 2000, (2) ensure that the Medicare Transaction System is managed as investment, and (3) ensure that sound system-development practices are followed. HCFA has begun to implement our recommendations. (GAO/AIMD-97-78)

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

Department of Commerce, U.S. Customs Service

In reporting on Customs' efforts to modernize its automated systems, we recommended in 1996 that Customs (1) identify and analyze its business requirements before selecting an enterprisewide architecture and (2) manage information systems as investments. Based on our recommendations, the House and Senate Committees on Appropriations withheld almost \$3.5 million of the \$15 million appropriated for fiscal year 1997 for development of the Automated Commercial Environment system. In 1997, we reported on Customs' progress in addressing these

recommendations, which included (1) hiring a contractor to conduct the appropriate analyses and recommend an architecture and (2) designating an investment review board. Customs has not finalized the investment review board's policies and procedures or implemented an investment review process. ([GAO/AIMD-96-57](#), [GAO/AIMD-97-43R](#) and [GAO/T-AIMD-97-96](#))

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

Environmental Protection Agency

At the Environmental Protection Agency (EPA), we recommended that EPA determine what information is needed to oversee states' implementation of Resource Conservation and Recovery Act and develop a cost-effective solution for meeting these needs. EPA has completed an information strategy plan which is the first step in the information engineering process. Also, in response to our report on improving EPA's ability to recover costs associated with cleaning up hazardous waste sites, EPA is implementing procedures to help ensure the accuracy and completeness of Superfund cost recovery data. However, further action is needed to fully implement all our recommendations. ([GAO/AIMD-95-167](#) and [GAO/AIMD-95-177](#))

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

Geostationary Operational Environmental Satellite

Our report on planning for the future of the Geostationary Operational Environmental Satellite program highlighted the need for a "next generation" system to be developed in order to reduce costs and improve mission results. We recommended that the National Oceanic and Atmospheric Administration prepare a formal analysis of the costs and benefits of several alternatives for the timing, funding, and scope of its follow-on program. Agency officials have said that they will examine a number of options for the follow-on program. ([GAO/AIMD-97-37](#))

Immigration and Naturalization Service

Our review of the Immigration and Naturalization Service's (INS) initiative, the Law Enforcement Support Center, to devise and implement a system that would assist INS and law enforcement agencies in determining whether arrested individuals are aliens, and our evaluation of the reliability of the related criminal alien information disclosed several weaknesses. As a result, we made recommendations to improve the effectiveness of the Law Enforcement Support Center and data reliability. INS has taken some steps to ensure that the Support Center can be used to effectively assist in the positive identification of criminal aliens and to

improve its systems data; however, much additional effort is needed.
(GAO/AIMD-95-147)

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

Defense Working Capital Fund

The Defense Working Capital Fund is expected to operate on a break-even basis over time—that is, not to make a profit nor incur a loss but simply to recover all costs. However, the Navy ordnance business area incurred losses totaling \$212 million from fiscal year 1994 through 1996. To ensure that the Navy ordnance business area operates on a break-even basis, we recommended that Navy develop a plan to streamline the Navy ordnance operations and reduce its infrastructure costs, especially overhead costs. This plan should (1) concentrate on eliminating unnecessary infrastructure, including overhead, (2) identify specific actions that need to be accomplished, (3) include realistic assumptions about the savings that can be achieved, (4) establish milestones, and (5) clearly delineate responsibilities for performing the tasks in the plan. (GAO/AIMD/NSIAD-97-74)

Our report on DOD's use of a stabilized rate to price items sold to foreign countries under the foreign military sales program disclosed that DOD's Working Capital Funds were not including all costs in its stabilized rate to ensure full recovery of pension and postretirement health benefit costs. We reported that the exclusion of these costs had resulted in over \$40.5 million of losses to the U. S. Government between fiscal years 1992 and 1996. Accordingly, we recommended that DOD implement policies and procedures as soon as possible to require DOD's Working Capital Funds to include pension and postretirement health benefit costs in the prices it charges foreign military sales customers. We also recommended that DOD make every reasonable attempt to bill for and collect the over \$40.5 million of undercharges we identified during our review. DOD agreed with our recommendations and immediately changed its policies and procedures to require these costs be included in future prices. DOD also agreed to bill foreign customers for the past undercharges in those cases where it proved to be cost-effective to do so. (GAO/AIMD-97-134)

See also chapter 1, Improving National Security and International Affairs Programs, Defense Management Issue Area.

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

Introduction

This electronic edition contains the details for 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.

How to Install

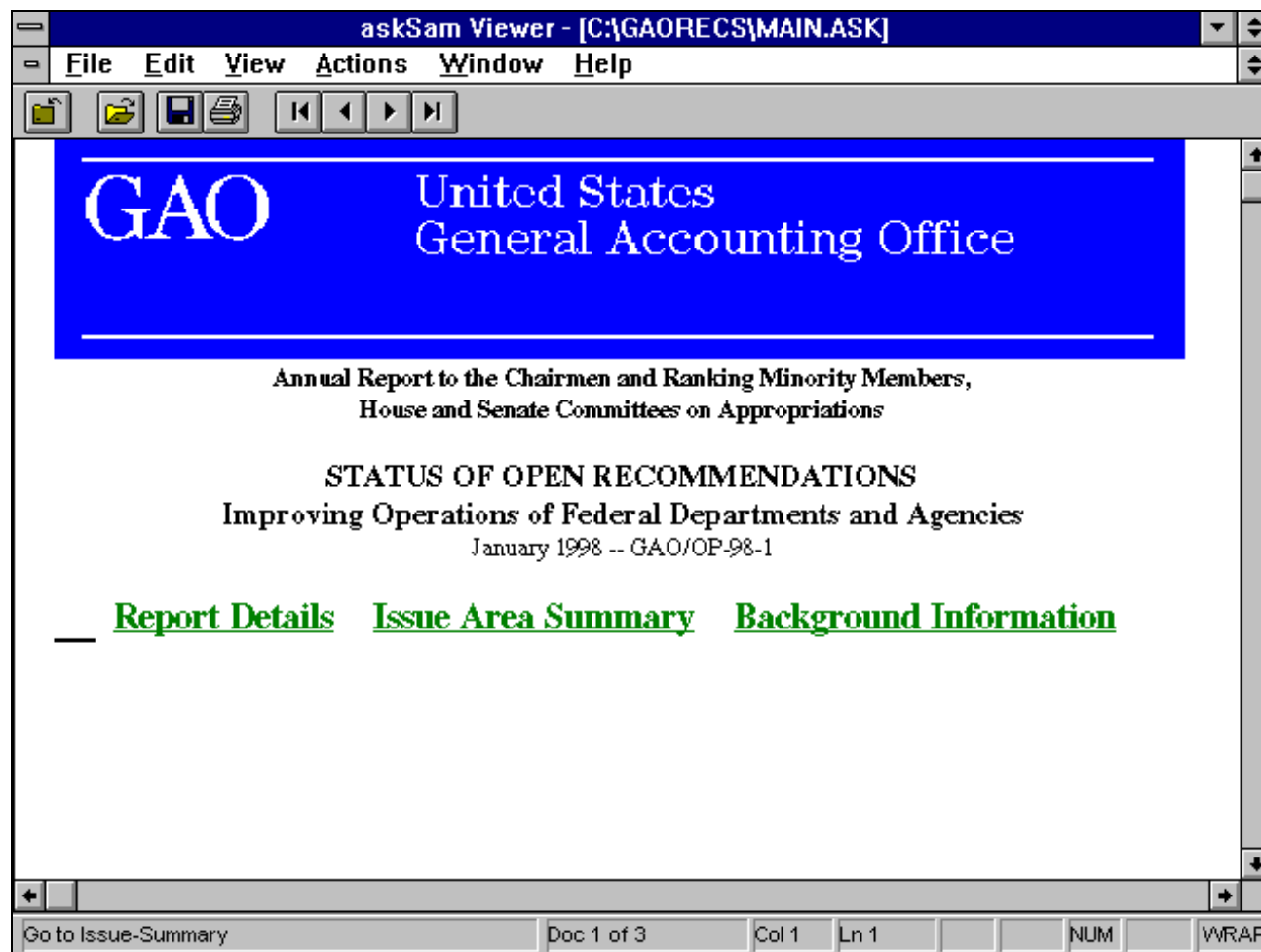
The installation program installs the files necessary to run this software on your hard drive and creates a Windows icon that will allow you to run the program. At least 8MB of RAM and 8.3MB of hard disk space are required. To load the software on your hard drive:

1. Insert the 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.

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 Information.

Figure 1



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, addresses, 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

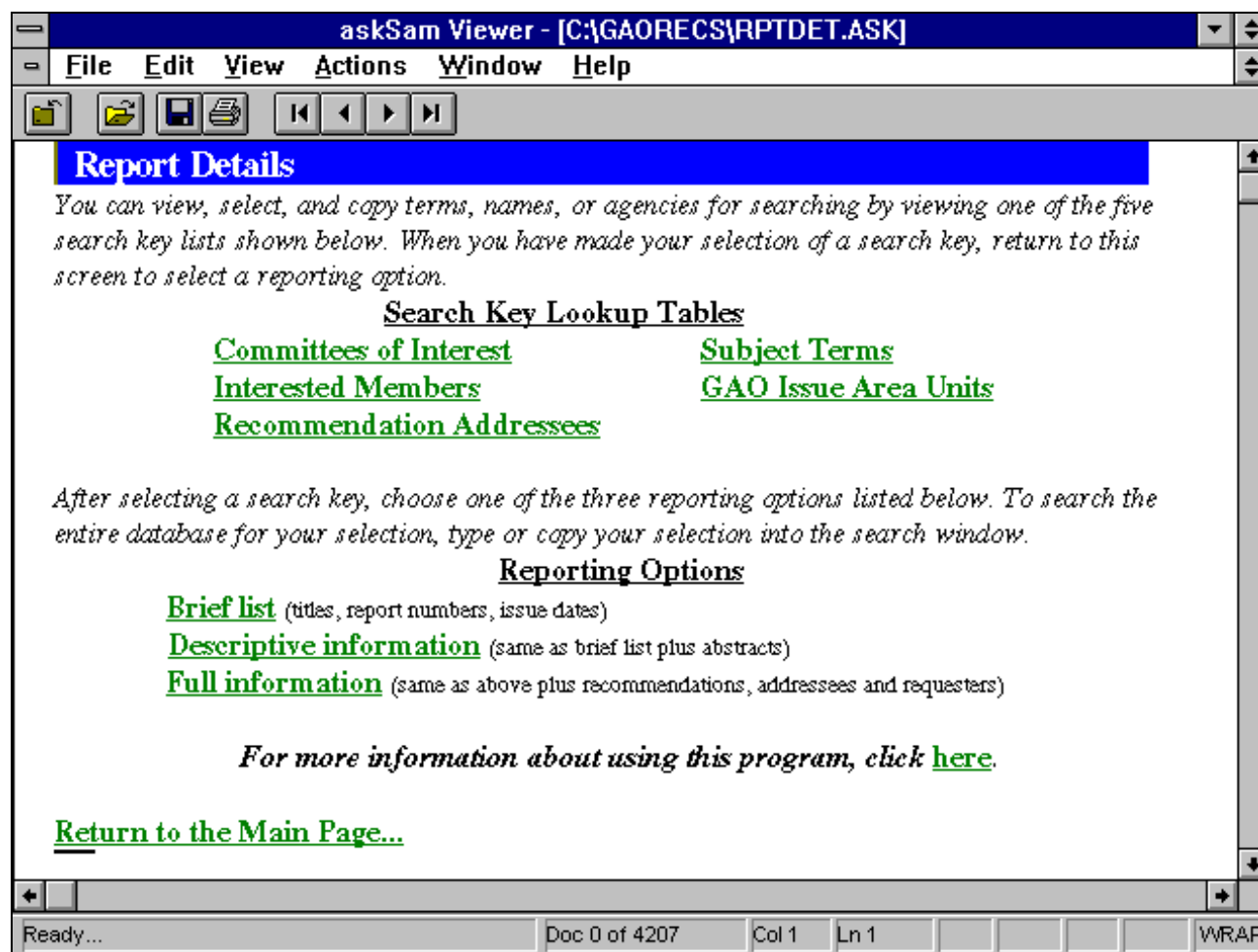
Follow the instructions to browse the table you selected, and to select and copy the name, term, or code for your search. Return to the Report Details menu. (NOTE: You may skip step 2 if you wish to search on a keyword.)

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



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 the options:

Table of Contents
Search Issue Area by Keyword

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**.

Exiting the Program

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

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 Information" 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.

Suggestions or comments about this electronic publication should be directed to:

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