



Testimony

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DEBT COLLECTION IMPROVEMENT ACT

Significant Challenges Remain to Effectively Implement Treasury's Administrative Offset Program

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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify on the Department of the Treasury's implementation of the administrative offset provision of the Debt Collection Improvement Act of 1996 (DCIA). The act, developed under the leadership of this Subcommittee, among other things, requires that agencies notify the Treasury of all legally enforceable¹ nontax debts over 180 days delinquent for the purpose of offsetting federal payments, including tax refunds, and provides authority for disbursing officials to conduct payment offsets.

As you requested, our testimony today describes (1) the status of referrals by agencies of delinquent nontax debts to Treasury for administrative offset, (2) actions Treasury has taken and plans to take to include all eligible federal payments in the administrative offset program, and (3) actions Treasury has taken, or plans to take, to consolidate the administrative, tax refund, and federal salary offset programs.

Summary

Treasury has recently made progress in getting the 24 agencies covered by the Chief Financial Officers (CFO) Act of 1990² to refer nontax debt over 180 days delinquent for administrative offset. As of April 1998, the CFO Act agencies had referred to Treasury about \$16.7 billion in nontax debt over 180 days delinquent, and Treasury has entered these delinquencies into its debtor database. This is a substantial increase over the \$9.4 billion that had been referred to Treasury about 7 months earlier, at about the time the Subcommittee held DCIA oversight hearings in November 1997.

Also, as of April 1998, about \$26.4 billion of reported nontax debt over 180 days delinquent had not been referred to Treasury and is unlikely to be referred in the near future. These delinquencies involve about (1) \$12.3 billion of debts involved in bankruptcies, foreclosures, and forbearance and formal appeals actions, (2) \$3.6 billion of foreign debt, (3) \$3 billion³ of debts referred to the Department of Justice (DOJ) for litigation, and (4) \$525 million of debts owed to the Department of Housing and Urban

¹Treasury generally considers a debt legally enforceable when the final agency determination regarding the debt is made or any legal bar to further collection is removed.

²The CFO Act, as expanded by the Government Management Reform Act, covers the federal government's 24 largest departments and agencies, which account for 99 percent of federal expenditures.

³According to Treasury reports, agencies have referred about \$3.5 billion of delinquent debt to DOJ for litigation, and DOJ has referred about \$500 million of this debt to Treasury for administrative offset.

Development (HUD), much of which will be scheduled for sale. Approximately \$7 billion of nontax debt over 180 days delinquent has not been referred primarily because agencies have not yet completed actions such as (1) ensuring due process, which is necessary before debts can be referred for offset, and (2) determining whether loan workout procedures have been established with debtors, which precludes referral for offset.

On the payment side, because of systems development problems, Treasury does not yet have a system capable of matching all federal payments against the delinquent debtor database. As of April 1998, 2 years after DCIA's enactment, Treasury had collected about \$1.2 million of delinquent nontax federal debt through its administrative offset program. Currently, payments subject to offset through the administrative offset program are limited to those made by Treasury to vendors and to federal retirees, representing about 5 percent of the total number of payments made, and about 21 percent of the total dollars paid, by Treasury disbursing offices in fiscal year 1997. Also, Treasury has made little progress in fully determining the extent to which federal payments, such as those made by the Department of Defense (DOD), can be made available for offset.

Further, Treasury has not yet consolidated the administrative, tax refund, and federal salary offset programs. Treasury's systems development problems have also caused delay in consolidating these programs and thus, any debt collection efficiencies envisioned by such a consolidation have not yet been realized.

In developing an administrative offset system, Treasury did not apply a disciplined systems development process, including the development of an overall concept of operations and functional requirements. The resulting system, which was planned for implementation in January 1998, was not placed into operation, and a subsequent systems development effort is underway.

In current efforts to develop an administrative offset system, Treasury has recently taken several actions to address systems development issues. We identified and discussed with Treasury several areas where additional actions are needed, including giving a higher priority to developing a concept of operations, the functional requirements, and a risk management plan for the entire system. We are encouraged by Treasury's commitment to address these issues. But it will be important for Treasury's top management to ensure that the planned corrective actions are effectively and expeditiously completed prior to making any significant

investment in the development of an administrative offset system. Otherwise, Treasury is significantly exposed to risks that it may experience costly modifications and additional delays in developing a system for implementing the administrative offset provision of DCIA.

Recent Progress to Identify and Refer Delinquent Nontax Debt for Offset

The Subcommittee's November 1997 oversight hearing on DCIA's implementation underscored the need for progress in referring delinquent nontax debts to Treasury for offset. At about the time of the hearing, agencies had referred \$9.4 billion of nontax debt over 180 days delinquent to Treasury for administrative offset.

Initially, agencies had been slow to refer delinquent nontax debt for administrative offset under DCIA largely because of uncertainty as to the delinquent nontax debt that should be referred. Also, Treasury had not made a concerted effort to identify delinquent nontax debt that could be offset or to develop time frames for agencies to refer the debt for offset.

In January 1998, Treasury began actively working with agencies to reach agreement on the outstanding nontax debts over 180 days delinquent that can be referred for administrative offset and to obtain commitments from the agencies on referral of those debts. Treasury initially met with the five major credit agencies—the Departments of Agriculture, Education, Housing and Urban Development, and Veterans Affairs (VA) and the Small Business Administration. Later, Treasury expanded its work to include the other CFO Act agencies.

As of April 1998, the CFO Act agencies had referred about \$16.7 billion of delinquent nontax debt to Treasury for administrative offset—a 78 percent increase over about 7 months. Most of this increase resulted from Treasury's work with the agencies to bring the nontax delinquent debts they submitted for the Internal Revenue Service's (IRS) tax refund offset program into Treasury's administrative offset database. Debts that agencies normally would have referred to IRS for tax refund offsets in calendar year 1998 were, instead, referred to Treasury's Financial Management Service. These debts were incorporated into the database Treasury uses for matching debts for administrative offset and then referred to IRS, which maintains a separate database.

In addition to the delinquent nontax debt that has been referred for offset, the CFO Act agencies also hold considerable delinquent nontax debt that has not been referred to Treasury. According to Treasury reports, in

April 1998, these agencies held \$43.1 billion⁴ of nontax debt over 180 days delinquent, including the \$16.7 billion of referred debt. Treasury and the CFO Act agencies have determined that \$19.4 billion, or almost 75 percent, of the \$26.4 billion in unreferred nontax delinquent debt would not be referred for administrative offset, at least not in the near term, for the following reasons:

- about \$12.3 billion relates to nontax delinquent debts that are involved with bankruptcies, foreclosures, statutory forbearance, or formal appeals. An automatic stay that generally prevents the government from pursuing collection against debtors in bankruptcy is provided by 11 U.S.C. Section 362. In addition, debts in foreclosure are governed by state laws that may preclude the government from pursuing foreclosure if collection is attempted through offset. Further, debts subject to forbearance generally are not legally enforceable, thus precluding collection of the debt until the forbearance process is completed.⁵ Also, agencies generally cannot certify debts under appeal as valid and legally enforceable until the appeal process is completed. Consequently, Treasury has agreed with agencies that these types of debts should be excluded from referral for offset.
- about \$3.6 billion involves delinquent foreign debts. Treasury has stated that, for the most part, collecting these delinquent debts through administrative offsets is infeasible primarily due to foreign diplomacy considerations and affairs of state.
- about \$3 billion of delinquent nontax debt has been referred by agencies to DOJ for litigation. (See footnote 3.) These debts are no longer under the control of the agencies and, therefore, Treasury does not hold the agencies responsible for referring such debt for administrative offset. Rather, DOJ is to determine if, and when, such debt is referred for offset.
- about \$525 million of delinquent nontax debt owed to HUD, much of which will be scheduled for sale, is not being required to be referred for administrative offset at this time.

In addition to these categories of unreferred debt, about \$7 billion of outstanding nontax debt over 180 days delinquent remains. Most of this debt involves circumstances that may delay or preclude offset.

For example, the vast majority of the Department of Education's approximate \$3.1 billion of unreferred nontax delinquent debt consists

⁴These delinquencies comprise over 90 percent of the debt over 180 days delinquent reported for the entire federal government.

⁵Forbearance action taken by a creditor, generally, extends the time for payment of a debt or postpones, for a time, the enforcement of legal action on the debt.

primarily of debts related to student loans, most of which were being serviced by state or private guaranty agencies. According to Education officials, although delinquent debt serviced by guaranty agencies is subject to referral for administrative offset, many referrals have not yet been made because the required due process for the debtors has not been completed.

Another example involves delinquent debts related to the Department of Agriculture's (USDA) state-administered food stamp program and farm loans. According to USDA officials, the food stamp program's delinquent debts, which totaled about \$775 million, must be further reviewed by the states to determine whether these debts are in repayment status or whether the debtors have been afforded due process. Also, according to USDA officials, statutory servicing rights normally require that the farm loan debtors be offered workout alternatives prior to collection by offset. As such, this debt, which totaled about \$420 million, will not be made available for offset until this statutory process has been completed.

Finally, according to a DOD official, DOD delinquent debts totaling about \$2 billion are primarily in protest or dispute. Accordingly, these debts have not yet been referred to Treasury for offset.

Few Payments Brought Into Administrative Offset Program

While referring all legally enforceable delinquent nontax debts for offset is an essential element of an effective administrative offset program, the program's objectives cannot be achieved in the absence of another equally essential element—payments that can be offset. As discussed later, systems development problems have hampered Treasury's ability to attempt to bring additional payments into its administrative offset program.

Currently, payments that are available for administrative offset are limited to (1) vendor payments disbursed by Treasury and (2) retirement payments made by the Office of Personnel Management (OPM). These types of payments have been in the administrative offset program since 1996. Further, they comprised about 5 percent of the total number of disbursements made, and about 21 percent of the total dollars paid, by Treasury disbursing offices during fiscal year 1997.

In addition, although almost all of the vendor payments disbursed by Treasury are currently available for administrative offset, many of these payments cannot be matched against debtor information in Treasury's delinquent debtor database because the vendor records do not contain

Taxpayer Identification Numbers (TIN). According to Treasury, during March 1998, about one-third of the payment requests submitted by the agencies for payment by Treasury did not include TINs.

Further, Treasury does not yet know the total number of federal payments that may be available for administrative offset. In addition to federal payments made by Treasury, more than 50 Non-Treasury Disbursing Offices (NTDO) make federal payments. However, Treasury has not yet identified the total volume of NTDO payments, which include those made by DOD, the U.S. Postal Service (USPS), and numerous other federal agencies. Moreover, Treasury has not yet fully determined the extent to which payments will be exempt from administrative offset. Currently, Treasury has a request pending from the Pension Benefit Guaranty Corporation for discretionary exemption for a number of payment types, including those related to premium refunds to pension plans. In the future, other agencies may identify payments exempt by statute or request means-tested or discretionary exemption of payments.⁶

To date, Treasury has primarily relied on the agencies to identify potentially exempt payments. For example, VA informed Treasury that certain payments were exempted based on Section 5301(a) of Title 38, and Treasury confirmed the exemption. In addition, the Social Security Administration (SSA) and USDA requested and received exemptions for Supplemental Security Income and certain Food and Consumer Services payments, respectively, based on DCIA's requirement that the Treasury Secretary exempt payments under means-tested programs. At this stage, Treasury does not know the total effect on the administrative offset program of payments that will be excluded from the program in accordance with DCIA, or other statutory provisions, and on the basis of requests for exclusions by heads of agencies.

To facilitate implementation of payments into the administrative offset program, Treasury is developing several regulations applicable to payment issues. Some regulations have been published as Interim Rules (for example, those relating to federal salary offset), while others are currently being drafted or are with another agency for comment. For example, the rule for offset of federal benefit payments has been forwarded to SSA for consultation. Retirement and Survivors Benefits and Disability Insurance Benefits under the Social Security Program accounted for about

⁶DCIA excludes payments certified by the Department of Education under Title IV of the Higher Education Act of 1965 and payments made under United States tariff laws. In addition, DCIA requires exemptions for means-tested programs and allows other discretionary exemptions when the head of the agency makes the request to the Treasury Secretary, and the Secretary approves the request.

61 percent of the number of payments made by Treasury Disbursing Offices in fiscal year 1997.⁷ According to Treasury's most recent DCIA Implementation Plan, it does not intend to publish a final rule for offsetting federal benefit payments, including Social Security payments, until October 1998. In addition, according to Treasury and SSA officials, even if the final rule were published, SSA will not be ready to make required systems changes until 1999 because of demands on its staff related to the Year 2000 computing crisis.⁸

Offset Programs Not Yet Consolidated

One of the DCIA's goals is to minimize debt collection costs by consolidating related functions and activities. To date, however, Treasury has not yet consolidated the administrative, tax refund, and federal salary offset programs.

The Federal Tax Refund Offset Program (TROP) has been a cooperative effort of IRS and the federal program agencies. Legislation, beginning with the Deficit Reduction Act of 1984 (Public Law 98-369), authorized the use of tax refund offsets to recover delinquent federal nontax debts. The Emergency Unemployment Compensation Act of 1991 (Public Law 102-164) provided permanent authority to use tax refund offsets. Since TROP's inception in 1986, approximately \$8.5 billion of delinquent debt has been recovered through the program.

The Debt Collection Act of 1982 authorized, but did not require, federal salary offsets and administrative offsets to liquidate delinquent nontax debt owed to federal agencies. The DCIA requires agencies to participate in an annual matching of records to identify federal employees delinquent on federal debts.

Since 1987, the federal employee salary offset program has been a cooperative effort between the federal agencies and DOD's Defense Manpower Data Center (DMDC). Under the program, DMDC performs the computer matching necessary to identify federal employees who are delinquent on their debts using delinquent nontax debtor files provided by the various creditor agencies. DMDC matches these files against active and retired civilian employment files provided by OPM, as well as against DOD's

⁷DCIA provides that, except for \$9,000 a debtor may receive within a 12-month period, all payments due to an individual under the Social Security Act shall be subject to offset.

⁸For the past several decades, information systems have typically used two digits to represent the year, such as "98" for 1998, in order to conserve electronic data storage and reduce operating costs. In this format, however, 2000 is indistinguishable from 1900 because both are represented as "00." As a result, if not modified, computer systems or applications that use dates or perform date- or time-sensitive calculations may generate incorrect results beyond 1999.

active, retired, and reserve military personnel files. Under a similar program, creditor agencies submit delinquent nontax debtor files to USPS for matching against USPS personnel files. According to Treasury data, during fiscal year 1997, agencies collected over \$42 million through these programs.

Treasury's lack of progress in consolidating the offset programs is primarily the result of its problems with the development of a new administrative offset system. I would now like to highlight these problems.

Systems Development Problems Must Be Effectively Addressed

Treasury does not have a system that can perform all the administrative offset functions envisioned as a result of DCIA. This can be directly attributed to problems Treasury has experienced in managing the development of such a system. Although Treasury has recently taken several actions to address systems development issues, it will be some time before enough information is available to accurately assess the effectiveness of those actions. In addition, we have identified several areas where additional actions must be taken immediately to reduce the risk of further system development problems.

Prior to the passage of DCIA in April 1996, Treasury in conjunction with the Federal Reserve Bank of San Francisco (FRBSF), developed a pilot system to demonstrate the feasibility of conducting administrative offsets on a routine basis. The system, referred to as the Interim Treasury Offset Program (ITOP), is currently operational and is used to offset vendor payments disbursed by Treasury Disbursing Offices and OPM retirement payments. However, Treasury never intended the system, as it was originally developed, to perform all of the administrative offset functions envisioned as a result of DCIA.

In September 1996, Treasury awarded a contract for the development and implementation of a new and expanded administrative offset system, known as the Grand Treasury Offset Program (GTOP). This system was to be used to consolidate the administrative, tax refund, and federal salary offset programs, and was to include all eligible delinquent federal nontax debt and federal payments. In addition, Treasury intended the system to be capable of incorporating state child support debts and other state debts, which DCIA authorizes to be recovered through federal payment offsets.

GTOP was scheduled to be implemented in January 1998. However, because of systems development problems, it has not been placed into operation.

Currently, Treasury is focusing its efforts on enhancing ITOP to handle all eligible debts and payments for the administrative offset program, as well as the consolidation of the administrative, tax refund, and federal salary offset programs.

GTOP's Development

Treasury has concluded that it currently cannot use GTOP for the administrative offset program primarily because Treasury did not apply a disciplined system development process for that system. Treasury's policies, including its systems life cycle methodology, and our guidance⁹ call for the completion of a concept of operations and functional requirements in the development of a major system.

The GTOP development effort was undertaken without (1) completing an overall concept of operations, which includes the high-level information flows for the system and (2) documenting the functional requirements that the system must meet. Treasury's policies call for such generally accepted steps to be completed before a system is developed.

We are unsure why the previous management team responsible for GTOP's oversight allowed GTOP to be developed before these critical steps were completed. However, according to Treasury, the effect was that the completeness and usefulness of the software delivered by the GTOP contractor in October 1997 cannot be reasonably measured and the system cannot be tested to determine if it would meet Treasury's needs. Thus, Treasury has not placed the system into operation.

Current Treasury Efforts

In December 1997, Treasury established a new management team for DCIA implementation, which includes managing a new systems development effort for the administrative offset program. The new management team has decided to halt all work on GTOP and enhance ITOP. Treasury recognizes that one of the disadvantages of this approach is that it may result in little or no return on the approximately \$5 million it has paid to the contractor for development of the system software that has been delivered. However, it also believes that modifying ITOP is the most practical way to consolidate the administrative and tax refund offset programs for the 1998 tax year and to begin adding federal salary and benefit payment streams in the administrative offset program during calendar year 1998 or early 1999.

⁹Strategic Information Planning: Framework for Designing and Developing System Architectures (GAO/IMTEC-92-51, June 1992).

According to Treasury officials, the enhancement of ITOP will comply with Treasury guidance for systems development efforts. Based on our review of documentation recently provided to us, there are indications that some of the critical system development requirements are being addressed. For example, Treasury has identified the information flows associated with several payment types and has begun to develop the corresponding functional requirements for those payment types. It has also developed a DCIA Implementation Plan that includes many of the steps necessary to enhance ITOP and projected completion dates for each step. This plan should enable Treasury management and others to promptly and objectively measure whether the ITOP enhancement is on schedule.

In addition, Treasury's Financial Management Service's Debt Management Services is now routinely briefing the Under Secretary for Domestic Finance and other top Treasury officials on progress relating to the administrative offset program with the intention that such high-level oversight will facilitate keeping the implementation of DCIA on schedule and help to identify any significant problems early so that corrective actions can be taken promptly. While these efforts are positive steps, we have identified several areas where additional actions are needed.

Actions Needed to Reduce Significant Risks Further

In reviewing Treasury's plans and actions to date, we have identified several areas where additional actions must be taken immediately to adequately reduce the risk of costly modifications and further delays in the effective implementation of the administrative offset provisions of DCIA. First, a documented overall concept of operations has not yet been developed. A concept of operations includes high-level descriptions of information systems, their interrelationships, and information flows. It also describes the operations that must be performed, who must perform them, and where and how the operations will be carried out.

According to Treasury officials, they understand the importance of such a document, but until recently, have not placed a high priority of completing it because they believe the individuals involved with the project have an overall view of how the offset processes should work. After we discussed this issue with Treasury officials, they have agreed to increase the priority associated with this effort and have projected completion of an overall concept of operations in July 1998.

It is important for Treasury to place a high priority on ensuring that this effort is completed on schedule because it is the primary building block on

which the entire systems development effort is based. Moreover, if personnel changes occur prior to completion of the project, it would be difficult to effectively complete the project promptly without such documentation.

Second, overall functional requirements for the administrative offset system are not yet available. Functional requirements, which describe a system's functional inputs, processes, and outputs, are derived from the concept of operations and serve as the rationale for a system's detailed requirements. They are generally expressed in user terminology and are the foundation that guides the development process.

Although Treasury has begun to develop and document functional requirements for several key processes, such as federal salary and tax refund offsets, it has not developed overall functional requirements for the administrative offset system. While the development of functional requirements for each key process is a necessary step in the incremental systems development approach being used, it does not replace the need for overall functional requirements. Until the functional requirements for the overall system are defined, the requirements for a given process may not be adequate. We discussed this issue with Treasury officials, and they have agreed to increase the priority associated with this effort and have projected completion of overall functional requirements by the end of August 1998.

Treasury is in the process of preparing functional requirements for certain key processes. Treasury personnel stated that for each key process, the functional requirements would be clearly defined and that a requirements traceability matrix would be developed so that a test plan could be prepared.

Treasury must place a high priority on (1) completing the overall functional requirements, (2) clearly defining the specific functional requirements as they are prepared for each key process, and (3) ensuring that the key process functional requirements are consistent with the applicable overall functional requirements. This is important because many system developers and program managers have identified ill-defined or incomplete requirements as one of the root causes of system failures. In addition, as previously stated, the lack of documented functional requirements is a major reason GTOP was not able to be tested.

Third, Treasury's DCIA Implementation Plan does not yet include all facets of the administrative offset program. The most recent version of the plan, dated May 1, 1998, includes the tasks and projected milestone dates involved with several of the key processes. However, the plan does not include information on handling certain payment types, such as payments made by NTDOS (other than USPS and DOD), miscellaneous payments, and salary payments made by payroll offices other than USDA's National Finance Center (NFC), for which Treasury makes the disbursement.¹⁰ According to Treasury officials, because of the priorities they have put on merging the administrative and tax refund offset programs, processing salary payments from NFC, and processing Social Security Benefit payments, they have not as yet devoted time to fully developing an overall DCIA Implementation Plan.

We recognize that Treasury's current focus is largely directed toward consolidating existing payment offset programs to improve efficiency and attempt to minimize the costs of debt collection, which is an important objective of DCIA. In addition, the degree of specificity associated with a particular facet of the program may vary depending on the priority that Treasury assigns to it. However, a complete DCIA Implementation Plan is critical to the success of Treasury's systems development efforts. Such a plan is needed for Treasury management and others to effectively evaluate (1) how the development and implementation of the overall system is progressing and (2) when corrective action is needed to ensure that major slippages do not occur. Treasury officials have agreed to more fully develop the DCIA Implementation Plan in the near future.

Fourth, Treasury has not yet completed a risk management plan. A risk management plan is critical for the successful implementation of a systems development project because it provides management and others the ability to focus their efforts on the areas that pose the greatest risks. It also outlines the actions that Treasury will take to mitigate the risks identified. Treasury officials stated that although they have not developed such a plan for the overall system, they have developed a plan for the software development efforts. A risk management plan takes on even more importance when tight time frames are involved in a given effort because it outlines the actions that will be taken should the project miss key delivery dates. Treasury officials agreed that an overall risk management plan is needed and has projected completion in July 1998.

¹⁰During fiscal year 1997, NFC processed about 35 percent of the payroll transactions processed by the 93 payroll offices that used Treasury Disbursing Offices for making salary payments.

Finally, Treasury has not yet evaluated the adequacy of the hardware and software platforms. Treasury has decided to use the hardware and software platforms¹¹ that were selected for GTOP until it can conduct tests to determine if these platforms are adequate. Treasury officials acknowledge that this decision increased project risk because development efforts were being based on these platforms prior to knowing whether they were adequate for the requirements of the enhanced ITOP system. However, they believe the risk is justified because (1) the hardware has already been acquired and an evaluation of the adequacy of the platforms should be completed by June 30, 1998, and (2) some work had been performed to evaluate the adequacy of the platforms before they were selected for GTOP. Management must ensure that the evaluation of the hardware and software platforms is completed by the estimated completion date of June 30, 1998. Otherwise, Treasury runs a risk that the system it is developing cannot become operational without costly modification.

Treasury's commitment to address the systems development issues we have raised is encouraging. But it will be important for Treasury's top management to ensure that the planned corrective actions are effectively and expeditiously completed prior to making any significant investment in the development of an administrative offset system. Otherwise, Treasury is significantly exposed to the risk of costly systems modifications and additional delay in developing a system to implement the administrative offset provision of DCIA.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions that you or other members of the Subcommittee may have at this time.

¹¹The hardware platform is the physical computer, which consists of components such as the central processor, memory, and disk storage. The software platform refers to the operating system software and other system support software. Application software that performs a specific task is designed to run on a specific combination of hardware and software platforms. Consequently, applications for one platform generally cannot run on others.

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