

GAO

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

March 2000

STATUS OF OPEN RECOMMENDATIONS

Improving Operations of Federal Departments and Agencies





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

**Comptroller General
of the United States**

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March 9, 2000

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

The Honorable C.W. Bill Young
Chairman
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 GAO's audits, evaluations, and other review work in federal departments and agencies. To encourage prompt, responsive actions on our recommendations, we systematically follow-up on them and annually report on their status.

We are sending copies of this report to Jacob Lew, Director, 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 to better inform them of our open recommendations.

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

David M. Walker
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 4 years have been implemented.

This report includes summaries highlighting the impact of GAO's work along with significant open recommendations including those associated with GAO's High Risk areas. 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 name and telephone number of the GAO manager to contact for information or assistance about a product is included. 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.

This report along with the database on all open recommendations, is also available on the INTERNET. For information on how to access this and other GAO reports on the INTERNET, visit GAO's World Wide Web Home Page at: <http://www.gao.gov>

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Abbreviations

ADP	automatic data processing
AFDC	Aid to Families with Dependent Children
AID	Agency for International Development
AIDS	acquired immunodeficiency syndrome
APHIS	Animal and Plant Health Inspection Service
AOUSC	Administrative Office of the U.S. Courts
ATF	Bureau of Alcohol, Tobacco, and Fire Arms
BOP	Bureau of Prisons
CBO	Congressional Budget Office
CBSX	Continuing Balance System-Expanded
CDC	Centers for Disease Control and Prevention
CFO	Chief Financial Officer
CIO	Chief Information Officer
CPA	certified public accountant
D.C.	District of Columbia
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
DOI	Department of Interior
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
EEOC	Equal Employment Opportunity Commission
EIC	Earned Income Credit
EPA	Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
EZ/EC	Empowerment Zone/Enterprise Community
FAA	Federal Aviation Administration
FACTS	Federal Agencies' Centralized Trial Balances Systems
FAR	Federal Acquisition Regulation
FASAB	Financial Accounting Standards Advisory Board

Contents

FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FDA	Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Managers Improvement Act
FHA	Federal Housing Administration
FHWA	Federal Highway Administration
FinCEN	Financial Crimes Enforcement Network
FMS	Financial Management Services
FNS	Food, Nutrition, and Consumer Service
FPI	Federal Prison Industries
FRA	Federal Railroad Administration
FRF	Federal Savings and Loan Insurance Resolution Fund
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
FTA	Federal Transit Administration
GAO	General Accounting Office
GNMA	Government National Mortgage Association
GPO	Government Printing Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Control Point
HCFA	Health Care Financing Administration
HIV	human immunodeficiency virus
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
HHS	Department of Health and Human Services
HMO	health maintenance organization
HUD	Department of Housing and Urban Development
IAEA	International Atomic Energy Agency
IDIS	Integrated Disbursement and Information System
IG	Inspector General
INS	Immigration and Naturalization Service
IRM	Information resources management
IRS	Internal Revenue Service
IT	Information Technology
MRI	magnetic resonance imaging
NASA	National Aeronautics and Space Administration
NHSC	National Health Service Corporation
NHTSA	National Highway Traffic Safety Administration

Contents

NIH	National Institutes of Health
NPR	National Performance Review
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
NSLDS	National Student Loan Data System
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
PMA	Power Marketing Administrations
PP&E	Property, Plant, and Equipment
PTO	Patent and Trademark Office
RDT&E	Research, Development, Test and Evaluation
RHS	Rural Housing Service
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
SSA	Social Security Administration
SSI	Supplemental Security Income
STARS	Standard Accounting and Reporting System
TANF	Temporary Assistance for Needy Families
TEA-21	Transportation Equity Act for the 21 st Century
TVA	Tennessee Valley Authority
UN	United Nations
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
WIC	Women, Infants, and Children

Improving National Security and International Affairs Programs

Defense Acquisitions Issue Area (Budget Function 050)

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

Impact of GAO's Work

After a decade-long procurement “holiday,” during which weapons spending dropped 50 percent in real terms, the Department of Defense (DOD) plans to buy new and more expensive weapons to replace its aging systems. These planned procurements will require a \$30 billion to \$40 billion increase in annual funding that may not be available. DOD's total fiscal year 2000 defense budget is projected to decline slightly from the 1999 levels after being adjusted for inflation and the congressional tax cut plan assumes only modest funding increases for fiscal years 2001 through 2004. Defense spending is assumed to decline significantly after fiscal year 2004, when many of the new weapons systems are being produced. Without large increases in the total defense budget, planned funding increases for new weapons will be at the expense of funding required to operate and maintain the forces.

During fiscal year 1999, we continued to review specific weapons and space programs to determine whether acquisitions were being made effectively and efficiently, based on requirements of the national security strategy and national space policy. We also continued to identify opportunities for improving effectiveness and efficiency through the adoption of best management practices from the commercial marketplace. Our reviews included specific systems such as the F/A-18E/F and F-22 aircraft and the space station as well as classes of systems such as guided-weapons and missile defense programs. In addition, we continued to assist the authorizing and appropriating committees of both the House and Senate by examining DOD's fiscal year 2000 budget and prior years' budgets to identify opportunities for reducing procurement and research, development, test and evaluation requests.

We also provided the Congress with information to assist in its oversight responsibility. For example, we testified that the 1999-2003 procurement program, like previous programs, is based on optimistic assumptions about savings and achievable procurement plans, and it contains far too many costly weapons for the available dollars. We warned that optimistic planning provides an unclear picture of defense priorities because it avoids tough decisions and trade-offs. In a separate report, we pointed out that DOD would need to spend more than twice what it spent in the recent past to meet current procurement plans for guided-weapons. Yet DOD has

enough of these weapons today to meet national objectives, and overlap and duplication in its inventory are widespread. Each new guided-weapon has been justified on a case-by-case basis, using assumptions that overstate the potential threat and target base. DOD has not rigorously examined overall requirements for the weapons.

Similarly, we concluded that DOD's plans to acquire large quantities of new and improved weapons to attack armored vehicles are inconsistent with the reduced size of the armored threat and the large and capable inventory of antiarmor weapons. We noted that the number of armored targets is less than 20 percent of the number estimated in 1990, while the inventory of antiarmor weapons is the same as that during the Cold War and contains more sophisticated and lethal weapons. Nevertheless, the services plan to spend \$11 billion to procure additional antiarmor weapons and \$3.5 billion to develop new ones.

The Congress made substantial use of our products during deliberations on how to proceed with the F-22 development and production programs. During congressional deliberations on DOD's fiscal year 2000 request to procure additional aircraft, we questioned whether the F-22 could be completed within congressional cost limitations and questioned DOD's decision to increase production in 2001. We discussed persisting cost growth and technical problems as well as reductions and delays in flight testing that would reduce the amount of critical information needed before awarding additional contracts.

During the year, we reported on major management challenges and risks the National Aeronautics and Space Administration (NASA) faces, particularly regarding the International Space Station Program. We noted that Russia's funding problems have delayed delivery of its first major component and raised questions about the country's ability to support the station during and after assembly. In addition, the prime contract experienced significant cost overruns and schedule delays, and the nonprime portion of the program's budget increased from \$8.5 billion in 1994 to \$12.4 billion today.

Our work on best practices for weapon acquisitions continued to make inroads on root causes for systemic problems. This year, one report established criteria for judging technology maturity and ways to improve the management of advanced technology so that better decisions could be made on including technology in weapon systems. Another report pointed out the shortfalls in DOD's approach to training program offices to

implement best practices on weapon systems. In testimony, we laid out an overall approach that DOD could take to integrate best practices into the acquisition process. DOD concurred with our recommendations and plans to revise DOD Directive 5000.2 to incorporate best practices on technology and product development; we have briefed the executives responsible for revising the directive. Also during the year, DOD developed a training course on managing suppliers, which was designed around our 1998 report on best practices for managing supplier relationships.

During the year, our best practices work also contributed to identifying recommendations for actions in other reports. For example, our work on the Comanche Helicopter Program, the centerpiece of the Army's aviation modernization plan, showed that the Army's July 1998 program restructuring cannot stay within the a \$4.4 billion budget, partly because the Army began engineering and manufacturing development before some key mission equipment technologies matured and were integrated into flight-tested aircraft. Conversely, our work on DOD's use of technology demonstrations with unmanned aerial vehicles showed that this approach was consistent with best practices of leading commercial developers, which require proof of technological maturity and performance before committing to product development or production.

High-Risk Areas

The Defense Acquisitions issue area is responsible for three issues that have been designated as high risk—defense weapon systems acquisition, defense contract management, and NASA contract management.

Weapons Systems Acquisition

In fiscal year 1999, we reported that wasteful practices added billions of dollars to defense acquisition costs, despite the many acquisition reform initiatives DOD has put in place. Persisting, pervasive problems center around DOD's acceptance of weapon systems requirements that are questionable and solutions that are not the most cost-effective available; unrealistic cost, schedule, and performance estimates during weapon development; questionable program affordability; and the use of high-risk acquisition strategies. New weapon systems cost more and do less than anticipated as a result of these problems. In addition, schedules are often delayed because key decisionmakers do not have adequate information when needed, rush to commit programs to available funding before they are adequately tested, or have not established appropriate risk management strategies.

Several reports illustrate these problems. For example, we previously reported that a key missile defense system, estimated to cost over \$15 billion, originally included a plan for an early prototype that could be used in conflicts before the final system was ready. The decision to purchase the prototype was to be based on a single test, which we reported would not provide an adequate basis for judging effectiveness. Consequently, the Congress refused to fund the purchase until adequate tests were conducted, denying over \$100 million in requested funding for fiscal year 1999. Similarly, our review of the Army's efforts to automate the battlefield resulted in congressional reductions of almost \$45 million for fiscal year 1999 and Army reductions of \$60 million for fiscal years 2000 and 2001.

Defense Contract Management

DOD spends more than \$115 billion a year contracting for goods and services. Defense contracting has been, and continues to be, a high-risk area even though reengineering of acquisition and contracting processes receives attention at the highest levels in DOD.

Our work continues to identify risks in DOD contracting and opportunities for improvement. For example, DOD continues to experience problems with erroneous, fraudulent, and improper payments to its contractors and with high prices for spare parts. Conversely, DOD has saved over \$500 million by responding positively to our previous recommendations to analyze how much contractor work should cost before pricing contracts.

NASA Contract Management

NASA spends over \$10 billion annually largely for contractual goods and services. Contract management at NASA has been on GAO's high-risk list since 1990. Although it has made some progress in developing systems to correct contract management weaknesses, NASA still has not implemented its integrated financial management system, which is now scheduled for implementation on June 1, 2000.

A critical component of NASA's ability to manage contracts is the establishment of a financial management system and its integration with full cost accounting. Until the integrated financial management system is operational, performance assessments relying on cost data may be incomplete.

Key Open Recommendations

DOD's planned spending for guided weapons will escalate dramatically over the next few years, and key decisions will be made involving the procurement of very costly and unneeded weapons. Instead of continuing to start procurement programs that may not be executable, we believe DOD

should determine how much procurement funding can realistically be expected for guided weapons over the long term, taking into consideration the already large inventory, likely technological advances, and the decline in the threat. DOD believes its oversight is adequate and stated that it will continue efforts to improve, without specifying steps it would take.

(GAO/NSIAD-99-32)

Regarding best practices and tactical aircraft programs, we reported several years ago on the need to reduce concurrency in the development and production of the F-22. DOD disagreed and responded that the program had been structured to use the most up-to-date concurrency guidelines to mitigate risk. Since that response, the estimated cost to complete F-22 development has increased, the schedule has been extended, flight testing has not progressed as planned, initial production plans have been adjusted, and the total number of aircraft to be procured has been lowered. The Congress postponed an upcoming decision to begin production, partly based on our work questioning the need for the aircraft and its affordability as well as pointing out the lack of progress in development and testing. (GAO/T-NSIAD-99-113; GAO/NSIAD-99-55)

Similarly, we recommended that DOD defer multiyear funding for the F/A-18/E/F aircraft until design deficiencies are corrected and successfully tested. The fiscal year 2000 Defense Authorization Act requires that the aircraft meet key performance parameters before DOD can begin multiyear procurement of full-rate production. (GAO/NSIAD-99-127)

DOD took a number of actions in 1998 in response to our recommendations to improve incentives to adopt commercial best practices. However, we noted in fiscal year 1999 that DOD's primary institutions for providing training in best practices, the National Defense University and service acquisition schools, were not viewed as important sources of training in these practices by the acquisition teams recognized as the most advanced in the use of best practices. (GAO/NSIAD-99-206)

In the last 3 years, we have completed a body of work on the space station, focusing on its increasing cost, the impact of Russia's not meeting its commitments, and uncertainties associated with operational costs. Although assembly of the station is well under way, it warrants continued congressional and agency oversight. The significant demands that it will impose on future budgets as well as decisions on whether to develop new launch capabilities to support missions to resupply the space station are but two examples of the challenges NASA and the Congress will face even

Chapter 1
Improving National Security and
International Affairs Programs

after construction is complete. (GAO/NSIAD-97-213; GAO/NSIAD-99-177;
GAO/NSIAD-99-177)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Defense Management
Issue Area (Budget
Function 050)

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

Impact of GAO's Work

Defense managers are confronted with many management challenges as they strive to revolutionize military business affairs by streamlining operations, reducing infrastructures, improving the management of closed/realigned facilities, and enhancing the effectiveness and efficiency of the defense supply chain.

Our overall strategy is to identify innovative, efficient, and cost-effective approaches to improving DOD's management and reducing DOD's costs. The strategy focuses on the implementation and effectiveness of DOD's cost reduction initiatives as they apply to DOD's support infrastructure activities, with special emphasis on logistics-related business activities, which include depot maintenance, the purchase of parts and supplies, the storage and disposal of inventory, and transportation. We encourage 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. These activities and functions, along with high interest programs such as environmental cleanup and compliance, represented a major share of DOD's fiscal year 1998 operations support and infrastructure costs of \$147 billion. They have also been the focus of much attention from DOD and the Congress as both work to provide more funds for modernization in a relatively stable defense spending environment. 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 1999 included the transition of former bases to civilian use, the potential for future base closure legislation, depot maintenance, public and private sector competitions, inventory purchases and storage, property disposal, and transportation of material and personal items. We also addressed DOD environmental costs and programs as well as problems associated with the disposal of the chemical weapons stockpile.

High-Risk Areas

The Defense Management issue area is the point of contact for the following two high-risk areas: defense inventory management and defense infrastructure.

Defense Inventory Management

DOD manages inventories with a reported value of about \$61 billion. It also purchases about \$15 billion worth of new inventory annually to support its weapon systems and equipment. DOD has had long-standing problems in achieving economic and efficient inventory practices. While working to correct the problems, it has not yet succeeded in developing the management tools needed to solve them 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 analyses 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 to providing the funding for the modernization of weapon systems. 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 efficiencies in operations, and produce dollar savings, we made the following key recommendations in past reports.

In 1996, we recommended that the Secretary of Defense direct that defense transportation reengineering efforts simultaneously address process and organizational structure improvements. Specifically, the reengineering efforts should confront, at a minimum, (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. (GAO/NSIAD-96-60)

We recommended that the Secretary of Defense direct actions be taken to develop a Department-wide total asset visibility strategic plan and associated component implementation plans based on the outcome-oriented management principles embodied in the Government Performance and Results Act and the Clinger-Cohen Act. Such plans must be agreed to and supported by relevant components. Specifically, all plans should

- Describe a complete management structure and officials (including component officials) that will be accountable for ensuring the timely success of the total asset visibility initiative.
- Describe how the initiative will be incorporated into DOD work processes in support of DOD's total asset visibility performance goals and how appropriate training will be put in place to support the new work processes and the related cultural change that must be made to support Department-wide asset sharing.
- Identify how DOD will address Department-wide systems issues that affect implementation of the total asset visibility initiative.
- Establish outcome-oriented total asset visibility initiative goals and performance measures for all relevant components and closely link the measures to improvement targets established in documents such as DOD's Logistics Strategic Plan and the Results Act Performance Plan in the annual report to the President and the Congress.
- Identify complete resource requirements for implementing the total asset visibility initiative and include related investment analyses that show how the major information technology investments will support the initiative's goals. (GAO/NSIAD-99-40)

We recommended that the Secretary of Defense take the necessary actions to place all major business process and infrastructure reform initiatives, including those related to logistics and financial management reforms, under the Defense Reform Initiative Program and follow the framework provided by the Government Performance and Results Act of 1993 to establish a more comprehensive, integrated strategy and action plan for reforming DOD's major business processes and support activities. (GAO/NSIAD-99-87)

We recommended that the Secretary of Defense take the necessary actions to more fully identify funding requirements for DOD's major reform

initiatives and Department-wide funding targets for the Defense Reform Initiative Program and communicate them to the Congress during the annual budget process. (GAO/NSIAD-99-87)

To ensure that components pursue the A-76 study process with maximum efficiency and effectiveness, we recommended that the Secretary of Defense, in conjunction with DOD components, establish a framework for identifying and analyzing best practices and lessons learned from competitive sourcing studies and for disseminating them DOD-wide to foster improvements in competitive sourcing studies. (GAO/NSIAD-99-152)

We recommended that the Secretary of Defense direct the Secretary of the Air Force to require the Air Force Materiel Command to refine and improve the implementation and management of its three Defense Reform Initiative reengineering initiatives by

- developing an implementation plan that details the specific criteria for determining whether the initiatives are successfully achieving stated goals and desired results;
- determining the extent to which the enhancement initiatives should be applied to all reparable items to ensure optimum benefits;
- assessing progress in implementing the standardized organizational structures and processes and the extent to which they are achieving the objectives of better teamwork;
- developing and implementing a transition plan to ensure sufficient numbers of trained multiskilled personnel are available to meet requirements and produce needed operational efficiencies;
- upgrading automated management information systems needed to support the initiatives in keeping with DOD and Clinger/Cohen Act requirements associated with acquiring information systems support and ensuring year 2000 compliance;
- developing and implementing improved strategies for providing more effective supply support to depot maintenance customers, including the exploration of prime vendor or other best inventory management practices and agreements with the Air Force Supply Group and the Defense Logistics Agency; and
- reassessing the extent to which costs have been fully identified and budgeted to avoid funding shortfalls and to ensure that operating funds are not prematurely reduced in anticipation of savings from the initiatives. (GAO/NSIAD-99-63)

In conjunction with developing a statutorily required, comprehensive plan to address visibility over in-transit inventory, we recommended that the Secretary of Defense direct the Secretary of the Navy to take the following actions:

- Modify the Navy's integrated accounting and logistics systems so that they routinely update both financial and inventory records when in-transit inventory items are received. Until the systems are operational, the Navy's Inventory Control Point in Philadelphia should establish routine reconciliation procedures for its supply and financial records to ensure oversight and control over in-transit inventory items.
- Specifically target in-transit inventory problems as an issue for review in Federal Managers' Financial Integrity Act assessments.
- Establish performance measures, milestones, and timetables to help monitor the Navy's progress in reducing the vulnerability of in-transit inventory to undetected loss or misplacement. (GAO/NSIAD-99-61)

We recommended that the Secretary of Defense direct the Director of the Defense Logistics Agency to revise the Agency's schedule for inventory best practice initiatives. For each supply category, the schedule should identify the percentage of future sales or percentage of the items managed that the Agency projects will be covered by the initiatives, key performance indicators to measure the overall impact the initiatives will have on logistics costs and efficiencies of operations, and plans for expanding or fully implementing the initiatives. For prime vendor initiatives the schedule should provide specific information on (1) milestones for testing and evaluating each practice, (2) potential implementation sites, (3) planned dates for implementing the practices at the potential sites, and (4) the projected date that implementation will be completed. (GAO/NSIAD-98-218)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

International Relations and Trade Issue Area (Budget Function 150)

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

Impact of GAO's Work

With recent international political and economic events demanding the increased attention of U.S. policymakers, the Congress has sought to enhance its oversight of the ways in which U.S. foreign affairs agencies and international programs serve U.S. national interests. The Congress looks to us for objective analyses and information relating to the effectiveness, costs, and relevance of U.S. international activities. During fiscal year 1999, we reviewed a full range of international issues covering (1) U.S. security activities in Europe and Russia; (2) U.S. participation in multinational organizations; (3) U.S. bilateral assistance, drug control efforts, and U.S.-Mexican border programs; (4) Department of State progress in addressing key management challenges; and (5) U.S. efforts to negotiate access to foreign markets and to secure foreign compliance with trade agreements

U.S. Security Activities in Europe and Russia

Throughout fiscal year 1999, we kept the Congress informed on progress made in implementing the Dayton Peace Accords in Bosnia. In October 1998, we reported that beginning in mid-1997 the North Atlantic Treaty Organization-led international stabilization force intensified its support for civilian peace implementation activities. As this occurred, the United States was reducing the number of its troops in Bosnia; by July 1998, it was down from about 8,500 to 6,900 troops in the country. In February 1999, we issued a classified report on (1) the current and projected security conditions in the Balkan region, particularly regarding Bosnia and Serbia's province of Kosovo; and (2) the potential impact of these conditions on the prospects for a further troop reduction in the Stabilization Force in Bosnia and on U.S. plans to deploy air and ground forces to resolve the conflict in Kosovo. We issued unclassified extracts from this report in March 1999 and have provided the Congress with periodic briefings updating our work. We also provided the Congress with analyses of U.S. export control efforts concerning satellites and high-performance computers that could be used for military or nuclear proliferation applications.

In addition, we informed the Congress that DOD's \$750-million project to eliminate chemical weapons in Russia was behind schedule, would

eliminate only a fraction of Russia's chemical weapons, and had failed to attract needed international funding. We also informed the Congress that Russia had yet to honor its pledge that DOD would be able to verify that nuclear materials at a U.S.-built storage facility had actually been removed from dismantled weapons. As a result, the Congress canceled the chemical weapons project and barred a proposed enlargement of the nuclear storage facility until Russia agrees to full-scope U.S. inspections. These actions were signed into law on October 5, 1999 (P.L. 106-65).

U.S. Participation in Multinational Activities

The Congress continued to rely on our examinations of multilateral institutions in seeking to determine whether the institutions (1) advanced U.S. interests, (2) needed greater transparency and accountability in their operations, and (3) made progress in their reform efforts. The Congress increased its reliance on our analyses of the International Monetary Fund during fiscal year 1999. In response to a seven-part congressional mandate from the Congress to examine the institution, we reported on the Fund's lending policies, its financial operations, and its borrowers' trade policies.

- Our June 1999 report on the Fund's lending policies increased understanding of the criteria used in establishing and monitoring financial arrangements with borrowing countries and the importance of the Executive Board's judgment in this process.
- Our review of the Fund's financial operations provided a comprehensive assessment of its available resources and questioned the reporting of its available liquid resources and the management of its gold holdings.
- Our June 1999 review of borrowers' trade policies identified these countries' trade restrictions and their impact on the United States and provided a detailed analysis of these trade barriers for four key U.S. trading partners—Korea, Indonesia, Brazil, and Thailand.

Regarding the World Bank, in May 1999, we assessed the status of efforts to improve the credibility and fairness of the Bank's conflict resolution system and pointed out areas that needed strengthening. In our review of World Bank operations, we identified steps that the Bank could take to improve the transparency of the process used to determine the environmental impact of its projects.

The Congress used several of our reports on United Nations (U.N.) reform and U.S. payments owed to the organization in developing legislation to improve U.N. operations and resolve the issue of U.S. payments in arrears. For example, our testimony at the June 1999 confirmation hearing for the U.S. Permanent Representative to the United Nations emphasized that

positive steps were being taken but that United Nations reform was unfinished. The Congress also used our March 1999 report on U.N. procurement in drafting legislation on procurement benchmarks, and various congressional committees used our work on U.S. payments in arrears to help decide on the funding needed to retain the U.S. vote in the U.N. General Assembly.

U.S. Bilateral Activities

During fiscal year 1999, we provided the Congress with several reports on the effectiveness of specific U.S. bilateral assistance programs.

- We reviewed U.S. assistance programs in Latin American countries intended to help them reform their judicial systems as a means of strengthening democracy.
- We reviewed U.S. efforts to help five Central Asian republics make the transition to free-market economies.
- We examined the use of enterprise funds in Central Europe as an approach for promoting private sector development and helping countries move toward free-market economies.
- Our continuing work on U.S. efforts to reduce the flow of illegal drugs into the United States has been the focus of several congressional hearings this past year on Colombian and Mexican drug control efforts.

In our new area of work on U.S.-Mexico border issues, we provided the Congress with an initial report outlining the variety and complexity of U.S. interests and programs related to the border.

State Department Management

Regarding the Department of State—the primary foreign affairs agency—we focused on reviewing the agency’s progress in addressing high-priority management challenges. We provided the Congress with assessments of State Department efforts to improve the quality and capacity of its information and financial management systems, manage the visa process effectively, and apply best practices to the relocation and housing of employees overseas. The single most important management challenge for the Department is the need to protect its employees and their families overseas from acts of terrorism such as those committed in August 1998 in Kenya and Tanzania. We are now evaluating the Department’s plans for using the \$1.4 billion in emergency funding approved in fiscal year 1999 to replace some of its most vulnerable embassies and consulates. We have identified issues for congressional oversight relating to whether State (1) has fully determined security requirements and costs, (2) can effectively implement a large-scale construction program, and (3) can apply new technologies and provide

embassy services on a regional basis to reduce the number of employees overseas that must be protected.

International Trade Activities

On international trade activities, we provided the Congress with information and analyses related to the extent of U.S. access to markets overseas and the status of U.S. trading partners' adherence to negotiated commitments.

- We reported on the results of a survey of all U.S. insurance companies in Japan to determine the effectiveness of U.S. government efforts to oversee U.S.-Japan insurance agreements and the extent to which the \$340-billion Japanese insurance market has been deregulated.
- In a classified report on China's proposed World Trade Organization membership, we provided the Congress with a detailed analysis of the extent to which the United States has met its negotiating objectives with the Chinese before a possible congressional vote on whether to grant China permanent status as a most-favored nation for trade.
- In ongoing work on U.S. government efforts to monitor and enforce trade agreements, we determined that the Office of the U.S. Trade Representative had not complied with a statutory requirement regarding the transmittal of trade agreements. As a result of our finding, the Office took corrective measures.

We addressed several specific agricultural trade issues of concern to the Congress. We reported on European Union and U.S. agricultural export subsidies and assessed each country's compliance with commitments to reduce such subsidies. We assessed the practices of the Canadian Wheat Board in supporting Canadian grain exports to the United States. We also raised questions about the economic benefits of the Agriculture Department's \$90-million market access program.

Key Open Recommendations

U.S. Security Activities

In 1998, we recommended that the Secretary of State, working with International Atomic Energy Agency member states, request the Director General to develop and circulate a plan for implementing parts of the Strengthened Safeguards System. The State Department has so far reiterated its concerns that a published strategic plan for strengthening the system could be used to establish arbitrary deadlines for phasing out old measures before the new measures are demonstrated to be effective. State

believes that a little ambiguity in planning serves U.S. long-term interests in a strong safeguard system. The International Atomic Energy Agency is developing a strategic plan with a cost-benefit analysis, consistent with our recommendation. The plan will include developing a methodology for assessing the effectiveness of new measures to strengthen safeguards; designing and evaluating country-level safeguard approaches; implementing short notice inspections; and integrating the new, strengthened safeguards with the current system. The Agency Secretariat is also developing a strategy and coordination plan for integrated safeguards based on advice from the Agency's Standing Advisory Committee on Safeguards Implementation and from various experts and consultants. However, the Agency has not yet established a firm date for completion of the plan. (GAO/NSIAD/RCED-98-184)

See chapter 2, Improving Resources, Community and Economic Development Programs, Energy, Resources and Science Issue Area.

Also in 1998, we recommended that the Secretary of Commerce along with the support of the Secretaries of Defense, Energy, and State and the Director of the U.S. Arms Control and Disarmament Agency jointly evaluate and report on options to safeguard U.S. national security interests regarding high-performance computers. Options evaluated should include, but not be limited to, requiring that (1) the government review and control exports of computers at their highest performance levels and (2) high-performance computers destined for specified countries be physically modified to prevent upgrades beyond the allowed levels. Commerce has not responded to our recommendation. (GAO/NSIAD-98-196)

Multinational Institutions

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 its effectiveness. We also recommended that the Secretary report on actions taken if the indicators did not show satisfactory progress. The Bank developed indicators of project and country performance and appears to be using these indicators to make decisions. However, the Secretary has not yet reported to the Congress as we recommended. The Department indicated that its next annual report to the Congress on the activities of the U.S. National Advisory Council on International Monetary and Financial Policies will include information that responds to our recommendation. (GAO/NSIAD-96-212)

In 1998, we recommended that the Secretary of the Treasury instruct the U.S. executive directors at the multilateral development banks to work with other executive directors and bank management to improve compliance with bank guidelines on providing timely public access to project profiles and environmental assessment reports through their Internet home pages. The Assistant Secretary for International Affairs' Fiscal Year 2000 Performance Plan commits the Department to work with the U.S. executive directors to improve public access to information on proposed bank projects. The banks have already taken some steps to provide fuller and more timely access. For example, the Inter-American Development Bank has created a page within its web site specifically devoted to informing the public about the availability of environmental assessments on all projects. These efforts are ongoing, and information on their impact is not yet available. (GAO/NSIAD-98-192)

International Trade

In 1997, we recommended that the Secretary of Commerce effectively monitor the trends in exports of controlled items to Hong Kong and China after Hong Kong's reversion to Chinese sovereignty. Commerce has made a commitment to respond to our recommendation but has not provided specifics on what action, if any, it has taken to date. (GAO/NSIAD-97-149)

In 1998, we recommended that the U.S. Trade Representative and the Secretary of Agriculture, in consultation with the Commissioner of Food and Drugs; the Administrator, Environmental Protection Agency; and the Secretary of State, coordinate goals, objectives, and performance measures for addressing foreign sanitary and phytosanitary activities to avoid unfairly blocking U.S. agricultural exports. To improve interagency coordination on such trade issues, the Secretary of Agriculture and the U. S. Trade Representative formed a senior-level steering group. The group is to coordinate broad policy guidance on priority foreign sanitary and phytosanitary measures that are inconsistent with international trade rules and have substantial policy and trade implications for U.S. agricultural exports. The Department of Agriculture continues to explore ways that these agencies can jointly develop goals, objectives, and performance measures for sanitary and phytosanitary trade issues. The agencies are developing a systematic process for addressing these issues. The Department of Agriculture has also developed guidelines to help agencies identify foreign sanitary and phytosanitary measures that warrant further attention. (GAO/NSIAD-98-32)

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

Chapter 1
Improving National Security and
International Affairs Programs

See also chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

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

GAO Contact: Norman Rabkin, 202/512-5140

Impact of GAO's Work

In the 21st century, the United States faces a dynamic and uncertain security environment that presents DOD with opportunities and challenges. The end of the Cold War and the absence of a peer military competitor provide DOD with the opportunity and responsibility to plan and structure its forces to meet future security challenges. However, DOD faces numerous immediate challenges. For example, it must maintain sufficient forces that are ready to respond to a broad array of military operations, from humanitarian assistance to high-intensity warfare. It must also balance budget and program priorities that include readiness of the forces, quality-of-life benefits for military personnel, and weapons modernization. Our reports and testimonies have provided the Congress with analyses on how DOD is meeting its challenges and have provided DOD with recommended improvements. In addition to more diverse conventional military threats, the United States is confronting threats from terrorism. More than 40 federal organizations have programs and activities to respond to this threat. As a result of our work on terrorism, the Congress has been apprised of the need to improve governmentwide leadership, strategy, focus, and coordination in combating terrorism.

Military Readiness

In November 1998, we reported that the Army and Air Force had poorly defined, outdated, or otherwise questionable requirements for the equipment and supplies to be positioned near potential conflict areas (prepositioning). In addition, the services did not have reliable data on their programs. Therefore, we concluded that the precise readiness of the prepositioned equipment and supplies—and the impact of any shortages—was difficult to determine. We recommended, among other things, that the Secretary of Defense direct the Secretaries of the Army and the Air Force to reassess their prepositioning programs, with the goal of establishing sound requirements based on prevailing wartime strategy, and to develop reliable inventory information to measure the readiness of the programs. DOD concurred with the report's recommendations and said that the services were examining many of the issues raised in the report.

Since the end of the Cold War, the frequency of U.S. military involvement in operations other than war has increased, while the number of military

forces and personnel has declined. The increased involvement has raised concerns in the Congress about the impact of these operations on the military services. We provided the Congress with fact-based analyses on this issue. Specifically, we reported in May 1999 that operations other than war had varied impacts on the services. For example, the operations have adversely affected the combat capability of units deployed in Bosnia and Southwest Asia and some units that remain at the home installations since they have to pick up the work of the deployed units. Army and Air Force units have been more affected than Navy and Marine Corps units. Conversely, many Army and Air Force units and/or personnel have been relatively unaffected by the operations. The effects of the operations on morale and retention of personnel are also mixed. For example, Army morale studies indicate that morale was generally high among soldiers in Bosnia, but Air Force personnel indicate that morale is declining partly due to recurring deployments.

Force Structure

The Fiscal Year 1996 National Defense Authorization Act requires us to annually assess, through 2001, the Army's plans to allocate its end strength, that is, the total number of positions authorized annually by Congress, to meet the requirements of its combat and support units. In a February 1997 report, we recommended, among other things, that the Army report deficiencies in its manpower requirements determination system as a material weakness under the Federal Managers' Financial Integrity Act. In a February 1998 report, we found problems with the Army's milestones to correct the weaknesses and recommended corrective actions. The Secretary of Defense's fiscal year 1998 Federal Managers' Financial Integrity Act report incorporated GAO's recommended actions. Also in the February 1998 report, we concluded that the Army needed to exercise better oversight to ensure that its force redesign results are achieved. In response to our report, the Army developed specific goals and indicators for its redesign initiatives.

In a May 1996 report, we recommended that the Air Force be directed to develop an implementation plan to operate the fighter force in larger squadrons. DOD concurred with our recommendation, and the Air Force's fiscal year 1999 budget indicated that the service would consolidate five squadrons. The benefits of these consolidations are (1) improved operations, including increased flexibility in responding to numerous contingencies and maintaining training of those squadron members that do not deploy, and (2) a DOD estimated cost savings of \$117.5 million over the fiscal year 1999-2003 Future Years Defense Program.

Personnel Issues

The quality of life of our military servicemembers is a priority area for DOD and a matter of continuing concern for the Congress. We have testified and reported on a number of quality-of-life issues, including those pertaining to housing, retirement, Gulf War illnesses, and retention. For example, we testified in February 1999 that we saw no clear indication that the proposed change to the military retirement system, which would result in increased costs and unfunded liabilities of an estimated \$13 billion, would address the retention issue. We evaluated the thoroughness of the Office of the Special Assistant for Gulf War Illnesses' investigations into, and reporting on, incidents of veterans' potential exposures to chemical or biological warfare agents during the Gulf War. In a February 1999 report, we recommended, among other things, improvements in the Office's quality assurance procedures to ensure that all of its investigations are thoroughly conducted and accurately reported. We briefed the Presidential Special Oversight Board for Department of Defense Investigations of Gulf War Chemical and Biological Incidents on our report.

About 14 percent of servicemembers are women. In an era of increasing difficulty in recruiting and retaining adequate numbers of military personnel, the use and management of women in the military have become very important. We completed a series of reports on a variety of issues relating to women in the military. We also testified before the Congressional Commission on Military Training and Gender-Related Issues. We reported on issues involving the perceptions of men and women about gender inequities, DOD's policy of excluding women from positions involving direct ground combat, the validity and equity of physical fitness standards, medical support for deployed women, perceptions of readiness in units newly opened to women, and the occupational distribution of women in the military. To provide DOD and service officials with information to address gender inequities in position prerequisites and skill use, we recommended that DOD assess requirements for skills and specialties that are closed to women to ensure that they are valid and men and women are receiving an equal opportunity to work within their military specialties. We also made a number of recommendations aimed at improving the clarity, validity, and equity of DOD's physical fitness and body fat standards, as well as improving the information on female-specific health care and hygiene available to women preparing to deploy overseas.

Combating Terrorism

The threat of terrorism has clearly been of increasing concern to the executive branch and the Congress. The result has been expanded federal programs to prevent, deter, and respond to potential acts of terrorism and

billions of dollars of additional funds for those programs. Our work has continued to highlight the need for governmentwide priorities and for focus, coordination, and efficiencies in federal agencies' roles, missions, programs, activities, and spending to combat terrorism. For example, we reported and testified on the implementation of the Nunn-Lugar-Domenici Domestic Preparedness Program, an interagency program led by DOD to train and equip emergency response personnel in 120 cities nationwide. We said that the government could have a better return on its investment by refocusing the ongoing program to use and build upon existing emergency response and training structures and to train nearby cities together. We highlighted the advantages of using threat and risk assessments to help cities determine a prudent and affordable level of preparedness and to focus the program. We testified on the rapid growth in federal programs and spending to combat terrorism. We reported and testified on the questionable need for National Guard response teams and recommended that the concept be tested before additional teams are established. In a classified report, we evaluated federal agencies' counterterrorism preparedness as measured by exercises, the efficiency and effectiveness of interagency operations, and related after-action reports.

In May 1998, Presidential Decision Directive 62 established, within the National Security Council, an organizational structure to ensure the coordination of terrorism-related programs and activities. According to the Office of Management and Budget (OMB), this organization will recommend requirements and priorities. OMB will then review agencies' programs, projects, and budgets accordingly. According to OMB, these measures respond to our recommendations on the need for priorities and analyses. Our work found that the cities included in the Nunn-Lugar-Domenici Domestic Preparedness Program were selected without the benefit of formal threat and risk assessments, which are widely recognized as effective tools for supporting decisions on priorities for security investments. As a result of our report, the National Defense Authorization Act for Fiscal Year 1999 requires representatives of appropriate federal, state, and local agencies to develop and test methodologies to assess the threat and risk of terrorists' use of weapons of mass destruction against cities and other local areas.

Budget Analysis

Our reports on DOD's current and future budget plans have provided the Congress with our assessments of the risk areas in those plans and areas where budgets can be reduced. In October 1998 we testified that DOD's Future Years Defense Program for fiscal years 1999-2003, like previous

programs, was based on optimistic assumptions about savings and procurement plans. We stated that DOD had repeatedly shifted planned funding increases for modern weapon systems further into the future with each succeeding program and that could create a large demand for procurement funds in future years. As a result of our briefings and issue papers on potential reductions in DOD's military personnel and operation and maintenance budget requests, the conferees of the Senate and House Committees on Appropriations reduced DOD's fiscal year 1999 budget requests for military personnel by \$609.7 million and its requests for operation and maintenance funds by \$141.5 million. Our previous reviews of DOD's budgets for contingency operations led to the Congress' establishment of the Overseas Contingency Operations Transfer Fund, which allows the Secretary of Defense to provide funds for contingency operations as they unfold. In enacting the Fiscal Year 1999 Defense Appropriations Act, the Congress reduced funding by \$307.5 million, reflecting the substantial balance remaining in the fund.

Because of the Congress' concern about the validity and accuracy of the Air Force's budget formulation process for its flying hour program, we reviewed the Air Force's process for the program. We reported in July 1999 that the Air Force in the last 4 years requested funding for more hours than it has been able to fly. However, the Air Force was implementing our prior recommendations aimed at improving its financial operations, and the improvements should enable the Air Force to more accurately assess the adequacy of its flying hour funding as the budget year progresses.

Key Open
Recommendations

DOD has estimated that over \$20 billion and 30 to 40 years would be required to upgrade or replace existing military family housing. To improve housing faster and more economically, the Congress, in fiscal year 1996, approved DOD's military housing privatization initiative, which allows private sector financing, ownership, operation, and maintenance of military housing. We recommended that the Secretary of Defense direct the services to, among other things, prepare detailed, integrated housing plans that describe their plans for addressing long-standing weaknesses in their housing requirements determination processes. (GAO/NSIAD-98-178)

In our report addressing potential efficiencies in operating the B-1 bomber fleet, we recommended that the Secretary of Defense direct the Secretary of the Air Force to prepare a plan to place more B-1s in the reserve component and seek congressional support for the plan. (GAO/NSIAD-98-64)

To improve the Army's ability to accurately project war-fighting requirements and allocate the Army's personnel resources, we recommended that the Secretary of the Army perform analyses to determine how support force requirements for multiple operations other than war might differ from support force requirements based on two major regional conflicts and to bring any variances to the attention of the Secretary of Defense so that he can consider them in developing defense guidance. (GAO/NSIAD-97-66)

DOD sent approximately 2.2 million recruits to basic training between fiscal years 1987 and 1996. However, over 700,000 of those failed to complete their initial service obligations, with about 200,000 failing to complete even 90 days of service. To enhance the performance of DOD's approximately 12,000 recruiters and the retention of recruits, we recommended that the Secretary of Defense direct the services to, among other things, link recruiter awards more closely to recruits' successful completion of basic training and develop or procure personality screening tests that can aid in the selection of high quality recruiters. (GAO/NSIAD-98-58)

Because the Army and the Air Force have poorly defined, outdated, or otherwise questionable requirements in the major prepositioning programs that we reviewed, we recommended, among other things, that the Secretary of Defense direct the Secretary of the Army to reevaluate the requirements for prepositioning for Europe, including whether the current brigade set configurations best meet the envisioned missions. (GAO/NSIAD-99-6)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Special Studies and
Evaluations Issue
Area (Budget
Function 090)

GAO Contact: Kwai-Cheung Chan, 202/512-3092

Impact of GAO's Work

Congressional committees continue to raise questions about national security and international affairs issues that are best answered using applied social science research and analytic methods. In fiscal year 1999, we used such methods to conduct a broad range of congressionally requested evaluations, including those on (1) the intended and unintended effects of DOD's chemical and biological defense program and anthrax vaccination program, (2) the reliability and validity of data and measures DOD used to manage its properties, and (3) quality-of-life conditions and their relationship to military retention.

Chemical and Biological
Defense Program

The possible exposure of U.S. troops to chemical warfare agents after the Persian Gulf War and the threat of terrorism have focused congressional attention on DOD's capabilities to protect military personnel from chemical and biological warfare threats. Veterans of the Gulf War increasingly express their concern and belief that chemical agents used during the war have made them ill. We issued a series of reports on the scope, planning, and coordination of DOD's research and development activities related to defense against chemical and biological agents. We found that

- DOD has no integrated strategy, policy, or doctrine to address low-level exposures to chemical warfare agents, despite the existence of research indicating that low-level exposures to some chemical warfare agents can result in adverse effects on short-term performance and long-term health;
- chemical and biological program managers have not incorporated key Results Act principles into the program plan in that program goals are vague and desired impacts are not specific; and
- program coordination mechanisms may not ensure that overlaps, gaps, and opportunities for collaboration are addressed because the mechanisms lack information on users' priority needs, validated defense equipment requirements, and the relationship of the program's research projects to specified needs.

Anthrax Vaccination Program

During fiscal year 1999, we testified on several issues associated with DOD's Anthrax Vaccine Immunization Program, and we are continuing to review this program. In 1997, DOD decided to inoculate its 2.4 million

servicemembers with the anthrax vaccine to protect against possible exposure to anthrax, a biological agent. Since the program's inception, however, servicemembers and the Congress have raised questions and expressed concern about the basic safety and efficacy of the vaccine. In three testimonies before the House Committee on Government Reform and its Subcommittee on National Security, Veterans Affairs, and International Relations, we addressed several important issues. Specifically, we observed that

- no studies have been done to evaluate the vaccine's long-term effects,
- data on the prevalence and duration of short-term reactions are limited but suggest that women have more adverse reactions to the vaccine,
- studies on the efficacy of the vaccine for animals show that protection varies and that the test results cannot necessarily be extrapolated to humans,
- no studies have been done to determine how many doses of the vaccine are needed for humans, and
- Food and Drug Administration inspections discovered significant problems at the vaccine's manufacturing facility.

Property Maintenance Management

DOD's management of its property maintenance has concerned the Congress for some time because of growing backlogs in reported infrastructure repairs. During an in-depth review of DOD's management efforts in this area, we found that DOD lacked a comprehensive strategy for maintaining the services' infrastructure. Each service differed in the way it assessed property conditions, prioritized repairs, and allocated resources for repairs. As a result, DOD does not have accurate and comparable databases on facility conditions and repair costs, and the Congress cannot be assured that it is funding maintenance and repairs that will provide the best return on its investment. DOD could improve its infrastructure management through the development of a cross-service strategic plan and the adoption of promising practices in place in the private sector.

Quality of Life and Retention

The Congress and DOD share a concern regarding DOD's ability to retain servicemembers and maintain an adequate quality of life overall. In a review of how retention and quality of life varies among the military services, we surveyed about 1,000 servicemembers to obtain their perspectives on military life. More than half of those surveyed said that they were dissatisfied and intended to leave the military after their current obligation was over. Many of their sources of dissatisfaction related to work circumstances, such as the lack of parts and equipment to get their jobs done, the understaffing of units, and the frequency of deployments.

These factors have reduced morale and job satisfaction and made it difficult for servicemembers to spend time away from their jobs. As a result of our work, the House Appropriations Committee emphasized in DOD's fiscal year 2000 appropriations bill that DOD should adopt our review's methodology in future assessments of quality of life conditions and retention.

Key Open Recommendations

Protection Against Chemical and Biological Agents

We recommended that DOD and the Department of Veterans Affairs give greater priority to research on effective treatments for Gulf War veterans who are ill and set up a plan for monitoring their clinical progress. The Persian Gulf War Veterans Health Care and Research Act of 1998 requires the Department of Veterans Affairs to fund a study by the National Academy of Sciences to determine an appropriate method for implementing our recommendation. The National Academy of Sciences completed its study in 1999 and proposed a plan for monitoring the progress of ill Gulf War veterans. Neither DOD nor the Department of Veterans Affairs have yet approved and implemented the plan. (GAO/NSIAD-97-163)

To address the lack of doctrine and research on low-level exposures to chemical warfare agents, we recommended that DOD modify its policies to address low-level exposures to chemical agents and establish a research program for determining the effects of such exposures. In response to our recommendation, DOD developed a 5-year research plan to determine the effects of chronic and low-level exposures to chemical warfare agents. The plan specifies that research findings are to enable DOD to establish a doctrine and policy for defense against chemical agents. DOD has not yet implemented this plan. (GAO/NSIAD-98-228)

In response to our recommendation that DOD develop a strategic plan for defense against chemical and biological agents, DOD agreed to develop a strategic plan following the tenets of the Results Act. DOD stated that the plan would, for example, incorporate new performance measures that address chemical and biological capabilities achieved rather than the number of systems fielded. Also, DOD committed to including a detailed and coordinated plan in its nuclear, biological, and chemical defense annual report, scheduled for March 2000, to the Congress. (GAO/NSIAD-99-159)

**Chapter1
Improving National Security and
International Affairs Programs**

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

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Improving Resources, Community, and Economic Development Programs

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

GAO Contact: James E. Wells Jr., 202/512-6877

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 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 the Tennessee Valley Authority (TVA). A second grouping encompasses various land management and natural resource agencies, including the Department of Interior (DOI), the Forest Service within the Department of Agriculture, and the Army Corps of Engineers. Finally, there is 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, which are discussed 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:

- initiate legislative changes governing the sale of Elk Hills Naval Petroleum Reserve, resulting in an additional \$1.5 billion in sale proceeds;

- implement Government Performance and Results Act concepts at DOE, NRC, DOI, NSF, and the Forest Service, by requiring them to focus more on their goals and missions and holding them accountable for their performance and results;
- better understand current issues associated with the disposal of commercially generated low-level radioactive wastes;
- enact a new law requiring the State Department to ensure that technical assistance projects sponsored by the International Atomic Energy Agency are consistent with U.S. nuclear nonproliferation and safety goals;
- reorganize DOE's defense laboratory structure in the wake of serious security problems, including poor controls over foreign visitors;
- pass legislation making funding of the \$1.4 billion Spallation Neutron Source project contingent on DOE correcting management weaknesses first reported by GAO;
- oversee Y2K compliance of the Nations nuclear weapons stockpile;
- continue its deliberations on the potential privatization of DOE's four power marketing administrations and deregulation of the electric utility industry;
- limit the amount of funding used to provide housing for Park Service employees as well as to administer the Fish and Wildlife Service's Sports Fish and Wildlife Restoration programs.

Other recommendations led to administrative actions to improve government programs. Based on our work:

- DOE took steps to further improve its investigation of a potentially significant nuclear contamination problem at the Hanford Site affecting the nearby Columbia River and downstream communities;
- DOE restructured many aspects of its internal training program that should lead to improved operations and dollar savings;
- DOE issued new rules to link its payment of fees for contractors to risk and performance;
- DOE established a new mechanism for ensuring that it includes in its budget requests an appropriate amount to pay its fair share of the cost of disposing of highly radioactive wastes in a geologic repository;
- federal land management agencies are coordinating with each other as well as with other federal and nonfederal parties to mitigate the impacts of human activities on water quality and to ensure safe drinking water for cities in Oregon;
- the Minerals Management Service took steps to ensure that gas production from offshore leases is accurately reported;

- the Forest Service clarified its mission and funding priorities—the critical first step in an effort to streamline the agency’s statutory framework and to hold it accountable for its performance;
- the Government received additional sale proceeds of \$810 million as a result of improving the process for privatizing the United States Enrichment Corporation;
- the National Park Service improved its lodging facilities and agreed to reassess its construction projects and reorganize and downsize its Denver Service Center;
- the Copyright Office took steps to increase its fees for copyright registrations and other services, thus aligning its fees more closely with the services provided and raising its estimated revenues by \$4.5 million for fiscal year 2000 and beyond;
- interagency access to data and coordination activities associated with the Small Business Innovation Research program improved, reducing the risk of duplicative funding of similar research projects and increasing the ability of agencies, the Congress, and the American people to assess the success of the program; and
- the National Institutes of Standards and Technology took steps to help ensure that grants made under its Advanced Technology Program cannot be otherwise funded by the private sector and are not already being funded through other federal research.

High-Risk Area

DOE Contract Management

We designated DOE contracting as a high-risk area in 1990 based on its vulnerability to waste, fraud, and abuse. Contracting was considered particularly vulnerable because DOE’s missions rely heavily on contractors and DOE has a history of weak contractor oversight. Much of DOE’s problem goes back to the Manhattan Project where special contracting arrangements, such as minimal 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 to reform its contracting practices. For example, DOE in recent times has significantly increased its use of competition in selecting contractors to manage and operate its major facilities. But it needs to do more. Among other things, it is still not competitively awarding contracts for environmental restoration work at its national laboratories, even though it does so at other facilities.

Key Open Recommendations

National Laboratories

In January 1995, we recommended that the Secretary of Energy evaluate alternatives for managing the laboratories that more fully support the achievement of clear and coordinated missions, including strengthening the Department's Office of Laboratory Management. If DOE is unable to refocus the laboratories' missions and develop a management approach consistent with these new missions, we suggested that the Congress may wish to consider alternatives to the present DOE-Laboratory relationship. Such alternatives might include placing the laboratories under the control of different agencies or creating a separate structure for the sole purpose of developing a consensus on the laboratories' missions.

DOE's Laboratory Operations Board, created to provide focus and direction for DOE's laboratories, has developed a strategic plan for the laboratories and is taking steps to implement 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. DOE also has many initiatives in process addressing the Galvin Task Force recommendations. Meanwhile, the Congress is debating legislation that would substantially restructure how DOE manages its laboratories. (GAO/RCED-95-10)

Nuclear Regulation

In May 1994, we recommended that NRC—in order to ensure the health and safety of workers and 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, the agencies are conducting a national survey to assess the extent of radioactive contamination in sludge, ash, and byproducts. In 2001, when

the results of the national survey are available, the information will be used to determine whether a revision to radiation standards is needed. (GAO/RCED-94-133)

Plutonium Disposition

Because of the uncertainties about Russia's commitment to implementing a long-term program—similar to the U.S. program—to reduce plutonium stockpiles, we suggested that the Congress may wish to consider linking DOE's future funding requests for large-scale projects to design and construct plutonium disposition facilities in the U.S. and Russia to progress in negotiating and signing a bilateral agreement. We also suggested that the Congress may wish to consider requesting that the Department of State, and other appropriate agencies, report periodically on efforts to conclude a plutonium disposition agreement between the U.S. and Russia. DOE and the State Department are actively negotiating a comprehensive plutonium disposition agreement with Russia and such an agreement is expected in early to mid-2000. We have been told that further funding for the construction of plutonium disposition facilities in Russia will not be authorized by the Congress until such an agreement is signed. In addition, high-level State and DOE officials have been meeting periodically with key appropriating and authorizing committees to provide information on their progress in reaching such an agreement. (GAO/RCED-98-46)

Russian Unemployed Nuclear Scientists

The Initiative for Proliferation Prevention was established in 1994 to engage scientists from the former Soviet Union in peaceful commercial activities, and thus reduce the risk that they would sell sensitive information to countries or terrorist groups trying to develop weapons of mass destruction. In February 1999, we made recommendations to maximize the impact of the initiative's funding and improve DOE's oversight of the initiative. Among them was that DOE (1) obtain accurate information on the number and background of the scientists participating in initiative projects and eliminate funding for institutes in newly independent states that did not formerly work on weapons of mass destruction, (2) clarify program guidance as to whether scientists currently employed in the weapons of mass destruction programs are eligible for funding, and (3) ensure that project reviewers consider all military applications of projects to ensure that useful defense-related information is not unintentionally transferred. DOE is in the process of taking various actions to deal with these issues. (GAO/RCED-99-54)

Nuclear Proliferation and Safety

In September 1997, we suggested that if the Congress wishes to make known that the United States does not support the International Atomic

Energy Agency's technical assistance projects in countries of concern—as defined in the Foreign Assistance Act of 1961 and related appropriation provisions—it could explicitly require that the State Department withhold a proportional share of its voluntary funds for the International Atomic Energy Agency that would otherwise go to these countries. In 1998, the Congress withheld a proportionate share of its voluntary funds to the International Atomic Energy Agency for Cuba, and legislation is pending to do the same for Iran. (GAO/RCED-97-192)

Nuclear Waste

Based on concerns about the potential risk of both radioactive and hazardous chemical wastes at the Hanford Site to populations downstream from the nearby Columbia River, we recommended that the Secretary of Energy develop a comprehensive strategy for the Site that addresses cleaning up the high-level waste tank farm and the cribs, ponds, trenches, and other waste sites. Among other things, we said the strategy should address the importance of understanding conditions in the unsaturated zone to ongoing cleanup activities and future decisions on cleaning up the Hanford Site, such as deciding whether to retrieve wastes from leaking single-shell tanks and, if so, how. We also recommended that as soon as better information is available on the behavior of wastes in the zone, the Secretary reevaluate DOE's proposed strategy of removing additional wastes from the single-shell tank by injecting pressurized water into the tanks.

In April 1998, DOE issued a three-phased plan for an integrated study of vadose and groundwater zone issues. The first phase established a site-wide management function responsible for identifying and coordinating activities that pose a potential impact to the Site's soil and groundwater and to the Columbia River. The second phase identified data gaps, defined needs, goals, objectives, and priorities. The third phase, begun in October 1998, is carrying out detailed work plans. According to DOE, integration of unsaturated zone and groundwater activities within the plan is necessary to understand how pending major cleanup decisions, such as retrieving waste from tanks, can be most effectively accomplished with least possible environmental impact. In addition, based on experience with injection of pressurized water into waste tanks, alternative technology demonstration, and additional insights on the behavior of wastes in the zone, decisions will be made on retrieval of wastes from single-shell tanks that will allow for final tank closure. DOE is evaluating early results from efforts to retrieve wastes from one tank. (GAO/RCED-98-80)

NRC Risk Management

To ensure the safe operation of commercial nuclear power plants in a restructured and more competitive electricity environment, NRC has been moving from its traditional regulatory approach, which was largely developed without the benefit of quantitative estimates of risk, to a new regulatory approach—termed “risk informed”—which considers relative risk in conjunction with engineering analysis and operating experience. In March 1999, we recommended that NRC develop a comprehensive strategy for the transition to such an approach. NRC agreed and is developing the strategy suggested. (GAO/RCED-99-95)

External Regulation of DOE Facilities

Although DOE leadership has recognized since 1993 the need for having its research and nuclear facilities inspected and licensed by independent (external) regulators to help ensure safe operations, it has wavered in its position and still does not have a clear strategy for accomplishing it. Therefore, we recommended that the Secretary of Energy (1) clarify DOE’s position on external regulation of worker and nuclear facility safety at DOE’s facilities, and (2) develop a strategy to implement it that is consistent with the DOE’s position. This strategy should include specific goals, objectives, and milestones and show how the information from the pilot projects, and other techniques, will meet the strategies goals and objectives. In recent letters to congressional committees, the Secretary of Energy stated that externally regulating worker and nuclear safety at its laboratories was not cost effective and that no more work would be done to accomplish it. However, in a July 1999 hearing, other DOE officials pledged to work with the Congress on this issue, but made no commitment to support external regulation. (GAO/RCED-98-163)

Supercomputers

In a July 1998 report, we noted that given the number and cost of DOE’s existing supercomputers, the unused capacity that exists, and future planned acquisitions, it is increasingly important that DOE better manage the acquisition and use of these systems. We recommended that DOE adopt a process that meets the criteria set out in the Clinger-Cohen Act for acquiring scientific information technology. The process should (1) pertain to all Department-funded supercomputers, (2) ensure, prior to providing funds for the acquisition of any new supercomputers, that a written justification clearly demonstrate the need, address the benefits of acquiring it, and allow for meaningful comparison with alternative investments, and (3) include a laboratory-specific analysis of the potential to share it with other sites and/or programs. We further recommended that the Secretary designate DOE’s most ambitious acquisitions of supercomputer systems—such as those in the Accelerated Strategic

Computer Initiative program—as strategic systems warranting oversight at the highest departmental level. (GAO/RCED-98-208)

In a July 1999 report, we noted that the Accelerated Strategic Computer Initiative program was important for maintaining the stockpile of nuclear weapons but was estimated to cost over \$5 billion and lacked a comprehensive planning, tracking, and reporting system. As such, we recommended that DOE improve its oversight and management of the system, including establishing a comprehensive planning, progress tracking, and reporting system and designating it as a strategic system warranting oversight at the highest level within DOE. DOE is considering, but has not yet formally responded, to our recommendations. (GAO/RCED-99-195)

Technology Investment

In June 1996, we recommended that the Secretary of Energy develop and implement a Department-wide policy for requiring payment of the federal investment in successfully commercialized cost-shared technologies. The policy should provide criteria and flexibility for determining which programs and projects are appropriate for repayment. DOE agreed with this recommendation and has developed a broad and flexible draft repayment policy, which is undergoing review and approval within DOE before it is adopted. (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. Since the issuance of our report, the Congress has been using our analyses in their deliberations on bills to restructure the Patent and Trademark Office, although final action has not yet taken place. (GAO/RCED-97-113)

National Parks Recreation Fees

In November 1998, we recommended that the Secretaries of Agriculture and Interior direct the heads of the four agencies participating in the recreation fee demonstration program—the Forest Service, Bureau of Land Management, National Park Service, and Fish and Wildlife Service—to better coordinate their fee-collection activities. Among other things, this includes demonstration sites devising fee-collection

coordination efforts with nearby federal recreation areas, such as reciprocal fee arrangements. The Department of Interior has formed a task group to look at opportunities for greater coordination and the Forest Service has already identified opportunities for better coordinating fees. (GAO/RCED-99-7)

Catastrophic Forest Fires

In April 1999, we reported that many national forests in the West and their nearby communities are increasingly threatened by large, catastrophic wildfires. Historically, frequent, low-intensity fires removed accumulations of excessive vegetation that forms fuels for wildfires. However, these fuels are accumulating, in large part, because for decades the Forest Service suppressed fire in forests. We recommended that the Secretary of Agriculture direct the Chief of the Forest Service to develop, and formally communicate to the Congress, a cohesive strategy for reducing and maintaining accumulated fuels on national forests in the West, along with estimates of the costs to implement it. The Forest Service, in recent testimony, agreed but has yet to implement the recommendation. (GAO/RCED-99-65)

Fair Market Value

In April 1996, we reported that the Forest Service was 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, agreed 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 in fiscal year 2000. (GAO/RCED-96-84)

Wetlands

Over \$500 million each year is associated with the efforts of federal agencies to protect and restore wetlands. However, the consistency and reliability of the estimates made of the nation's remaining wetlands acreage and the data reported by the agencies on their accomplishments are questionable. Despite the efforts of five interagency task forces established since 1989 to resolve them, these problems persist. As a result, the progress made toward achieving the goal of a no-net loss of the nation's remaining wetlands, the administration's new goal of gaining 100,000 acres of wetlands each year beginning in the year 2005, and the contributions made by the agencies in achieving these goals cannot be measured.

To ensure improvements to such data, we recommended that the Secretary of the Department of Agriculture and the Secretary of the Department of Interior, in consultation with the Chair of the White House's Interagency Wetlands Working Group, develop and implement a strategy for ensuring that all actions contained in the Clean Water Action Plan relating to wetlands data are adopted government-wide. We said such actions, in addition to including the ongoing effort to develop a single set of accurate and reliable figures on the status of trends of the nation's wetlands, should include the development of consistent and understandable definitions and reporting standards that are used by all federal agencies in reporting their wetlands-related activities and the changes to wetlands that result from such activities. The agencies hope to reach agreement on consistent definitions of wetland restoration, creation, and enhancement in the near future. Once they agree on the definitions, a plan to track wetland gains and losses will be developed. They also plan to develop a single status and trends report on wetland losses, which is expected to go into effect in 2000. (GAO/RCED-98-150)

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)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Environmental Protection Issue Area (Budget Function 300)

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

Impact of GAO's Work

The Environmental Protection Agency (EPA) is the key federal agency responsible for overseeing laws which have been enacted to help address threats to the environment and human health. The agency's approximately \$7 billion budget funds diverse regulatory, enforcement, research, and technical assistance programs which are aimed at controlling pollution. These programs, which have a significant impact on the nation's economy, are intended to support EPA's broad mandate and overarching strategic goals for protecting public health and the environment including clean air, clean and safe water, safe food, reduction of global and cross-boarder environmental risks, expansion of the public's right to information on environmental conditions, and effective management. Since EPA's inception in 1970, the nation's environmental protection system has been comprised of programs, regulations, and policies that primarily have focused on limiting pollutant discharges—such as emissions from industrial facilities. EPA has estimated that by the year 2000 approximately \$2 trillion will have been spent by the public and private sectors to improve the environment, and that the nation's annual costs to comply with environmental regulations may reach about \$148 billion in 2000. Although the regulatory approach has helped the nation gain notable environmental results, future improvements will be costly to achieve and this approach may be less effective in addressing some continuing complex environmental problems such as pollution runoff to our rivers and streams. The Congress and EPA have been more willing in recent years to allow states, localities, and businesses more flexibility in carrying out their environmental responsibilities, and EPA and other environmental stakeholders have continued exploring alternative ways to revamp our nation's approach to environmental protection. In light of high public expectations for environmental protection and ongoing concerns about the costs and economic impact of government regulation, EPA must constructively approach these complexities and challenges so that as the nation moves into the 21st century environmental programs work fairly, efficiently, and effectively to achieve further environmental results.

This past year, our work focused on a wide array of critical programs and activities and has included examining the agency's progress towards meeting its strategic goals, highlighting ongoing and emerging environmental and management problems, and recommending ways the

Congress and EPA can address complex domestic, international, and global challenges while striving to balance environmental needs and available resources. We

- provided our perspectives on the major performance and management challenges facing EPA and ways in which EPA can better use its annual performance plans under the Government Performance and Results Act to set resource priorities, establish more results-oriented objectives and measures, and assess its progress towards carrying out its mission;
- aided congressional reauthorization discussions on EPA's Superfund program by reporting and providing testimony on the pace and cost of cleanups, cost recovery practices, and other actions to decrease the program's ongoing vulnerability to fraud, waste, and mismanagement;
- evaluated and provided testimony on EPA's progress in developing a new central Information Office to help better manage agency programs for results;
- highlighted current and emerging water pollution problems that present growing environmental and human health risks, including the federal government's contribution to nonpoint source water pollution and the growing threat of algae toxins to humans and marine ecosystems;
- reported on the status and challenges faced by EPA in implementing the 1996 Safe Drinking Water Act amendments, including the steps being taken to ensure the agency's adequate and timely investment in the scientific research needed to support new mandated regulations;
- testified on the administration's global climate change plan to reduce greenhouse gas emissions to conform with the Kyoto Protocol, and reported on issues that could influence compliance with current and future international environmental agreements; and
- examined air pollution issues including EPA's progress in implementing new air quality standards and federal research to reduce indoor air pollution and resulting health effects.

Furthermore, work we performed and reported on previously influenced the Congress and EPA implemented numerous recommendations. Collectively, their actions have led to the better use of government funds and improvements in the operation and results of environmental programs. Based on our work:

- EPA improved its management and oversight of its multi-billion dollar Superfund program including launching efforts to assess the risk of several hundred contaminated sites, establishing annual performance

goals for these assessments, and devising a method for monitoring progress;

- EPA initiated a series of administrative reforms to achieve faster, appropriate, and cost-efficient hazardous waste cleanups under the Resources Conservation and Recovery Act, including issuing consolidated clarifying guidance and providing training to EPA and state cleanup managers which should result in the use of more consistent and cost-effective cleanup practices nationwide;
- EPA clarified the public notification requirements under the Safe Drinking Water Act that should improve the efficiency and effectiveness of water systems communication strategies and thus enable consumers to obtain a better understanding of the quality of their drinking water;
- EPA initiated reforms to strengthen its management and oversight of regulatory reinvention initiatives, including developing more detailed performance measures to assess the results of EPA and states efforts, devising a process for tracking and evaluating projects, and implementing partnership agreements to enhance agency relations with state environmental partners;
- EPA improved the effectiveness of EPA's and states' environmental enforcement and compliance activities by focusing more on results, such as increasing the use of results-oriented enforcement goals and indicators and agreements with state environmental agencies to strengthen enforcement and compliance programs;
- EPA developed a more effective approach for deobligating and reusing unspent Superfund contract and assistance funds which resulted in a financial benefit of \$115 million and enabled the agency to better use limited program resources; and
- Congress reduced EPA's fiscal year 1998 budget request by \$72 million based on questions we raised about the accuracy of EPA's funding estimates for various Climate Change Action Plan programs and its Environmental Monitoring for Public Access and Community Tracking Program.

**Key Open
Recommendations**

The Congress and EPA have taken many concrete actions in response to our work to improve environmental programs. However, some recommendations remain open and thus continue to warrant attention.

Regulatory Impact Analyses

For nearly 30 years EPA has issued and enforced regulations to enhance environmental conditions. Although such regulations have helped produce various economic and social benefits such as improved human health, they can impose substantial costs, including compliance expenses for regulated

entities. In 1997, the Office of Management and Budget (OMB) estimated that federal environmental regulations cost about \$144 billion annually and provided benefits of about \$162 billion. Based on various federal executive orders, OMB and EPA established guidelines which require that EPA prepare detailed cost-benefit analyses, or regulatory impact analyses, to support all economically significant environmental regulations including those expected to have an annual impact on the economy of \$100 million or more. These assessments contribute to the regulatory process by estimating future costs and benefits of various feasible alternatives.

In 1997, we reviewed Regulatory Impact Analyses prepared by EPA's Office of Air and Radiation focusing on whether these analyses clearly described key economic assumptions, quantified regulatory benefits and costs, considered alternative approaches, and whether in response to our prior recommendation Regulatory Impact Analyses included executive summaries highlighting analytical results. We recommended that EPA ensure that Regulatory Impact Analyses identify the (1) value, or range of values selected; (2) sensitivity of benefit and cost estimates when there are major sources of uncertainty; and (3) alternatives considered, including those not subjected to benefit-cost analyses. (In 1998, we reviewed the use of economic analyses in rulemaking related to the Offices of Solid Waste and Emergency Response, Air and Radiation, and Pollution Prevention and Toxics, and the use of Regulatory Impact Analyses by several other federal agencies and basically found the same results.) Subsequent to our 1997 recommendation, EPA developed draft guidance on conducting economic analyses. According to agency officials, the guidance is intended to establish greater consistency in incorporating the measures we outlined in our report. In June 1999, EPA received comments from the Science Advisory Board and currently is working to finalize the guidance. (GAO/RCED-97-38)

Hazardous Waste Management

Since the Superfund program to clean up abandoned hazardous waste sites was established by Congress in 1980, thousands of waste sites—many owned by the federal government—have been discovered and cleaning them up has been more complicated and costly than originally anticipated. Latest estimates suggest that clean ups of hazardous waste sites—including those sites at federal facilities—could cost the federal government more than \$300 billion and the private sector hundreds of billions more. Under the Comprehensive Environmental Response, Compensation, and Liability Act, which created the Superfund program, EPA can require private parties responsible for contamination at hazardous

waste sites to clean up the sites, or it can clean up the sites and seek reimbursement of its costs.

We have also reported that EPA's Superfund program poses a significant financial risk to the government and remains vulnerable to waste and abuse, partly because of insufficient recovery of certain cleanup costs—mainly indirect program costs—from responsible parties. If the agency does not take action soon to allocate more indirect costs to private parties, it could lose at least a half billion dollars in future recoverable costs from final settlements with private responsible parties which, if recouped, could enable the agency to fund other necessary Superfund program activities. Most recently, in a 1999 report on the Superfund program we found that its cost recovery program had previously excluded about \$2 billion in indirect costs from its final settlements with responsible parties. Maximizing the recovery of agency cleanup costs is critical given the large number of hazardous waste sites that remain to be cleaned up, the tremendous costs involved, and the limited federal resources. Because of these factors, we recommended that the EPA Administrator ensure that the Superfund cost recovery program applies the agency's new method for calculating an indirect cost rate as soon as it is approved. In response to a governmentwide requirement to adopt new cost-accounting standards, Superfund officials have developed a new way to calculate indirect costs that could, if adopted, substantially increase EPA's cost recoveries. Superfund officials have not yet adopted a new methodology for calculating an indirect cost rate because they are awaiting approval from EPA and the Department of Justice, which litigates cost recovery cases. (GAO/RCED-99-111)

We also have reported that EPA has made some progress in setting priorities for their limited cleanup funds based on the relative risk that sites pose to the environment and human health. In 1994, we suggested that the Congress consider amending the Comprehensive Environmental Response, Compensation, and Liability Act to develop a consistent process for assessing and ranking the relative risks of hazardous waste sites and for using the process as a factor for setting priorities for federal cleanups so that resources can be targeted to the worst sites first. The Congress has not reauthorized the Superfund program, although at least one legislative proposal included a provision that would have required EPA to consider the relative risk of sites in setting cleanup priorities. In the interim, EPA has administratively created a panel to annually rank those Superfund sites ready to begin construction of cleanup methods which uses various criteria, including health and environmental risks, to score and rank sites

for cleanup. However, the agency is not currently using relative risk as a primary criterion when deciding which of the eligible sites to place on the agency's National Priority List. The Departments of Agriculture, Defense, and Energy have also made progress in developing processes to set cleanup funding priorities based on the relative risk posed by sites. However, the Department of Interior has not yet developed a central database of sites in order to rank them for funding or an overall strategy to manage their cleanup workload. (GAO/T-RCED-94-274)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Food and Agriculture Issue Area (Budget Function 350)

GAO Contact: Lawrence J. Dyckman, 202/512-5138

Impact of GAO's Work

The Food and Agriculture Issue Area covers the domestic food and agriculture programs at the Department of Agriculture (USDA), the third largest civilian agency with a budget of about \$55 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 USDA's budget, or about \$36 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 9 percent of all exports. In addition, about 23 million Americans have jobs related to the food and agriculture economy.

Approximately 100,000 USDA employees are responsible for implementing programs that support the productivity and profitability of farming and ranching, protect the natural environment, respond to land use issues, ensure food safety, improve the well-being of rural America, promote domestic marketing and the export of food and farm products, conduct biotechnology and other agricultural research, provide nutritional guidance, and provide food assistance to those Americans who need it. These activities are carried out under USDA's seven mission areas: Farm and Foreign Agricultural Services; Rural Development; Research, Education, and Economics; Natural Resources and Environment; Food, Nutrition, and Consumer Services; Food Safety; and Marketing and Regulatory Programs.

During 1999, USDA continued to implement many of the changes mandated by Congress in 1994 and 1996, which 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 moved forward in 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 continued 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 continues to undergo the most massive streamlining efforts in its history.

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

- testified that the federal government's piecemeal approach to food safety is not an effective means of assuring the safety of the nation's food supply and reiterated the need to establish a uniform, risk-based inspection system under a single food safety agency to fully achieve an effective food safety system;
- reported on the use of antibiotics in agriculture and their impact on antibiotic-resistant diseases in humans, including the need for USDA and the Department of Health and Human Services to evaluate the risks and benefits of the existing and future use of antibiotics in agriculture;
- testified on significant problems with federal crop insurance programs, including concerns of whether revenue insurance plans over the long term would be actuarially sound;
- highlighted serious weaknesses with USDA's civil rights discrimination complaint process, weaknesses which continue to allow a backlog of most minority farmer and USDA employee discrimination cases;
- identified \$1.7 billion in USDA unobligated appropriated funds for fiscal year 1999, and \$2.4 billion in USDA requested funds for fiscal year 2000, that could be available for congressional rescission or deferral;
- highlighted serious weaknesses in the Food Stamp Program, including USDA's inability to collect millions of dollars in financial penalties from storeowners that have violated program regulations; and
- reported on the negative economic impact of the U.S. tariff-rate quota on raw imported sugar, including the fact that it imposes about \$400 million annually in unnecessary costs to U.S. sugar users.

Furthermore, during the past year USDA implemented a number of our prior recommendations. The following examples demonstrate actions taken as a result of our work.

- USDA increased premium rates on federal crop insurance programs to improve their financial condition which in turn saved the federal government \$158.4 million dollars in fiscal years 1996 and 1997.
- USDA improved its oversight of the Food Stamp Program by recommending to all states that they conduct death records matching to individuals receiving food stamp benefits. We had previously identified that nearly

26,000 deceased individuals who were included in households receiving food stamps.

- USDA reduced administrative payments to private insurance companies, resulting in a savings of \$45 million annually.

High-Risk Areas

GAO identified, in its January 1999 report, two high-risk areas within USDA: inefficiency within the Forest Service and USDA's farm loan programs.

Inefficiency and Waste Within the Forest Service

Inefficiency and waste throughout USDA's Forest Service's operations and organization have cost the taxpayer hundreds of millions of dollars. In particular, the Forest Service has not obtained fair market value for its goods or recovered its costs for services, cannot accurately account for a significant amount of its assets and expenditures, and has generally unreliable financial statements and weak contracting practices. Because these financial problems are so pervasive, we designated the Forest Service's financial problems as a high-risk area.

USDA's Farm Loan Programs Remain Vulnerable to Loss

Placed on GAO's high-risk list in 1990, USDA continues to carry a high level of delinquent farm loan debt and to write off large amounts of unpaid loans held by problem borrowers. In 1998, we reported that the size of USDA's direct loan portfolio, \$9.7 billion at the end of fiscal year 1997, as well as the percentage of the portfolio held by delinquent borrowers had decreased since 1995. Nevertheless, USDA and the Congress need to continue to monitor the effects of recent lending and servicing reforms intended to improve the financial integrity of the farm loan program.

Key Open Recommendations

Food Safety

Our past work has been instrumental in the implementation of the HACCP approach, a scientific risk-based approach to food safety inspection. This program may address many of the problems we identified in our reports. However, we identified some shortcomings in the federal food safety program that still need solutions beyond HACCP. Specifically, we identified the need for Congress to (1) create a uniform set of food safety laws—including those for egg safety—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 discretionary inspection authority and requiring the Food Safety and

Inspection Service to implement a discretionary inspection program for meat and poultry processors. We also recommended that the Commissioner of the Food and Drug Administration (FDA) reduce the chances of salmonella poisoning from eggs, by developing a HACCP inspection program for eggs. In response to these recommendations, Congress continues to urge the Administration to proceed with the development of a single-food safety agency (including consolidating egg safety responsibilities). Furthermore, in March of 1999, the President's Council on Food Safety wrote that it supports the National Academy of Sciences' recommendation for a unified framework for food safety programs and a scientific risk-based approach to food safety. In addition, to increase the flexibility and efficiency of its safety inspections, the Food Safety and Inspection Service is pilot-testing having the industry do much of the meat and poultry inspections with the Food Safety and Inspection Service's oversight. Finally, the Commissioner of FDA announced in August of 1999, as part of the federal government's action plan for egg safety, a goal to reduce salmonella poisoning from eggs by 50 percent by 2005. (GAO/RCED-92-152, GAO/RCED-94-110, GAO/RCED-94-192, and GAO/RCED-99-184)

In 1998, we reported that federal agencies cannot ensure that the growing volume of imported foods is safe for consumers. Given its lack of authority to require equivalency in foreign food safety systems, FDA relies primarily on port-of-entry inspections and tests to ensure the safety of imported foods. Because port-of-entry inspection and testing has been widely discredited as an effective means of ensuring safety, FDA cannot realistically ensure that unsafe foods are kept out of U.S. commerce. To strengthen FDA's ability to ensure the safety of imported foods, we recommended, among other things, that the Congress require all food eligible for importation to the United States, not just meat and poultry, be produced under equivalent food safety systems. In May of 1999, legislation was introduced in the Senate that would require all imported foods be produced under equivalent safety systems. (GAO/RCED-98-103)

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 is responsible for minimizing the risks of infestation and disease and protecting the health of U.S. agriculture. On the basis of our review, we recommended several actions to better ensure that the Animal and Plant Health Inspection Service identifies harmful pests and diseases through the inspections it conducts, including the need to focus its inspection resources nationally rather than regionally. In response, the Animal and

Plant Health Inspection Service recently established national operational inspection standards and has decided to consolidate the four Pest Plant Quarantine regions into two. (GAO/RCED-97-102)

Food Assistance

USDA spends about two-thirds of its budget, or about \$36 billion in fiscal year, on 15 separate food assistance programs. Our reviews of the two of these programs, the Food Stamp Program—about \$16.9 billion in fiscal year 1998, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)—about \$2.8 billion in fiscal year 1998—have identified potential areas of fraud, waste, and abuse and opportunities to reduce program costs.

Our reviews of the Food Stamp Program identified large numbers of ineligible individuals included in households receiving food stamp benefits. In one report we identified nearly 26,000 deceased individuals in four states who were included in households receiving food stamps for the 2-year period 1995 through 1996. These households improperly collected an estimated \$8.5 million in food stamp benefits. In order to ensure the integrity of the Food Stamp Program by preventing deceased individuals from being counted as household members, we recommended that the Congress enact legislation to enable the Social Security Administration (SSA) to disclose all information from its Death Master File to the states administering the Food Stamp Program. On November 12, 1998, the President signed a law, which requires state food stamp agencies to obtain SSA Death Master File information. In our two most recent reviews, we found (1) that out of \$78 million in penalties and interest levied against storeowners for violating Food Stamp Program regulations, the Food, Nutrition, and Consumer Service (FNS) and the courts only collected \$11.5 million, and (2) that some state and local governments under welfare reform have gone further than the law permits in limiting food stamp benefits. We recommended that FNS develop guidance on field staffs responsibilities in identifying and assessing storeowners' penalties, and develop corrective actions to prevent delinquencies and defaults including referring storeowner taxpayer identification numbers to the Department of Treasury. In response to these recommendations, FNS is developing national guidelines for all FNS Regions and field groups on retailer sanctioning, and is working to refer all delinquent retail debt to the Department of Treasury for collection. Based on our review of Food Stamp Program eligibility issues, we recommended that FNS publicize program eligibility requirements, give higher priority to participant benefit access issues, and require that states inform program applicants of their

eligibility rights. USDA agreed with our recommendations but has yet to take action on them. (GAO/RCED-98-53, GAO/RCED-99-91 and GAO/RCED-99-185)

Based on our review of the states' implementation of the WIC program, we recommended that FNS take the necessary steps to ensure that the state agencies are requiring WIC participants to provide evidence that they reside in the states where they receive WIC benefits and to provide identification when their eligibility is certified and when they receive food or food vouchers. In response, FNS has issued a policy memorandum, and is in the process of finalizing a regulation, requiring states to ensure that participants provide evidence of residence and provide personal identification when eligibility is being certified. (GAO/RCED-97-225)

Farm Programs

The Federal Agriculture Improvement and Reform Act of 1996 significantly changed many USDA farm programs. The act promotes the transition of the agriculture sector from programs funded by government subsidies to ones that are more market oriented. Based on our review of USDA's efficiency in delivering program services to farmers under the revamped farm programs, we recommended that USDA study the costs and benefits of using alternative delivery methods to deliver services to farmers more efficiently thereby reducing federal expenditures. USDA in its response to the Congress and OMB regarding our report, did not address this recommendation. (GAO/RCED-98-98)

Administrative Streamlining

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 provide the Secretary of Agriculture the authority to streamline and reorganize USDA to achieve greater efficiency, effectiveness, and economy in its organization and management of programs and activities. Based on our review of USDA's streamlining efforts, we recommended USDA take several actions including (1) developing and implementing performance measures to assess the delivery, efficiency, and quality of the Department's administrative operation, and (2) quickly filling key leadership positions in its Support Services Bureau. Regarding our first recommendation, USDA decided to observe the results of its streamlining efforts before developing Department-wide performance measures. In response to our second recommendation, the Secretary of Agriculture, in February 1999, approved the Support Services Bureau and directed the selection of key leadership positions. (GAO/RCED-99-34)

U.S. Sugar Program

In 1998, U.S. consumers used 9.9 million tons of sugar, about 16 percent of which was imported. Under its sugar program, USDA insulates domestic

sugar producers from lower world prices for raw sugar by restricting the supply of sugar that can be imported at a low tariff rate (this amount is known as a tariff-rate quota). However, the use of the tariff-rate quotas keeps domestic sugar prices artificially high and thus imposes about \$400 million annually in unnecessary costs to U.S. sugar users. Based on our review of this program, we recommended—in order to make the sugar program less costly to domestic sugar users—that USDA gradually increase the size of the tariff-rate quota. We also recommended—in order to ensure that the tariff-rate quota is completely filled—that the U.S. Trade Representative consider changing the current process for allocating the quota. Concerning our recommendations, USDA disagreed with our first recommendation and the supporting analysis, while the U.S. Trade Representative expressed some reservations about whether our second recommendation would be practical or beneficial to the various stakeholders. Thus, no action has been taken on either recommendation. We disagree with USDA and the U.S. Trade Representative's positions on our recommendations. Specifically, our analysis accounted for the concerns that USDA identified regarding national sugar price data. Regarding U.S. Trade Representative's concerns, while we agree that any changes in the tariff-rate quota need to be considered carefully, the inefficiencies associated with the current quota allocation process merit the U.S. Trade Representative's consideration of alternative approaches. (GAO/RCED-99-209)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

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

GAO Contact: Stanley J. Czerwinski, 202/512-7631

Impact of GAO's Work

The Housing and Community Development and Telecommunications Issue Area is responsible for evaluating housing and community development programs and services that are worth billions of dollars and whose benefits reach virtually every community in the nation. More than 300 federal programs and activities, scattered among 28 executive departments and agencies, are aimed at providing decent, affordable housing and strong 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. Through its programs, HUD provides rental assistance for about 4.5 million low-income residents, helps revitalize over 4,000 localities and, through FHA, has insured about \$988 billion in mortgages for over 22 million homeowners. Other key agencies with housing or community development programs include the Department of Veterans Affairs (VA), the Rural Housing Service (RHS), the Small Business Administration (SBA), and the Federal Emergency Management Agency (FEMA). This issue area is also responsible for evaluating the Federal Communications Commission's (FCC) programs and its efforts to implement key provisions of the Telecommunications Act of 1996. The 1996 Act aimed to establish a framework to promote competition in the \$400 billion-a-year telecommunications industry.

Our work in housing and community development has significantly contributed to the congressional debate and decision-making on the future of housing and community development at the federal and state level. In addition, we have provided information to help the Congress assess the level of competition in the telecommunications industry. Highlights of some of our work and the actions that the Congress, HUD and its agencies, and FCC have taken as a result are described below.

- Based on our analysis of HUD's fiscal year 1999 budget request, the Congress rescinded \$1.65 billion in Section 8 funds and determined that

HUD's request for about \$1.38 billion in Section 8 amendment funding was unnecessary. Our analysis of HUD's Section 8 amendment funding needs found errors in the process that HUD used to identify its Section 8 amendment needs and once corrected, we found that HUD already had sufficient funding to meet its needs.

- HUD is in the process of improving its oversight and on-site monitoring of four block grant programs—funded at nearly \$6 billion in fiscal year 1998—that support community development. Our work had questioned the integrity of the programs, including the safeguards against fraud, waste, and abuse.
- Based on a recommendation in our report on HUD's uninsured Section 8 portfolio, HUD agreed to better ensure that certain Section 8 contract rent increases are limited in accordance with HUD policy.
- In response to our recommendations, HUD is taking actions to clarify its position on private management of public housing and encourage public housing authorities to consider private management. Our work found that while no quantitative support exists for OMB's assertion that private management could save up to \$200 million annually; where private management exists, the results have generally increased revenues, operating efficiencies, and the quality of housing services.
- We reported that while HUD is fully aware of the weaknesses in its 203(k) Home Rehabilitation Mortgage Insurance Program, it has done little to correct them. This inaction suggests that the program will continue to pose a risk of loss to HUD's \$3.6 billion portfolio of 203(k) loans. In an October 1999 letter to GAO, HUD stated that the agency plans to improve the management and oversight of the program as we had recommended.
- HUD is in the process of taking action on some of our recommendations designed to reduce the financial risks assumed by FHA and to improve HUD's oversight of FHA-approved appraisers. We found weaknesses that have increased FHA's risk in insuring billions of dollars in mortgage loans for properties that are overvalued or whose owners may default on their FHA-insured loans because of unexpected repair costs.
- In line with our recommendations, FCC is improving its fee collection process and its financial management of fee collections, tracking and reporting of receivables, and collection of civil monetary penalties resulting from enforcement actions.
- To help the Congress assess whether the 1996 Telecommunications Act is promoting competition within the telecommunications market, we analyzed the status of competition in the subscription television markets (cable, satellite, etc.).
- Out of congressional concern that the local telephone industry has become more consolidated, we provided information on how mergers

between local telephone companies are reviewed and approved. The Congress is now examining FCC's role in reviewing mergers.

The work we performed also resulted in program improvements. Examples of these improvements are shown below.

- In line with our recommendations, in September 1999, HUD published its final rule covering notification, evaluation, and reduction of lead-based paint in federally owned and assisted housing. Because exposure to lead, even at low levels, may cause serious health, learning, and behavioral problems in children, HUD's actions will reduce the threat caused by lead-based paint on the lives of young children living in low-income housing.
- The Congress passed the Quality Housing and Work Responsibility Act of 1998, which combines the housing voucher and certificate programs into one comprehensive rental assistance program as we had recommended in a 1989 report. This new program provides a unified approach to delivering housing assistance, equalizes benefits to program recipients, and should simplify administration.
- HUD improved its fiscal year 2000 annual performance plan as a result of our comments that the agency's fiscal year 1999 plan did not present a clear picture of what HUD expected to achieve with its funds.
- HUD has required the New York City Housing Authority to comply with elderly housing designations and the definition of elderly persons in determining eligibility for occupancy in elderly housing, based on questions we raised concerning the Housing Authority's compliance with the law.
- HUD has taken a number of actions—as we had recommended—to clarify its role in welfare reform and to assist public housing authorities in their efforts to help residents move from welfare to work.
- In line with our recommendations, the Treasury Department has strengthened performance measurement in the Community Development Financial Institutions Fund program. This program expands access to credit and other financial services in distressed communities.
- In December 1998, HUD established a process for incorporating measurable outcomes for the Empowerment Zone and Enterprise Community programs four key principles: creating economic opportunity, creating sustainable development, building broad participation among community-based partners, and describing a strategic vision for change in the community. These actions respond directly to the recommendation in our 1996 report.

- HUD improved its management of and accountability in the Title 1 property improvement loan insurance program after our work demonstrated that HUD did not collect the necessary information to manage the program and provided little oversight of lenders compliance with the programs' regulations.
- The Schools and Libraries Division strengthened its program integrity assurance operations and use and distribution of program funding in the \$2.25 billion schools and libraries program—a program established to assist education institutions and libraries in obtaining modern telecommunications services.

High-Risk Area

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 \$30 billion in fiscal year 1998, the vast majority of which was for assisted and public housing programs. HUD is also responsible for managing more than \$600 billion in mortgage insurance, \$531 billion in guarantees of mortgage-backed securities, and about \$154 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 longstanding, agency-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 called for reducing the number of programs and/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. In January 1999, we reported that HUD was making significant changes and has made credible progress since 1997 in laying the framework for improving the way HUD is managed. HUD's Secretary and leadership team have given top priority to addressing HUD's management deficiencies. While major reforms are under way, several are in the early stages of implementation. Consequently, we continue to believe as we reported in 1995 and 1997, that these management deficiencies, taken together, place the integrity and accountability of HUD's programs at high risk.

Key Open Recommendations

Low-Income Housing

In an April 1998 report, we recommended that HUD's Secretary correct flaws in information systems used to support and monitor both the reinsurance and credit enhancement demonstration programs—programs that offer incentives to financial institutions to facilitate the financing of affordable multifamily housing. We reported that HUD needs better data to accurately evaluate the overall performance of individual projects and to ensure that its risk-sharing partners are complying with the demonstration programs' procedures and regulations. HUD has taken some interim steps to better ensure that consistent and reliable data is available for managing the risk-sharing program and plans to implement a new system—the Development Application Processing Data System—in 2000 that would purportedly track risk sharing projects and provide for automated reporting to the Multifamily Insurance-in-Force system and provide managers with consistent and reliable data on the risk-sharing program. (GAO/RCED-98-117)

In a July 1994 testimony, we said that we had found deplorable conditions in various low income project-based properties and recommended that HUD's Secretary (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 has created (1) a Department-wide Real Estate Assessment Center, which is responsible for performing assessments of properties physical condition; (2) an Enforcement Center that will take actions to address problems at properties in very poor condition; and (3) Multifamily Hubs that will, among other things, monitor owners' progress in completing corrective actions. While the Real Estate Assessment Center has begun performing physical inspections of multifamily properties, actions to address problems identified at troubled properties are just beginning. We are examining HUD's efforts in this area as part of an ongoing assignment. (GAO/T-RCED-94-273)

Community Development

With billions of dollars and the needs of millions of people at stake in the formula grant programs, HUD has recognized that it needs effective systems for overseeing the handling of program funds and the achievement of program objectives. While we agree that a tool providing timely and accurate data about grantees' financial activities and performance would be greatly beneficial in overseeing the grant programs, we reported in April 1999 that the current system, the Integrated Disbursement and Information System (IDIS), is not capable of serving as such a tool. In addition, we reported that the system did not have adequate security controls including appropriate staffing to ensure that information in the system is reliable and that funds are safeguarded. To address these problems, HUD plans to replace IDIS with a Departmental Grants Management System for controlling all of its grants programs; however, it plans to convert IDIS and use it as a basis for the new system. In our April report, we recommended that—because IDIS has not proven to be a useful tool in managing grantees—HUD should consider whether it is more cost-effective to modify IDIS or replace it. We also recommended that HUD—regardless of the decision on the future of IDIS—immediately take steps to ensure that the security officer for IDIS is fully aware of the responsibilities that must be carried out and has the appropriate training and staff for those responsibilities. In responding to these recommendations, HUD indicated that it had already determined that its approach to developing the Departmental Grants Management System was cost effective and efficient because it retains the good features of IDIS. In addition, while HUD has taken steps to improve IDIS security through a new security plan and training for the security officer, it has not taken steps to ensure that it has adequate staff to implement the plan. (GAO/RCED-99-98)

Telecommunications

The Telecommunications Act of 1996, among other things, extended universal service support to schools and libraries. The general purpose of the program is to improve the access of schools and libraries to modern

telecommunications services. To administer the program, the FCC directed the establishment of the Schools and Libraries Corporation. As a start-up operation, the Corporation developed operating procedures and internal controls to implement FCC's orders guiding the program. In July 1998, we recommended that the FCC Chairman direct (1) the Corporation to complete specific actions to strengthen weaknesses we found in the Corporation's internal controls before issuing any funding commitment letters to schools and libraries, and (2) responsible FCC staff to develop goals, measures, and performance targets for the program that are consistent with the requirements of the Results Act. While steps have been taken to strengthen internal controls, performance goals and measures for the schools and libraries program have not been finalized. FCC plans to finalize this performance plan and submit it with its fiscal year 2001 budget estimates. (GAO/T-RCED-98-243)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Transportation 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 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 safely meet the needs of the traveling public.

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

Aviation and Coast Guard Issues

During 1999, the Federal Aviation Administration (FAA) took action on 3 key recommendations for improvements in the management of its Wide Area Augmentation System, which is an important component of its troubled air traffic control modernization program. While FAA plans to transition from ground- to satellite-based navigation using DOD's Global Positioning System, that system does not address all the requirements of civil air navigation. The Wide Area Augmentation System is a network of ground stations and geostationary communications satellites which is planned to address those additional requirements. In response to our recommendations, FAA

- developed an updated benefit-cost analysis of investment alternatives and the impact of passenger-time savings;
- completed a lease versus buy analysis concerning space-based assets; and
- provided a report to the Congress that included the milestones for making the system operational and the risks associated with this approach.

We saw action taken on a number of other recommendations related to aviation. Following our reports that the benefits of airline deregulation are not evenly distributed throughout the nation, two low-fare airlines have

established service at the Minneapolis- St. Paul International Airport, providing additional competition for the dominant airline at that airport. Additionally, Congress reduced FAA's appropriation by \$103.05 million. Finally, FAA improved its economy and efficiency by implementing cost-benefit criteria, which accelerated the pace for closing and contracting out low-activity air traffic control towers.

To make air travel safer, FAA

- began monitoring the implementation of its strategy to improve the quality of the data in its system to track safety inspections of aviation repair stations;
- improved the information available to principal aviation safety inspectors by providing them with immediate, read-only access to data on over 2,700 inspection activities in the Air Transport Oversight System database;
- streamlined its safety enforcement process by allowing inspectors to issue immediate warning notices for minor violations that do not warrant legal action; and
- improved its methodology to forecast future air traffic controller staffing requirements by incorporating information on age, years of service, and retirement eligibility of its current workforce.

During 1999, in response to our recommendations, the Coast Guard

- improved the communications relating to its enforcement actions to prevent ocean pollution from ships by establishing guidelines that address the need for timely communications between hearing officers and district officials and that provides the rationale for enforcement actions; and
- improved its enforcement of cruise ship safety by implementing specialized software that compiles data on inspection results, corrective actions, and penalties and should help the Coast Guard analyze inspection results and track problems.

Surface Transportation and Other Issues

Our recommendations have also spurred improvements in surface transportation safety and the management of surface transportation funds. For example,

- following enactment of the Transportation Equity Act for the 21st Century (TEA-21), DOT began conducting outreach efforts with state officials to ensure that truck safety inspection facilities are included when border facilities are constructed or refurbished;

- following our 1993 report on rail passenger car safety, and the Federal Railroad Safety Authorization Act of 1994, which directed the Federal Railroad Administration to issue passenger equipment safety standards within 5 years, the agency issued a final rule which establishes comprehensive safety standards for conventional speed and high-speed applications, revises standards for inspecting, testing, and maintaining power brakes, and establishes new standards for inspecting and testing mechanical components in passenger trains;
- the TEA-21 Restoration Act required a number of reforms to the process for awarding funds in connection with highway discretionary programs, such as establishing and publishing criteria and submitting written justification for decisions on projects selected under the new criteria;
- the Federal Transit Administration has taken a number of actions to address the weaknesses that we identified in its grant management oversight, including (1) reemphasizing to its staff the importance of resolving noncompliance issues, (2) reassigning staff, and (3) developing and implementing a new oversight tracking system which enhances the agency's ability to monitor and correct grantee noncompliance with federal requirements;
- the Federal Highway Administration developed improved guidance on the appropriate use of emergency relief funds used to restore transportation facilities after natural disasters such as earthquakes, particularly when environmental reviews on the replacement project recommend improvements to a facility's predisaster condition; and finally
- consistent with TEA-21, DOT took steps to ensure that its Access to Jobs Program, intended to move people from welfare to work, is well coordinated with similar initiatives of other agencies by (1) requiring that grant applicants coordinate their transportation strategies with local job placement and other social service agencies, (2) evaluating the amount of coordination done by the grant recipient, (3) establishing working groups with members of the Departments of Labor, HHS, and HUD, and (4) issuing joint guidance with the Departments of Labor and HHS encouraging states to use funding from a variety of federal programs that address welfare reform needs.

High-Risk Area

Over the past 17 years, FAA's efforts to modernize its Air Traffic Control System have experienced cost overruns, schedule delays, and performance shortfalls of large proportions. The program involves acquiring new air traffic control facilities, as well as a vast network of radar, automated data processing, navigation, and communications equipment, with an expected total cost of \$42 billion through fiscal year

2004. Our work has identified some of the root causes of the modernization programs problems and pinpointed solutions to address them.

**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.

**Fees for Registering and
Certifying Aircraft**

A potential option for dealing with limited FAA resources is to increase existing fees 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 has been processing a Notice of Proposed Rulemaking to increase aircraft registration fees. DOT has been modifying the proposed rule to include provisions of the Federal Aviation Administration Drug Enforcement Assistance Act, which also deals with fees associated with aircraft registration. Because of the substantial changes required, DOT anticipates publishing a final rule by the end of 2000. (GAO/RCED-93-135)

**Evaluation of Personal
Computer Aviation Training
Devices for Pilots**

In May 1997, FAA approved the use of special personal computers, controls, and software, called personal computer-based aviation training devices for up to 10 hours of training for an instrument rating, which is required for flying in conditions of reduced visibility. This decision has sparked debate. Some assert that pilots trained with these devices will be less skilled, thereby compromising aviation safety. Others argue that pilots trained with the devices are actually better trained at lower cost. In July 1999, we recommended that FAA collect information from pilot applications for instrument ratings on the number of hours the applicants trained on personal computer-based aviation training devices and on other flight training devices. At the time of our report, FAA was in the process of revising and computerizing the form on which pilots apply for the instrument and other ratings. To address our recommendation, FAA plans to include in the modified form a provision to collect information on the number of hours that students trained on computer-based aviation training devices and flight training devices. FAA expects to begin distributing the new form by June 2000. (GAO/RCED-99-143)

**Improving FAA's Investment
Management Approach to Air
Traffic Control Modernization**

In April 1999, we reported that although FAA has established a structured approach for managing its modernization investments, weaknesses in this approach limit its effectiveness. For example, FAA's approach does not incorporate all of FAA's projects—those under development and those already in operation—into a complete strategic investment portfolio. Therefore, officials are unable to fully assess and make tradeoffs about the relative merits of spending funds to develop new systems, enhance current systems, or to continue operating and maintaining existing systems. Additionally, cost data used to select projects are of questionable reliability, information used to control projects is incomplete due to a lack of baseline information, and there is no post-implementation evaluation process.

To address these issues, we recommended that FAA (1) establish a complete portfolio of investments that includes systems under development, as well as those in operation and cost baselines for operating and maintaining all projects; (2) establish clearly defined procedures for project selection, including validating and documenting each projects cost, schedule, benefit, performance, and risk information; (3) revise baseline requirements to include project risks and to add milestones for review during operations and track estimated versus actual results concerning cost, schedule, benefit, performance, and risk; (4) initiate post-implementation evaluations to compare actual versus estimated cost, schedule, performance, and mission improvement outcomes; and (5) incorporate key information from the selection process into FAA's management information system for investments. FAA agreed with our recommendations, and has provided us with its plans to address them. We will monitor the agency's progress in doing so.
(GAO/RCED/AIMD-99-88)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Improving Human Services Programs

Education, Workforce, and Income Security Issue Area (Budget Functions 500, 600, 650)

GAO Contact: Cynthia M. Fagnoni, 202/512-7215

Impact of GAO's Work

Educating and protecting our children, promoting work opportunity, providing worker protections, and ensuring adequate retirement income for our nation's citizens are national goals that reflect America's core values. Not surprisingly, national polls routinely place these issues at the top of those Americans care most about. The federal investment in these areas is huge—well over \$500 billion per year. Despite this investment, however, the challenges to reaching the nation's goals are significant. Many of our children continue to receive a substandard education from poorly trained teachers in dilapidated schools with obsolete equipment. Low wages and a lack of skills hinder the poor, the immigrant, and the disabled from sharing in our current and unprecedented prosperity. Meanwhile, the impending Social Security solvency crisis threatens the longstanding bargain between the government and the American worker. To meet these and other challenges the Departments of Labor, Education, and HHS, and the Social Security Administration (SSA) must exercise strong leadership and work closely with other federal agencies, state and local governments, and the private sector.

The results of GAO's work have affected the lives of many Americans. Our work has helped promote promising school reform strategies, provide both more flexibility and accountability within the nation's educational system, and supported the Congress in its oversight of the District of Columbia's public schools. Our work has affected the lives of children at home by leading to improvements in the areas of child support enforcement and child welfare services. Our work has led to better management of the nation's investment in higher education and job training, and enhanced protections for the nation's workers and consumers, and has identified issues needing closer scrutiny as the country's welfare system is reengineered. Finally, as the nation's attention turned toward an impending crisis in the Social Security system, our work helped shape the debate concerning how best to ensure the solvency of the country's retirement system—not only for ourselves, but for posterity.

Educating and Protecting
Children

Our work on educating and protecting children has been used to (1) help provide greater choice among schools in an effort to reform public education, (2) enhance the accountability of states and localities for meeting national educational goals, (3) reduce the burden associated with obtaining and administering federal education grant funds, improve the operations of the District of Columbia's public schools (for which the Congress has special oversight responsibility), and (5) help children at home by improving child support and welfare services. Charter schools are becoming an increasingly popular choice of school reform across the country, offering a new model for public schools to address concerns about unresponsive school district bureaucracies, restrictive rules, and a lack of accountability for student performance. However, in 1998, we reported that some charter schools faced barriers in accessing federal funding when states and school districts require historic enrollment data as a condition for applying for such funding. Because charter schools are new, we pointed out, they had no prior enrollment data to use in obtaining federal funds for first-year operations. We also noted that this allocation method created a lag in year-to-year funding, which was a problem for charter schools experiencing rapid enrollment growth. As a result of these problems, the Congress passed legislation requiring the Secretary of Education and the states to ensure that every charter school receives the federal funding for which it is eligible within 5 months after it opens or after enrollments significantly expands. Federal programs covered by this legislation include Title I of the Elementary and Secondary Education Act, the Individuals with Disabilities Education Act, and other programs under which the Department allocates funds to states on a formula basis.

Our work also led to increased accountability and flexibility under several federal education programs. Our 1998 report on the Ed-Flex program, under which states rather than the federal Department of Education may waive certain federal regulations, highlighted weaknesses in federal oversight systems. As a result, the Congress passed legislation requiring the Department of Education to review states' progress under the program and allowing it to terminate the participation of poorly performing states. Education also made other improvements in its oversight processes that have resulted in states providing more flexibility to local school districts under multiple federal programs. In line with recommendations we made in 1997, the Congress recently requested the District of Columbia to change its reporting of school enrollments, which may lead to taxpayer savings as these figures become the basis for funding schools in the future.

Our work has also resulted in actions intended to improve the home life of some children. For example, we recommended the Secretary of HHS direct the Office of Child Support Enforcement to develop its own strategic goals and performance measures that would support national program goals. As a result, the Office of Child Support Enforcement is now developing measurable performance standards for increasing the number of paternities established, support orders, and child support collections as well as benchmarks against which to measure future performance. In addition, our work in this area led to increased debate concerning how federal and state funding structures can be changed to improve service delivery.

Promoting Work Opportunity
and Providing Worker
Protections

Our efforts focusing on promoting work opportunity and providing worker protections have improved the Department of Education's management of the nation's multibillion-dollar investment in higher education as well as job training and other programs intended to help both workers and employers. Our work in higher education, for example, helped resolve problems with consolidating multiple student loans into single loans to ease financial burdens on students and to avoid defaults. While Education has made some progress in managing student financial aid programs, problems continue to hinder the program—one of the high-risk areas that GAO identified as being vulnerable to waste, fraud, abuse, and mismanagement (see discussion below).

Our work on the \$1 billion Job Corps program for severely disadvantaged youth highlighted several issues to be addressed. As a result, the Department of Labor (1) improved its guidance to outreach contractors to better focus on those youth most appropriate for Job Corps' intensive services, (2) improved its performance measures to better assess placement contractors' performance, and (3) revised other performance measures to provide more meaningful and accurate information on the success of its program. Our work also resulted in improved programs to assist persons with disabilities to obtain employment and related services. In 1996, we reported that many federal agencies did not efficiently coordinate their programs or activities in providing employment-related services to their disabled clients, and that often people with disabilities experienced difficulty in getting reliable information about such services. After our report was issued, the Congress passed the Workforce Investment Act of 1998, which requires states' vocational rehabilitation agencies to provide accurate information on available services to individuals with disabilities. It also requires these and other state agencies, in addition to other public entities, to enter into interagency agreements to

promote the coordination and timely delivery of vocational rehabilitation services. In addition, the Act established a federal interagency committee to coordinate federal disability rehabilitation research.

With regard to worker protection programs, Labor's Wage and Hour Division made important changes in response to several of our recommendations. For example, the Wage and Hour Division is now more likely to find potential violations of child labor law by requiring inspectors to first locate and interview any children who appear younger than 16, then requesting documentation of their age and work status from employers. The Wage and Hour Division also expedited its processes to improve service to agricultural employers and workers under the H-2A guestworker program. Agricultural employers may now submit applications 45 days before they need workers rather than 60, thus making it easier to estimate when and how many H-2A workers are actually needed. Our work also led to improvements in the wage data that the Wage and Hour Division uses to determine prevailing wage rates under the Davis-Bacon Act. In response to our recommendation, Wage and Hour Division staff now make telephone calls and on-site visits to verify the accuracy of wage data submitted by employers.

Our work also led other agencies to take actions not directly related to worker protection. For example, the Consumer Product Safety Commission developed a new database to better manage its projects and improve its cost-benefit analysis procedures. This and other actions will improve the Commission's ability to collect and analyze data on potential product hazards and manage ongoing agency projects aimed at reducing consumer product hazards. Another agency, the U.S. Commission on Civil Rights, acted on our recommendations to develop and document policies and procedures to (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. The Commission established a management information system for commissioners and staff to plan projects and track progress using the best information available on projects' expected and actual costs, timeframes, staffing levels, and completion dates.

In one of the most significant federal policy changes of the last 30 years, the Temporary Assistance to Needy Families program has been implemented across the nation, passing greater responsibility for welfare program design from the federal government to the states. Our work on

the program's implementation shows that states have made progress in transforming the nation's welfare system into a work-focused, temporary program for needy families. In addition, our review of seven state-sponsored studies indicated that most of the adults who left welfare were employed at some time after leaving the rolls, often at low-paying jobs. However, much remains unknown about the economic status and well-being of most former welfare families nationwide. We concluded that as welfare reform evolves, attention should be given to several emerging issues, including getting jobs for the hardest-to-employ, finding ways to enhance opportunities for low-wage workers, and fostering greater collaboration between welfare programs.

Ensuring Adequate Retirement Income

During the past year, SSA took action on a variety of our recommendations addressing both management and operational problems. These actions include (1) reorganizing one of its component offices to better address risks of fraud and waste in the Supplemental Security Income (SSI) program; (2) establishing a process to track progress toward its goals related to improving payment accuracy, increasing the number of continuing disability reviews, combating fraud, improving debt collection, and other service delivery goals; (3) integrating several computer systems to better process claims and other actions; (4) improving public notices to more clearly explain benefits while saving an estimated \$6 million annually; and (5) improving quality assurance procedures in reviewing disability claims. In addition, to verify beneficiaries' benefit levels, SSA is working with HHS to gain electronic access to the Office of Child Support Enforcement's databases. By reducing inappropriate SSI payments in only the three states we studied, savings of \$4.2 million are projected; savings nationwide are expected to be greater. Also based on our work, SSA now (1) receives state nursing home data that identifies Medicaid recipients, enabling it to make required reductions in SSI payments which will save an estimated \$10 million annually; (2) matches Office of Personnel Management data on federal retirees with its own records to identify those who also receive Social Security and ensure it has properly imposed windfall elimination provisions; and (3) improved its management information system to support its debt collection efforts.

Our nation's aging population is placing severe pressure on Social Security and other forms of retirement income. Without a change in policies, the Old-Age and Survivor's Trust Fund assets will be insufficient to pay all benefits by 2034. Because Social Security affects so many Americans and their planning for the future, the President and the Congress are considering approaches to reforming the program's financing. Our work

provided useful and timely information to decisionmakers as they consider the various proposals to reform the program. For example, we provided the Congress with a set of criteria to use when evaluating reforms, provided a number briefings on this issue, and completed a series of reports on the implications of implementing a system of individual accounts for accumulating retirement savings as part of Social Security reform. These reports provided information on how readily individual accounts could be established and administered, the cost of administering them, and issues related to annuitizing these accounts in the private market.

High-Risk Areas

We have designated the SSI program as a high-risk area. SSA operates the SSI program, which is the nation's largest cash assistance program for the poor. In 1998, SSI paid 6.5 million aged, blind, and disabled recipients about \$29 billion in benefits. We designated SSI a high-risk program in 1997 because it was experiencing mounting overpayments and outstanding debt, which totaled \$2.6 billion in that year. Our latest high-risk series report reiterates our concerns about SSI, as well as SSA's progress in addressing significant program vulnerabilities. SSA has begun several initiatives to address our report findings and recommendations. For example, SSA is expanding its use of on-line data to better verify recipient financial information and prevent program overpayments. SSA has also reorganized its research and program policy component and is seeking congressional approval of a legislative package that would provide it with additional overpayment recovery tools. In 1999, SSA also developed its first SSI Management Report to serve as a blueprint for improving program integrity and performance. The agency also included a stand-alone SSI strategy in its Fiscal Year 2000 Annual Performance Plan that contains specific initiatives and performance measures aimed at addressing program fraud and abuse. Reversing the trends in SSI program performance will require sustained attention to developing and promoting tighter payment controls and debt collection activities, as well as increasing SSA's role in SSI research and policy development. Until additional progress is made in these areas, the SSI program will maintain its high-risk designation.

Another high-risk area is student financial aid. Our latest high-risk series report summarizes and updates both our continuing concerns about Education's vulnerabilities in managing and overseeing the student aid programs and progress in strengthening the program's fiscal and management control systems. Although Education has shown a

commitment to improving its management of the student 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 Federal Pell Grants program—provide over \$48 billion of aid for postsecondary education students through a large network of providers, employing complex and cumbersome processes. The addition of the Federal Direct Loan Program made the management of the student aid programs an even greater challenge for Education. Also, to maximize access to aid funds, the Higher Education Act placed nearly all of the financial risk of loan defaults (which totals over \$3.3 billion in 1997) on the federal government.

Management shortcomings are another major problem. Our reviews and those of congressional committees and Education's Inspector General have shown that the Department (1) did not adequately oversee schools that participate in the student loan programs; (2) relied too heavily on managing each 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 data to determine the liability associated with outstanding loan guarantees. In part to address the management shortcomings in student financial assistance programs, the Higher Education Act amendments of 1998 created a performance-based organization within the Department to administer its student aid operations. The performance-based organization began operations in December 1998. It has produced a draft 5-year performance plan that addresses many of the high-risk issues. For example, many of the plan's performance indicators are directed at financial management and information systems improvements. However, until Education demonstrates further progress in making such improvements as well as addressing remaining issues, the student financial aid area will retain its high-risk designation.

Key Open Recommendations

Social Security

In April 1998, we reported that SSA needed to upgrade the payment controls it uses for administering certain benefit reduction provisions. The Social Security Act requires SSA to reduce benefits payable to persons who also receive a pension from noncovered employment. However, we found that SSA did not have sufficient methods to verify, in a timely or complete

manner, whether beneficiaries are receiving pensions earned through noncovered employment. According to our estimates, the absence of such verifications resulted in overpayments between 1978 and 1995 ranging from \$160 to \$355 million. We recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension income for tax purposes so that persons receiving pensions from noncovered employment can be identified and the accuracy of benefit payments can be verified. SSA agreed with our recommendation and has been working with IRS to develop a proposal that would permit IRS to revise form 1099R to solicit information needed to identify persons receiving pensions from noncovered employment. IRS has advised SSA, however, that it needs a technical amendment to the Tax Code to implement our recommendation and is seeking such an amendment. SSA has stated that it will keep abreast of IRS efforts. (GAO/HEHS-98-76)

Disability Programs

Weaknesses in the design and implementation of Disability Insurance and SSI program components have limited SSA's capacity to identify and assist in expanding beneficiaries' productive capacities. In addition, efforts to encourage employment have been hampered by eligibility requirements and application processes that encourage people to focus on their disabilities, not their abilities; work incentives offered by the programs that do not overcome the risk of returning to work for many beneficiaries; the complexities of work incentives that can make them difficult to understand and challenging to implement; and beneficiaries' lack of encouragement to use rehabilitation services, which are relatively inaccessible to beneficiaries seeking them. In July 1996, we reported that return-to-work strategies and practices employed by the private sector in the United States 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, to place greater emphasis on return to work, SSA develop a comprehensive return-to-work strategy that integrates 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. We also recommended that SSA identify legislative changes needed to implement the recommended program changes.

SSA has made enhancing beneficiaries' opportunities to work a goal of its disability programs. To this end, the agency has contracted with about 450 community-based providers of vocational rehabilitation and employment services to expand the provider pool and bring greater choice to

beneficiaries to design their own rehabilitation services. It has additionally awarded cooperative agreements to 12 states to develop integrated programs of support and services to assist beneficiaries in returning to work. The agency also notes that it has trained state vocational rehabilitation staff on SSA work incentives and reimbursement procedures and is undertaking research that will identify potentially eligible disabled populations and assess the accommodations and interventions that enable these populations to work. These and other steps indicate that SSA has placed greater priority on return to work. However, these efforts would have greater impact if the determination process and cash and medical benefits were structured to give beneficiaries greater impetus to use vocational rehabilitation services and to attempt to work, and if return-to-work assistance were provided earlier in the decisionmaking process. (GAO/HEHS-96-133)

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 \$100 million annually. We recommended that SSA determine the reliability of state data for implementing a computer based system to automatically adjust the benefits of SSI recipients admitted to nursing homes. SSA plans to assess the reliability of the Health Care Financing Administration's Resident Assessment Instrument System data to determine whether it can be used for automatic benefit reductions. Based on this assessment and advice from its General Counsel, SSA expected to determine by the end of 1999 whether to initiate a study on the feasibility of automatically reducing benefits for SSI recipients in nursing homes. (GAO/HEHS-97-62)

We reported in March 1998 that approximately 40 percent of the overpayments that SSA identified in fiscal year 1996 were caused by SSI clients either not reporting or underreporting their earnings and financial accounts. Specifically, about \$380 million in overpayments resulted from the nondisclosure of earnings, and about \$268 million resulted from the nondisclosure of financial accounts. Many of these overpayments could be prevented if SSA were able to obtain more current and comprehensive information. Two new databases managed by SSA for the Office of Child Support Enforcement (OCSE) contain more up-to-date earnings and income information. SSA is using the first new data base—the OCSE wage and unemployment insurance database—quarterly to detect wages and unemployment insurance not reported by SSI recipients. This match replaces SSA's semiannual wage match. SSA is also finalizing a

memorandum of agreement with OCSE to provide direct query access for SSA claims representatives to OCSE's wage and unemployment insurance database as well as the second new database—the new-hire database. Further, SSA is working with OCSE to increase the number of states included in the wage and unemployment data match. In addition to standard security measures, SSA has integrated controls to prevent employee “browsing” of the data: the subject of the query must be an SSI applicant, recipient, or an individual whose income is deemed relevant to an applicant/recipient. Testing of the query software is nearly complete and a pilot program is expected to start by the end of September 1999. Once the pilot program is completed, SSA will issue instructions requiring claims representatives to query these databases if there are indications of unreported wages or unemployment insurance income. These actions are steps toward implementing our recommendation that SSA develop computerized interfaces necessary to access OCSE's databases to detect undisclosed earnings during initial and subsequent determinations of eligibility. SSA may also be able to obtain more up-to-date information on the financial accounts of SSI clients from financial institutions by accessing the nationwide telecommunications network, which links all financial institutions. Accordingly, we also recommended that SSA study the feasibility of obtaining computerized information from financial institutions to detect financial accounts that SSI clients do not report during the application process and subsequent determinations of eligibility.

Pending legislation in response to SSA's 1998 legislative proposal to the Congress would facilitate the agency's acquiring financial account information. This legislation would require SSI applicants/recipients to automatically give SSA the authority to obtain information about their income and resources from any financial institution. Failure to provide such authorization would result in program ineligibility. The legislation would also provide banks with authority to release information on bank accounts of customers without violating financial privacy laws. SSA is currently exploring automation of its paper form requesting verification of bank accounts disclosed by applicants/recipients. Finally, SSA is exploring two sources for automated bank account information: the electronic networks linking financial institutions and the bank account data being collected by OCSE under legislative authority. (GAO/HEHS-98-75)

In May 1998, we reported that SSA was not assessing children's eligibility for SSI disability benefits against a uniform standard of severity. Welfare reform, enacted in August 1996, defined childhood disability as an

impairment that results in 'marked and severe functional limitations,' which SSA's interim final regulations, in turn, defined as an impairment that meets or medically or functionally equals one of its medical listings. To be considered "marked and severe," an impairment must generally result in "two marked or one extreme" functional limitation. However, the regulations allow children's eligibility to be based upon multiple levels of severity, because SSA has not updated most of its childhood medical listings to reflect advances in medicine and science nor modified them to reflect a single standard of severity. SSA has identified 28 listings as ones that are most likely to enable children whose impairments result in less than two marked functional limitations or one extreme functional limitation to be found eligible for benefits. We recommended that SSA act immediately to update and modify its medical listings to incorporate advances in medicine and science and to reflect a uniform standard of severity. SSA recently began reviewing all its medical listings both for adults and children. SSA has stated that as it reviews the medical listings to bring them up-to-date with medical advances in diagnosis, treatment, and rehabilitation therapy, it will ensure that the revised childhood listings describe impairments that cause marked and severe functional limitations. SSA anticipates that its review and revision of the medical listings will be completed around the middle of 2002. (GAO/HEHS-98-123)

In September 1998, we pointed out that the SSI program has experienced several longstanding problems that have affected SSA's ability to protect the financial integrity of the program and provide effective management direction. We found that SSA's inability to address its most significant longstanding SSI problems is attributable to a great extent to two underlying causes: (1) an organizational culture or value system that places a greater priority on processing and paying claims than on controlling programs' expenditures, and (2) a management approach characterized by SSA's reluctance to fulfill its policy development and planning role in advance of major program crises.

To facilitate changes to SSA's organizational culture, we recommended that SSA enhance its ability to verify applicant- and recipient-reported eligibility information and deter overpayments by (1) accelerating efforts to identify more timely and complete sources for verifying SSI financial eligibility information, and (2) sustaining its efforts to obtain and implement additional SSI overpayment deterrence and debt collection tools commonly available to other means-tested programs. SSA has taken some actions on this recommendation. It is expanding its use of on-line state data to obtain more real-time applicant and recipient information. It also submitted a

legislative proposal in fiscal year 1998 that would provide the agency with the authority to quickly access essential applicant/recipient information from state databases. SSA's proposal also seeks access to data maintained by banks and other financial institutions to better determine the assets of SSI applicants. Further, the proposal seeks authority to use credit bureaus, private collection agencies, interest levies, and other tools to strengthen SSA's collection efforts. The Congress incorporated the SSI provisions of SSA's proposal into two draft bills. On May 15, 1999, these bills were amended and favorably reported by the full Committee on Ways and Means. If approved, the legislation also requires SSA to study and report to the Congress on legislative and administrative reforms necessary to reduce or prevent overpayments.

Further, to facilitate changing SSA's organizational culture, we recommended that SSA reevaluate its field office work-credit and incentive structure at all levels of the agency and make appropriate revisions to encourage better verification of recipient information and greater staff attention to fraud prevention and detection. SSA agreed that a review of its field office work credit and incentive structure was necessary. It has initiated such a review and expects to complete it in 1999. (GAO/HEHS-98-158)

Child Support Enforcement

In June 1992 and again in June 1999, we reported on the opportunity to defray the burgeoning federal and state costs of providing child support services to nonwelfare families by charging a minimum percentage fee on collections. Nonwelfare administrative costs increased from \$644 million in 1990 to \$1.7 billion in 1996, while recovered costs remained stagnant at about \$37 million in 1996. While the Congress has considered this option, it has not enacted such fees for the Child Support Enforcement program. However, fees may be a part of the new financing structure currently being developed by HHS' Office of Child Support Enforcement for presentation to the Congress in 2000. (GAO/HRD-92-91, GAO/HEHS-99-105)

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 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 HHS to know with more certainty whether the \$4 billion annual 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 a subsequent report (June 1998), we

also recommended that HHS develop and implement a plan for assessing individual Head Start grantee's performance based on outcomes, such as the ability to show improvement in children's cognitive skills, literacy, and gross motor skills. Based on our work, the Congress passed legislation in 1998 mandating that HHS conduct a National Head Start Impact Study. Further, the Congress also required in this legislation that HHS develop methods to measure the quality and effectiveness of Head Start programs and to assess program effectiveness during on-site reviews of local Head Start grantees. To date, HHS has convened an expert panel—which includes GAO representation—to review and make recommendations on the design and plan for an impact study of the Head Start program. Further, HHS is currently developing a strategy for holding Head Start grantees accountable for using results-based performance measures to assess child and family outcomes in their programs. (GAO/HEHS-97-59, GAO/HEHS-98-186)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

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

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Impact of GAO's Work

Our evaluations of DOD and the Department of Veterans Affairs (VA) health care encompass programs whose funding in fiscal year 1999 totaled \$34 billion for hospital systems, clinics, and managed care contracts that provide services to over 34 million military beneficiaries and veterans. In addition, we evaluate VA non-health benefits, such as disability compensation and vocational rehabilitation, provided to over 3 million veterans at a cost of \$18 billion annually.

In its search for ways to slow the growth in federal health care spending, the Congress is considering broad structural changes. Cost pressures are forcing DOD and VA to become more efficient at delivering quality health care to their beneficiaries. Moreover, the aging demographics of both military beneficiaries and veterans prompted concerns about the benefits and financing of their health delivery systems. This year, as a result of our work, savings of more than \$76 million in DOD and \$288 million in VA have been realized.

DOD Programs

In fiscal year 1999, we reviewed the need for military treatment facilities and DOD's strategy for assessing such needs. We concluded that DOD lacks an integrated and comprehensive strategy for determining and allocating medical resources among its military treatment facilities. As a result, neither DOD nor we can fully assess the need for, or appropriate size of, military treatment facilities in its health care system. DOD has assembled a tri-service team and, as we recommended, is committed to developing a comprehensive strategy that seeks to realign military treatment facilities staffing and resource allocations by better accounting for projected beneficiary populations, and to re-examine the system's basic wartime and peacetime missions. On a related matter, during the mark-up of DOD's fiscal year 1999 appropriation bill, we provided information that enabled the conference committee to reject DOD's Uniformed Services Treatment Facilities request for an additional \$76 million on the basis that DOD had overestimated funding needed for new enrollment. Uniformed Services Treatment Facilities are former Public Service Health hospitals now under civilian ownership although designated part of the Military Health System.

DOD is also acting on our recent recommendations to improve its workload data systems used to support and measure outcomes of the Medicare subvention demonstration now under way. Medicare subvention would allow Medicare-eligible military retirees and their dependents to enroll in a new DOD health maintenance organization. The demonstration's goal is to implement an alternative for delivering accessible and quality care to Medicare-eligible military retirees, while not increasing the cost to either DOD or Medicare. Reliable estimates of DOD's expenditures in 1998 for senior retirees for the Medicare subvention demonstration are critical to determine whether Medicare and DOD are spending more or less under this program before it is implemented nationwide. The improvements are also essential because DOD uses such data in managing its general health care operations.

Also, we continued to address needed improvements in TRICARE, the DOD managed care program that has been phased in across the country since 1995. As we recommended, DOD now collects data on appointment timeliness at military treatment facilities to supplement beneficiary satisfaction information on TRICARE access. DOD is also acting on our recommendations by implementing program changes to improve the accuracy and timeliness of TRICARE claims processing. For example, DOD has agreed to (1) provide new civilian contractors with a longer transition period between contract award and the start of health care delivery to allow them sufficient time to put administrative processes in place and build networks of health care providers, (2) expedite the process it uses to direct civilian contractors to implement program changes, and (3) consolidate all contract modifications and direct its civilian contractors to implement them on a timely manner to reduce processing errors. DOD is also acting on our recommendations to reduce its exposure to fraud and abuse in TRICARE. Specifically, DOD's strategic plan includes specific objectives to emphasize the detection and prevention of fraud and abuse. In addition, DOD reported it is expediting the implementation of contractor requirements to develop a corporate antifraud strategy, use new fraud detection software, and develop an antifraud training program.

Our comprehensive review of DOD's pharmacy benefits resulted in legislation aimed at better controlling costs and improving effectiveness by using best business practices and changing existing methods for contracting and distributing pharmaceutical supplies and services. In response to our recommendations, the Congress directed DOD, among other things, to implement a uniform formulary across its pharmacy programs and a demonstration program of a DOD-wide pharmacy benefit

for Medicare-eligible retirees. Moreover, DOD is installing a computerized drug utilization review system that could help prevent adverse drug interactions and save million of dollars by reducing unnecessary utilization.

VA Programs

In fiscal year 1999, we reported that VA appears to be losing momentum in transforming its health care system from hospital-based care to outpatient managed care. We noted that further transformation would require VA to confront formidable challenges, such as closing unneeded hospitals, restructuring capital assets, refocusing VA's medical education role, maintaining capacity to serve special disabilities, improving revenue collection, and implementing an enrollment process. In addition, we reported that unless VA implements more effective capital asset planning and budgeting processes, it may spend billions of dollars operating hundreds of unneeded buildings over the next 5 years. Among other changes, VA needs to develop asset-restructuring plans based on market analyses to guide its future investment decision-making. VA agreed to undertake market analyses as we recommended. However, based on our previously issued work, VA established a system-wide process to ensure that only patients who need hospital care are admitted and that patients are discharged as soon as medically possible. Implementation of the improved hospital utilization process contributed to the closing of about 8,000 hospital beds that provided an estimated annual saving of \$278 million and \$288 million in fiscal years 1998 and 1999 respectively.

Our work on programs for special populations has assisted the Congress in overseeing VA's key role in providing health care for veterans. For example, based in part on our work, the Congress extended authority for the spouses and children of Persian Gulf veterans to obtain medical examinations at VA for health problems potentially related to the Gulf War and authorized VA to contract with local health care providers to provide medical examinations in locations more convenient to the dependents of Persian Gulf veterans. In addition, VA enhanced its Persian Gulf outreach efforts and more effectively monitors its program implementation. Regarding homeless veterans, we reported that VA knew very little about the effectiveness of its programs. As a result of our work, VA plans to develop a strategy for evaluating the long-term effectiveness of its core homeless programs.

We continue to monitor VA's efforts to provide non-health care benefits to veterans. A subject of longstanding concern to the Congress is VA's adjudication and processing of disability claims. Despite progress in

developing a new quality assurance system, we reported that lack of adherence to government standards for independence raises questions about the integrity of quality assurance data. In addition, our reports and testimony highlighted that, while progress has been made, many challenges remain in administering programs that provide financial and other benefits to veterans. The challenges include slow processing of disability claims and limited results in placing veterans who receive vocational rehabilitation services in the labor force.

In our work on delivering health care services to veterans, we examined the need for a dedicated veterans' facility in Guam and found that VA could fully meet current and estimated future veterans' needs through its arrangements with the U.S. Navy and private-sector providers. VA's continued use of these arrangements avoids spending up to about \$7 million to construct and outfit a dedicated inpatient facility. We also examined VA's new enrollment program. We raised serious questions about whether VA could continue to offer greater access to more veterans and provide broader, more comprehensive health care services in the face of constant budgets.

Finally, we analyzed VA's regulation for implementing a new method for determining the amount to charge private insurers for health care services provided to veterans for non-service-connected conditions. We reported that VA's methodology sometimes set charges below market prices. Acting on our recommendation, VA identified a way to measure instances of low charges and began developing a way to adjust its methodology when it revises its charges for fiscal year 2000.

Key Open Recommendations

DOD

We recommended that DOD, in collaboration with the Health Care Financing Administration, identify weaknesses in DOD's estimates of its expenditures in 1998 for senior retirees for the Medicare subvention demonstration and make reliable estimates. This is critical to determining whether Medicare and DOD are spending more or less under the program before it is implemented nationwide, and assessing the accuracy of Medicare payments totaling billions of dollars. (GAO/HEHS-99-39)

Also, because of the frequency with which DOD's Defense Health Program was shifting appropriated funds among its budget subactivities, we

recommended that the Congress consider requiring DOD to notify the congressional defense committees of its intent to shift funds among subactivities and that the Congress require quarterly budget execution reports to improve their interval budget oversight and decision-making. (GAO/HEHS-99-79)

DOD has experienced significant problems managing its pharmacy benefit because it has not viewed its military treatment facility, retail contractor, and mail-order pharmacy programs as integral parts of a single system. To fully apply best business practices and potentially save hundreds of millions of dollars and improve patients' health, we recommended that DOD conduct a top-to-bottom redesign of its prescription drug benefit across the programs, which it plans to do. To respond to our recommendations and resulting legislative mandates, DOD's actions should include—but not be limited to—establishing a uniform, incentive-based formulary; electronic billing and claims processing; mandatory third-party billing for military treatment facility prescriptions provided to beneficiaries with other health insurance; and routine application of practices such as prior authorization. (GAO/HEHS-98-176)

We are also concerned about the high volume of TRICARE contract modifications that have not been settled, although DOD has begun to improve its management and processing in this area. The importance of controlling overall costs requires DOD to persevere in its effort to fix this process. (GAO/HEHS-97-141)

VA

Maintaining unproductive assets siphons valuable resources away from direct medical services to veterans. Unless VA implements more effective capital asset planning and budgeting processes, it may spend billions of dollars operating hundreds of unneeded buildings over the next 5 years. Among other things, VA needs to develop asset-restructuring plans based on market analyses to guide its future investment decision-making. In addition, VA needs to ensure that the fundamental principles underlying its centralized capital asset planning process are rigorously applied when making decentralized health care investment decisions. (GAO-HEHS-99-145)

Despite the resources VA has devoted to homeless programs—over \$640 million between fiscal years 1987 and 1997—VA has little information about the effectiveness of these programs. VA collected extensive program data which provided VA managers with information about service delivery, but were of limited use in assessing program effectiveness. We recommended that VA conduct a series of program evaluation studies to

clarify the effectiveness of VA's core homeless programs and provide information about how best to improve them. VA agreed with the thrust of our recommendation and plans to develop a strategy for evaluating these programs. (GAO/HEHS-99-53)

To ensure the integrity of accuracy of rate-related performance data reported under the Government Performance and Results Act, we recommended that VA implement a claims-processing accuracy review function that meets the government's internal control standard on separation of duties and the program performance audit standard on organizational independence. (GAO/HEHS-99-35)

Difficulties in working with VA's data cast doubt on whether VA can perform timely and effective oversight to monitor progress under its Veterans Equitable Resource Allocation system. VA needs more uniform and timely reporting of changes in access to health care, including the number and eligibility priority of patients served, waiting times for care, and patient satisfaction for specific services. In addition, we recommended that VA establish criteria for networks to use in more equitably allocating resources to facilities and monitor any resulting improvements in equity of access. (GAO/HEHS-98-226)

In our work on health care for Persian Gulf War veterans, we recommended that VA develop and uniformly implement a process focused on integration of diagnostic services, treatment and evaluation of effectiveness, and periodic reevaluation of those veterans with undiagnosed illnesses. This should result in better coordination and management of care for these veterans. (GAO/HEHS-98-197)

See Chapter 1, Improving National Security and International Affairs Programs, Special Studies and Evaluations. See also Chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issues Areas.

Health Financing and
Public Health Issue
Area (Budget
Function 550)

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Impact of GAO's Work

Federal health programs tangibly affect the lives and well-being of every American and include some of the nation's most difficult financing issues. In 1998, aggregate public and private spending on health care reached \$1 trillion. Medicare alone, financing care for 39 million beneficiaries, accounted for approximately 1 of every 8 federal dollars spent that year. Without changes, the program is expected to double its share of the economy by 2050, crowding out other spending and economic activity. Similarly, Medicaid, as the principal public insurer of long-term care, will also face increased spending pressures in the coming years when the number of seniors over 85—about 4 million in 1997—is expected to double by 2030 and more than quadruple by 2050. As the Congress considers transforming these two entitlement programs, either through incremental change or fundamental reform, GAO plays a major role in providing the program-specific information and analyses needed to make key policy decisions.

The federal government is also responsible for ensuring quality of care and protecting the public's health. Federal public health agencies—such as the Centers for Disease Control and Prevention (CDC), the Food and Drug Administration (FDA), the National Institutes of Health (NIH), among others—pursue a broad range of activities, including the funding of medical and substance abuse services, conducting public health surveillance, fostering biomedical research, and monitoring the quality of medical products. In addition, the Congress has an abiding interest in the private health insurance market, which accounts for roughly \$600 billion in annual expenditures. Despite a strong economy, the number of Americans without health insurance continues to rise. GAO studies address such urgent and emerging concerns in these areas, including the adequacy and safety of the blood supply, the privacy of medical records, patient protections, and the availability of consumer information to foster informed insurance choices.

Medicare

Projections that Medicare's Hospital Insurance Trust Fund will be insolvent by 2015 have made Medicare—today a \$200 billion program—a prominent topic of congressional debate. Structural changes, such as

those introducing market competition to government-funded health care programs, are intended to contain health care use and cost. The challenge for the Congress and the Health Care Financing Administration (HCFA), the federal agency administering Medicare, is to identify program options that can contain spending growth without unduly limiting access to needed care. In 1999 we testified several times on broad Medicare reform proposals that centered on competition and prescription drug coverage.

The Balanced Budget Act of 1997 represented an incremental approach to modernize Medicare and rein in spending. The Act's constraints on providers' fees, increases in beneficiary payments, and structural reforms together were projected to lower Medicare spending by \$386 billion over the next 10 years. In 1999, as the Congress faced intense pressure to roll back certain Balanced Budget Act payment reforms, we frequently testified and reported on the Act's impact—both the perceived and actual effects on providers and beneficiaries. Specifically, we provided data analyses on the Act's effect on home health agencies, skilled nursing facilities, outpatient rehabilitation therapy providers, and the health plans participating in the Medicare+Choice program. This gave the Congress a factual basis for making modifications to certain provisions of the Act.

We have designated Medicare as a high-risk program. In that regard, our studies examined ways to better safeguard Medicare payments and, for fiscal year 1999, produced the following results.

Payment safeguard funding

The Health Insurance Portability and Accountability Act of 1996 offered significant opportunities to improve Medicare program safeguards against fraud and abuse. In prior years, we had recommended increasing Medicare's program safeguard funds because of the high rate of return on funds invested in anti-fraud-and-abuse activities. Consistent with this recommendation, the Act established, among other things, the Medicare Integrity Program and increased safeguard funding. Under this program, funding is appropriated in advance rather than annually, and the funds are protected from potential diversion by being placed in a special fraud and abuse account. Using a conservative estimated rate of return on investment, we calculated that the Act's safeguard funding produced Medicare savings of \$1.0 billion in fiscal year 1998 and \$1.2 billion in fiscal year 1999. Even so, HCFA might have gotten more benefit from this funding if, in fiscal year 1998, it had not been slow to distribute the Act's funds to the contractors. This delay stalled the contractors' efforts to train and

recruit staff and realize the benefits from the Act's guaranteed funding. In reporting this finding, we recommended that HCFA promptly notify the contractors of their respective program safeguard funding levels. Before the start of fiscal year 1999, HCFA provided the Medicare contractors instructions on how to use the Act's funding and notified them of the amount of funding available.

Payments for surgical dressings

Historically, Medicare has been highly vulnerable to fraud and abuse in its payments for medical supplies, especially surgical dressings. In an August 1995 report, we found that Medicare contractors lacked sufficient internal controls to reliably identify suspicious medical supply claims before payment was made. Lacking the necessary policies and standards, Medicare (1) paid high prices for surgical dressings compared with wholesale and many retail prices, and (2) paid for an excessive number of dressings per beneficiary, as measured against levels recommended by the industry and against draft recommendations made by Medicare's claims processing contractors. We therefore recommended that HCFA establish prepayment review policies for medical supplies. In response, HCFA developed a new medical review policy for surgical dressings, including utilization parameters for many products. The Office of the Inspector General within HHS estimated that this new policy, in concert with related internal controls, will save Medicare an estimated \$58 million annually for fiscal years 1996 through 2000.

Payments to critical access hospitals

In establishing critical access hospitals (during fiscal year 1998), the Congress expanded the capacity of limited-service hospitals, which are designed to control Medicare costs while increasing access for rural beneficiaries to basic hospital and physician services. In a 1999 study, we estimated that, on the basis of patient stays in the rural limited-service hospitals that critical access hospitals later replaced, 8 percent of stays would have exceeded the 4-day limit for critical access hospitals. The reason is that, for limited-service hospitals, HCFA had not established an effective way to enforce the length-of-stay limit, nor a way to check compliance with the requirement for physician certification of a patient's expected length of stay within the allowed limit. Medicare payments for inpatient stays at critical access hospitals would have been somewhat higher than those to rural hospitals compensated under the prospective payment system for the same patients. We made recommendations

regarding the need for accompanying justification when a critical access hospital bills Medicare for inpatient stays beyond the fourth day and for physician certification of a patient's expected length of stay. In March and May 1999, HCFA acted on our recommendations by (1) requiring that a peer review organization review and approve or deny requests to waive the 4-day stay limit, and (2) instructing Medicare fiscal intermediaries to pay for inpatient critical access hospital services only if a physician has certified that the expected length of stay is within the allowed limit.

Medicaid, Children's Health Insurance, and Long-Term Care

The Medicaid program, which is jointly financed by the federal government and the states, serves about 40 million low-income beneficiaries, including 19.7 million children. In our recent work, we focused in part on the enrollment of low-income children in federal-state health insurance programs, including Medicaid and the State Children's Health Insurance Program. This particular program was created in 1997 and, depending on the state, relies on Medicaid, a separate state program, or a combination of both to cover eligible children. We also addressed aspects of Medicaid services for disabled beneficiaries, including options for self-directed personal care, coordinated care for individuals eligible for both Medicaid and Medicare, and appropriate safeguards for special-needs children who are mandatorily enrolled in Medicaid managed care plans.

In the area of institutional long-term care—for which Medicaid is the primary public payer—we have conducted a body of work on quality of care and oversight issues leading to several recommendations that have been addressed.

Oversight of quality of care in nursing homes

Our work on quality of care in nursing homes uncovered instances of poor care that put the health and well-being of nursing home residents at risk. To address this problem, we made recommendations to improve the oversight of nursing homes. In our 1998 report on California nursing homes, we recommended that the HCFA Administrator require state surveyors to conduct an on-site review to assess a home's compliance in cases where the home had demonstrated a serious violation of federal regulations. We also recommended that HCFA modify its method of selecting a sample of residents to be reviewed during a survey of a nursing home. In response to our recommendations, HCFA issued a policy letter in August 1998 directing state survey agencies to revisit each home with deficiencies that resulted in harm to one or more residents until the state was assured that the deficiencies were fully corrected. In our subsequent

work, we determined that 8 of the 10 states we contacted had implemented the new policy. HCFA has also issued a contract to improve the methodology used by surveyors to sample nursing home residents. The improved methodology uses a more rigorous and more targeted sampling technique to better identify potential care problems in nursing homes, including malnutrition, dehydration, and pressure sores.

Similarly, in a March 1999 report on the inadequacies of states' processes and procedures for investigating nursing home complaints, we recommended that HCFA develop standards for the prompt investigation of any complaints involving harm to nursing home residents, not just those that fit the more narrow, technical category known as "immediate jeopardy." HCFA immediately directed states to investigate within 10 working days any complaints alleging harm to a resident. In response to this same report, the state of Maryland approved a 57-percent increase in its nursing home survey and certification staff. Following up on the complaints our report listed as past due for investigation, the state conducted 170 complaint investigations, about 20 percent of which resulted in finding deficiencies of serious harm caused to residents.

Public Health

Federal public health agencies pursue a broad range of activities, including funding medical and substance abuse services, conducting public health surveillance, fostering biomedical research, and monitoring the quality of medical products. For example, NIH directs and funds biomedical research with its \$16 billion annual budget, and FDA is responsible for the safety of drugs, medical devices, and other products that together account for one-fifth of all consumer spending in the U.S.

Among several major areas of focus, we conducted studies on FDA's regulation of medical products, federal surveillance of public health threats, and federal substance abuse prevention and treatment efforts. Our FDA oversight work was mindful of the marked increase in the number of new products and the marketing and distribution changes that can get new products delivered quickly to more consumers than in previous years. In particular, our review of FDA warnings about weight loss dietary supplements underscored the difficulties of regulating over-the-counter products with insufficient data on potential adverse reactions. Similarly, our review of the government's ability to track emerging health threats found that a lack of adequate data hampered federal efforts to address the problem of antibiotic resistant diseases. In the area of substance abuse, we have ongoing work evaluating the effectiveness of drug abuse treatment programs supported by federal funds.

Use of laboratories in health surveillance

Without an effective surveillance system, public health officials cannot know the scope of existing diseases and may not recognize new ones until many people have been infected. Laboratories play an increasingly vital role in early warning, owing in part to technological advances. However, our work revealed gaps in the nation's network of public health laboratories. For example, almost half of state laboratories lack the advanced technology that CDC and many public health experts believe all states should have. We recommended that CDC lead an effort to help public health officials create a consensus on what constitutes adequate laboratory capacity for promptly detecting existing and emerging infectious diseases. In response to our findings and recommendation, CDC, in concert with another HHS unit, has undertaken a study to assess the "core capacity" for infectious disease surveillance and will address such elements we identified in our report as resource and training needs.

Data on drug treatment demand

About 11 percent of Americans have reported using illicit drugs within the last year, and the federal government provides about \$3 billion annually to fund drug abuse prevention and treatment activities. However, federal efforts to obtain estimates of the need for treatment have been hampered by the lack of adequate state-level data. For example, we found that three-fifths of the states were unable to determine the number of adolescents seeking drug treatment within their boundaries. To improve state reporting, we recommended that the Substance Abuse and Mental Health Services Administration develop an action plan for how the agency will improve states' reporting of treatment need data in their block grant applications. In response to our recommendations, the Substance Abuse and Mental Health Services Administration has developed and begun to implement a four-step action plan to improve the quality and completeness of state data.

Screening for lead poisoning

Elevated blood lead levels impair the mental and physical development of young children. Children in low-income families who live in older housing with deteriorating lead-based paint are at high risk for lead poisoning. We found that children receiving health care from Medicaid or other federal programs are five times more likely to have elevated blood lead levels than are other children. We also found that, despite federal policies providing

for blood tests to detect lead poisoning, nearly two-thirds of children younger than age 5 covered by federal health programs had not received them. To improve the delivery of screening tests to this high-risk population, we recommended that HCFA require state Medicaid agencies to report on lead screening services that are provided to children served by the Early and Periodic Screening, Diagnosis and Treatment program. In response, HCFA changed its reporting requirements for state Medicaid programs to collect the information necessary to monitor the delivery of blood lead screening tests.

Private Insurance

Strong interconnections exist between the private health insurance market and public health insurance programs, particularly Medicare and Medicaid. Medicare's launch of the hospital prospective payment system and the private market's widespread use of network-based managed care plans illustrate how financing innovations in one sector are often adopted by the other. Our work evaluating private sector trends typically has implications for federal programs. In addition, various federal policies governing private insurance can determine the affordability, availability, and quality of health insurance coverage. For example, the tax code and the Employee Retirement Income Security Act of 1974 provide employers incentives to strengthen health insurance coverage and set minimum benefit standards. The Health Insurance Portability and Accountability Act of 1996 and several subsequent acts set additional standards for improved consumer access to private insurance and benefits for mental health, maternity and newborn, and postmastectomy reconstruction. Our estimates of the number of uninsured and of individuals potentially eligible for proposed tax subsidies if they bought health insurance were widely cited by both sides of the debate leading to the House's approval of the Access to Quality Health Care Act. In response to our findings, HCFA and the Department of Labor have also begun revising federal standards to improve the information consumers receive about their coverage rights and strengthening federal enforcement authority in states lacking sufficient legislation to ensure compliance with federal policy. Finally, we testified on the presence of certain patient protections contained in state laws.

High-Risk Area

Because of its size and complexity, Medicare is a program that we consider permanently vulnerable to fraud and abuse. It is the second largest social program in the federal budget, with expenditures totaling about \$200 billion annually and a beneficiary population of almost 40 million elderly and disabled individuals. Medicare's complex operations

consist of paying hundreds of thousands of providers and processing as many as 900 million claims annually. The Health Care Financing Administration, which administers Medicare, faces multiple challenges to protect the program against exploitation. To do so, it must apply continued vigilance over day-to-day operations of decentralized program components and system modernization. Such vigilance is essential to ensure the protection of taxpayer dollars and the integrity of services provided to beneficiaries.

Key Open Recommendations

Medicare+Choice Modifications Needed to Make Payments Appropriate and Improve Quality of Health Plan Information

Balanced Budget Act and Medicare+choice Payments

Our assessment of the Balanced Budget Act payment changes indicated that, relative to the cost of providing the package of traditional Medicare benefits, payments to Medicare+Choice plans remain excessive for two reasons. First, current payment rates are based on pre-Act rates, which have been determined to be excessive relative to the expected health care costs of the comparatively healthier Medicare population enrolled in Medicare+Choice plans. Prior to the Act, HCFA set rates by county, according to the health service use of the county's less healthy, more expensive fee-for-service population. Built on these calculations, the current rates continue to be too high for the healthier, less expensive Medicare+Choice enrollee population. Second, Medicare+Choice plans annually receive a billion-plus-dollar overpayment in aggregate as a consequence of the Act's terms for setting the base payment rate. This problem, owing to an uncorrected forecast error, will be built into future base rates because the Balanced Budget Act has not provided explicit authority for HCFA to correct the forecast error. In a June 1999 report, we suggested that the Congress consider certain modifications to reduce the excess in Medicare+Choice payments. Specifically, we asked the Congress to consider revising each county's base rate in a way that would narrow the disparities in Medicare spending for the two Medicare beneficiary populations. We also suggested that (1) to allow the taxpayers to share in the efficiencies of Medicare+Choice plans, base rates be set below estimated average fee-for-service costs as done under the previous

Medicare managed care program, and (2) to encourage health plans to offer Medicare+Choice in rural areas, a minimum base rate (floor) for rural areas be maintained. (GAO/HEHS-99-144)

Medicare+choice Consumer Information Efforts

One of the purposes of Medicare+Choice is to broaden beneficiaries' options for obtaining health care coverage. To facilitate informed selections by beneficiaries, however, new standards are needed for the member literature distributed by health plans. Our work found that plan comparisons are difficult because plans do not follow a common format in presenting their information. Moreover, the information is sometimes incomplete or inaccurate. In an April report, we recommended that HCFA require each health plan to annually produce a single, standard document that fully describes the plan's benefit coverage and limitations—similar to the one required of plans that participate in the Federal Employees Health Benefits Program. We also recommended that HCFA standardize routine administrative forms, such as those used for enrollment and appeals. Such new standards could help facilitate informed choice and reduce the administrative burden on plan and agency staff. HCFA has agreed that new information standards are necessary. In the Fall of 1999, health plans were required to distribute benefit summaries that follow a common format and the agency is working to develop standard enrollment forms. The agency does not intend, however, to require each plan to produce a standard and comprehensive benefit document. (GAO/HEHS-99-92)

Enforcing Federal Care Requirements to Protect Nursing Home Residents

Since July 1998, we have issued a series of reports on the disturbingly frequent instances of poor quality care that results in harm to nursing home residents. These reports contain recommendations related to HCFA's oversight and enforcement of nursing homes' compliance with federal standards. HCFA has responded promptly by announcing a set of nursing home initiatives, many of which are first or partial steps. To be fully responsive to our recommendations, HCFA and the state agencies it contracts with will need to continue making improvements over the long term. For example, the backlog of appeals of civil monetary penalties assessed against nursing homes is likely to continue to grow as a result of HCFA's expanded nursing home enforcement efforts, despite an increase in funding. (The Congress provided \$1 million in supplemental appropriations for 1999 for HHS' Departmental Appeals Board and HHS requested a further increase in funds for 2000.) We have also repeatedly reported that flaws in HCFA's management information systems prevent a complete and accurate tracking of nursing home deficiencies. Although HCFA has begun redesigning these systems, they will not be complete for at least 3 years. HCFA's actions on another recommendation—to stagger the

timing of annual nursing home inspections to reduce their predictability—are essentially minimal to date, instructing states to increase the use of evening and weekend surveys.

In our 1998 report on California nursing homes, we recommended that HCFA eliminate the “grace period”—the time permitted to nursing homes to correct deficiencies without a sanction being imposed. Our recommendation targeted homes cited in two consecutive surveys for actual harm to residents or other serious violations. In September 1998, HCFA eliminated the grace period policy for homes cited for actual harm violations, with the exception of homes cited for only “isolated” instances of harm, which, by HCFA’s definition, means an instance involving “a single or a few residents.” HCFA officials explained that the definition excluded cases of isolated harm because the associated costs to states would increase significantly. HCFA indicated that it would consider eliminating the grace period for homes with isolated harm citations at a later time. According to our estimate, had HCFA applied the eliminated grace period policy to all homes cited twice consecutively for actual harm during a 15-month period ending April 1999, nearly 15 percent of all nursing homes nationwide (2,275 homes) would have been subject to immediate sanction, compared to about 1 percent under HCFA’s new policy. Moreover, contrary to the industry’s stated concerns that these citations are typically for trivial or administrative deficiencies, our review of isolated actual harm cases—covering over 100 surveys of randomly selected homes—verified that 98 percent were for serious deficiencies, such as failure to prevent pressure sores and accidents that resulted in fractures or other injuries. (GAO/HEHS-98-202, GAO/HEHS-99-46)

Emerging Drug Problems

In the mid-1980s, when crack cocaine use in the United States was reported to have reached epidemic proportions, Congress raised questions about the public health agencies’ ability to detect and respond to the problem of illicit drug use. In response to these concerns, the Substance Abuse and Mental Health Services Administration and the Office of National Drug Control Policy were created with an emphasis on, among other things, coordinating efforts to collect drug use data. Despite these developments, we found that concerns still remain about the adequacy of the nation’s drug detection efforts and the lack of a strategy for determining when and how to best respond to changes in drug use patterns. We recommended that the Director the Office of National Drug Control Policy implement changes that would further enhance drug data collection efforts by improving the data’s quality and developing a defined strategy for determining the timing and scope of actions needed to

appropriately respond to potential drug use crises. Although the Office has taken steps to identify and inventory drug data services, it has not yet developed a strategy for addressing illicit drug epidemics. (GAO/HEHS-98-30)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue areas.

Improving Justice and General Government Programs

Administration of Justice Issue Area (Budget Function 750)

GAO Contact: Laurie Ekstrand, 202/512-8777

Impact of GAO's Work

The administration of justice issue area covers a wide range of federal activities. These include (1) law enforcement, (2) litigative and judicial activities, (3) correctional activities, (4) Customs trade compliance and enforcement efforts, and (5) immigration control issues.

Law Enforcement

We reported that the corruption of some Immigration and Naturalization Service (INS) and Customs employees along the Southwest Border is a serious and continuing threat. This situation exists, in part, because neither INS nor Customs has (1) evaluated its policies and procedures to determine what works and what improvements are needed, (2) fully complied with its integrity policies and procedures, or (3) identified and corrected internal control weaknesses that surfaced during past corruption episodes.

We recommended that (1) both the Attorney General and the Secretary of the Treasury evaluate the effectiveness of integrity assurance efforts such as training, background investigations, and reinvestigations; (2) INS and Customs be required to complete employment reinvestigations when they are due; and (3) Border Patrol agents and immigration inspectors be required to file financial disclosure statements as part of background investigations or reinvestigations, and that they be reviewed to identify financial issues such as employees who appear to be living beyond their means. Similarly, we recommended that Customs, which already requires its employees to provide financial disclosure statements, fully review these statements to identify financial issues such as employees who appear to be living beyond their means. Finally, we recommended that the Attorney General require the Director of the Federal Bureau of Investigation (FBI) to develop a procedure to provide information from closed FBI cases involving INS or Customs employees to the Department of Justice (DOJ) Office of Inspector General or Customs Office of Internal Affairs so they can identify and report internal control weaknesses to the responsible agency official. With the exception of requiring Border Patrol agents and immigration inspectors to file financial disclosure statements, DOJ generally agreed to implement the recommendations. The Department of the Treasury agreed to implement all of our recommendations.

We reported on DOJ's development of the National Motor Vehicle Title Information System. The system is to allow users—including states, law enforcement agencies, car dealers, and others—to instantly and reliably validate out-of-state motor vehicle titles and to obtain a history of the vehicle being retitled (e.g., the vehicle's previously recorded odometer reading and any salvage information). DOJ has not evaluated the system's expected life-cycle costs and benefits. We recommended—and DOJ agreed—that a life-cycle cost-benefit analysis be performed to determine if additional federal investment is justified and to provide additional federal funds for the system only if such funding is supported by the analysis.

We reported on the response to a March 1997 Presidential Directive to heads of executive departments and agencies requiring that a safety lock device be provided with each handgun issued to federal law enforcement officers. Partly in response to our work, in September 1998 the FBI decided to pay for safety locks for the more than 20,000 personally owned firearms authorized for official use by its officers. The FBI's funding policy decision should help the agency more fully realize the intent of the Presidential Directive (i.e., to reduce unauthorized use of handguns and protect children from injury or death).

Concerning the increasing risk of identity fraud, we reported that no federal agency has overall or primary jurisdiction for investigating such fraud and that law enforcement agencies historically have not tracked identity fraud. Our report was the subject of widespread media attention and is mentioned prominently in the legislative history of the Identity Theft and Assumption Deterrence Act of 1998, which prohibits the unlawful use of personal identifying information, such as names, Social Security numbers, and credit card numbers. In March 1999, the Assistant Attorney General of DOJ's Criminal Division announced that: (1) the FBI and the Secret Service were taking a sustained interest in identity theft and fraud, and (2) an Internet Fraud Initiative was being developed for a coordinated national commitment to combating the problem.

In our report on the growth, characteristics, and results of drug court programs, we identified significant limitations in the available evaluation studies that prevented us from drawing conclusions on the overall impact of drug court programs. We also noted that outcomes of future evaluations of drug court programs might be hindered by the lack of follow-up data on program participants, which existing drug court programs generally did not collect. Accordingly, we recommended that DOJ and HHS require drug court programs funded by various federal grants to collect and maintain,

to the extent possible, follow-up data on program participants' criminal recidivism and drug use relapse. We also recommended that DOJ, HHS, and the State Justice Institute require that future impact evaluations of drug court programs funded by their respective agencies include an assessment of participants' postprogram criminal recidivism and drug use relapse. DOJ and HHS have taken actions on the first recommendation, as it applies to discretionary grants. However, some actions relating to formula or block grants are still pending, as are some actions on the recommendation relating to evaluations.

Litigative and Judicial Activities

We reported that less than 1 percent of the more than 33,000 persons who filed for personal bankruptcy in 2 bankruptcy districts in Florida and Texas claimed homestead exemptions in excess of \$100,000. Both states permit bankruptcy debtors to claim homestead exemptions of unlimited amounts. The requestors used the results to support an amendment to pending bankruptcy legislation that would place a national limit of \$100,000 on the homestead exemption that could be claimed by persons who file for bankruptcy.

We also analyzed the contribution that magistrate and senior judges make to reducing the caseload of courts of appeals judges and district court judges in those courts that had requested judges. The Judicial Conference of the United States did not consider the quantitative caseload contribution of magistrate and senior judges in determining its request for additional judgeships. We found that in several courts the contribution of these judges would have reduced the per judgeship weighted caseload of courts of appeals and district court judges below the threshold used to justify additional judgeships. As a result of our work, the Senate Judiciary Subcommittee on Administrative Oversight and the Courts requested that the Judicial Conference provide data comparable to the data that we developed for each court for which it requested judgeships in 1999.

Correctional Activities

With the dramatic rise in the number of female prisoners in the 1990s, sexual misconduct by correctional staff against female inmates has become a matter of increased concern. Generally, however, GAO found that correctional systems did not have readily available, comprehensive data or reports on the number, nature, and outcomes of staff-on-inmate sexual misconduct allegations—even though lawsuits and other indicators pointed to the existence of problems. The absence of such systemic data or reports makes it difficult for lawmakers, corrections management, and others to effectively address staff sexual misconduct issues in federal prisons.

GAO recommended that the Director of the Bureau of Prisons (BOP) develop systems and procedures to (1) monitor and analyze allegations of staff sexual misconduct in federal prisons, and (2) periodically report results to DOJ's Office of the Inspector General and appropriate BOP officials. BOP's Director concurred with our recommendation and noted that BOP is in the process of acquiring a new database which, when fully implemented, will (1) allow better sorting and analysis of allegations of staff sexual misconduct, and (2) enable BOP to improve its monitoring and identification of potential trends.

Customs Trade Compliance and Enforcement

In 1998, we issued two reports concerning the Customs Service's internal control weaknesses regarding (1) its deletion of certain law enforcement records, and (2) its low-risk cargo entry programs, which were established to identify and facilitate the movement into the country of cargo with a low risk for narcotics smuggling so that inspectors could focus on higher risk shipments.

In the first report, we recommended that to adequately protect Treasury Enforcement Communications System lookout records from inappropriate deletion, Customs should establish guidance and procedures for authorizing, recording, reviewing, and approving deletions in accordance with Comptroller General standards. Customs responded with programming changes for the Treasury Enforcement Communications System that fully satisfied our recommendation, including mandatory notification of any record deletion, supervisory review on authority and access to records in the system, and a mandatory field in the system to give the reason for the change or record deletion.

In the second report, we recommended that Customs suspend the Three Tier Targeting Program—which was designed to expedite the processing of cargo deemed to pose a low risk for narcotics smuggling while at the same time targeting, for additional scrutiny, higher-risk cargo—until it can be determined if more complete and comprehensive data are available on which to base “low risk for narcotics smuggling” assessments. In response, Customs ordered its field offices to immediately discontinue using the Three Tier Targeting Program to identify and target high-risk shipments.

Immigration Control

While INS has spent billions of dollars to allocate additional personnel, fencing, and technology to the Southwest Border, it does not know if this strategy is achieving its goal of reducing illegal immigration. We reported that while the strategy appears to have increased security in certain areas,

large numbers of illegal aliens continue to enter the United States. We recommended that the Attorney General develop and implement a plan for a comprehensive, systematic evaluation of INS' strategy, and INS has contracted with a firm to develop such a plan.

We also reported that, 12 years after the passage of legislation intended to prevent U.S. employers from hiring unauthorized aliens, significant numbers of unauthorized aliens were still finding work. Fraudulent documents are prevalent and undermine the effectiveness of the system for verifying employment eligibility. Although INS has taken steps to reduce the employment verification process' susceptibility to fraud, significant obstacles remain. INS agreed with, and is in the process of implementing, our recommendations for improving its efforts to reduce the employment of unauthorized aliens.

Key Open Recommendations

Law Enforcement

We reported on various weaknesses in DOJ's Weed and Seed Program—a community-based multiagency program designed to “weed out” crime from neighborhoods and then “seed” the site with the programs and resources needed to prevent crime from recurring. To correct these weaknesses, we recommended that the Attorney General of the United States direct the Director of the Executive Office of Weed and Seed to (1) develop internal controls to ensure that the basis and rationale for funding decisions for new and existing Weed and Seed sites were fully documented, (2) ensure that mandatory site progress reports were being submitted or that grant monitors were documenting their site visits, (3) develop criteria for determining when Weed and Seed sites are self-sustaining and when to reduce or withdraw program funding, and (4) develop additional performance measures that track program outcomes. DOJ agreed with most of our recommendations and is taking steps to implement them. (GAO/GGD-99-10)

In our report on the Drug Enforcement Administration's (DEA) Strategies and Operations in the 1990s, which served as a basis for a House Judiciary Subcommittee oversight hearing, we concluded, among other things, that the strategic goals and objectives in DEA's annual performance plans, as well as its programs and initiatives, were consistent with the Office of National Drug Control Policy's National Drug Control Strategy. However, we reported that DEA had not developed measurable performance targets

for its programs and initiatives aimed at disrupting and dismantling drug trafficking organizations that were consistent with those adopted for the National Strategy. As a result, it was difficult to assess (1) how effective DEA had been in achieving its strategic goals and objectives and (2) what effect its programs and initiatives in the 1990s had had on reducing the illegal drug supply. We recommended that DEA work closely with DOJ and the Office of National Drug Control Policy to develop measurable performance targets for disrupting and dismantling drug trafficking organizations. DEA is working to implement this recommendation. However, it noted that to develop accurate measures, it must first develop a strategic plan that sets forth goals and objectives that will lead to the desired result. Thus, it has begun the process of reinvigorating its strategic management system and developing a new strategic plan, after which it plans to establish measurable performance targets. (GAO/GGD-99-108)

Litigative and Judicial Activities

We reported that grantees of the Legal Services Corporation misreported both the number of cases open and closed in 1997. Based on audits of five of the Legal Services Corporation's largest grantees, we estimated that 75,000 of approximately 221,000 reported cases were questionable. To correct reporting problems, the Corporation issued new case reporting guidance to its grantees, and had all grantees conduct self-inspections of their 1998 data. We concluded, however, that these efforts were not sufficient to fully resolve the case reporting problems that occurred in 1997. We made recommendations to the Legal Services Corporation for clarifying specific reporting requirements, disseminating information concerning reporting requirements, and improving the quality of any future self-inspections. The Corporation agreed with our findings and intends to implement our recommendations. (GAO/GGD-99-183, GAO/T-GGD-99-185)

Immigration Control

As part of our continuing monitoring of INS' Institutional Hearing Program, a program designed to initiate and complete removal proceedings for criminal aliens in state and federal prisons, we reported that INS had begun to implement several of our past recommendations for improving the program. For example, INS had (1) begun to develop a nationwide database to help it track the status of foreign-born inmates, (2) developed a workload analysis model that can be used to identify the Institutional Hearing Program's resource needs, and (3) identified the causes for high attrition among certain program staff. We also reported that it could avoid about \$40 million in detention costs per year if it completed the hearing process for all deportable aliens while they were in prison. (GAO/GGD-99-3, GAO/T-GGD-99-47)

Both INS and the Bureau of the Census produce statistics that are relevant to policy makers concerned with legal and illegal immigration. To improve published information and to fill key data gaps, we recommended that INS statistical reports employ a more rigorous conceptual approach, that INS revise its procedures for estimating nonimmigrant overstays, and that INS and Census work together on a joint plan of research to develop improved data in certain areas. New estimates and data are needed—particularly with regard to overstays (the overstay estimates are needed to monitor the Visa Waiver Pilot Program). Additionally, to facilitate access to diverse immigration statistics, we have recommended that INS and Census issue a joint report on the foreign-born. INS and Census have an agreement to produce and execute a joint program of data development and research concerning the foreign-born population. To date, however, INS has been unable to produce reliable overstay estimates since 1992. (GAO/GGD-98-164)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue Areas.

Federal Management and Workforce Issue Area (Budget Function 800)

GAO Contact: 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 capital 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 Department of Commerce, OMB, Office of Personnel Management, Equal Employment Opportunity Commission, Merit Systems Protection Board, Federal Labor Relations Authority, Office of Government Ethics, Government Printing Office, Bureau of Labor Statistics, Library of Congress, and the National Archives. However, management, human capital, regulatory, and statistical/information issues bridge into virtually all other agencies as well.

In 1999, 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. For example, GAO assessed the fiscal year 1999 and 2000 annual performance plans for the major departments and agencies. GAO identified a series of important opportunities to improve the usefulness of those plans for executive branch and congressional decisionmakers. We also continued to keep the Congress informed of best management practices here and abroad in order to provide the Congress with "real-time" perspectives of new and emerging management issues and innovations.

The issue area has also contributed to oversight of the federal regulatory system. For example, under the Paperwork Reduction Act, agencies are required to obtain OMB approval before imposing a paperwork requirement on the public. However, GAO testified that hundreds of information collections were being administered without OMB authorizations. GAO estimated that the opportunity cost associated with just 17 of these collections was nearly \$1.7 billion. Furthermore, OMB was counting these unauthorized collections as contributing to the burden reduction goals

envisioned in the Act. OMB responded to GAO's suggestions in May 1999 by notifying the chief information officers of 27 agencies that this situation was "unacceptable" and requesting that each of the agencies provide a timetable for the resolution of the problem.

As the federal downsizing of the 1990s has slowed, the Congress and the executive branch have begun to consider the implications of that downsizing and how to manage the smaller federal civil service that is emerging. During 1999, GAO reported that the total federal payroll increased even as the workforce decreased in the 1990s, due largely to the adjustments in federal salaries and benefits that derive from efforts to maintain comparability between federal and non-federal pay. In the same report, GAO observed that early downsizing efforts were not well-planned, and recommended that planning requirements be incorporated in future legislation granting buyout authority for downsizing. GAO had earlier reported that the use of buyouts could often result in savings over and above those that would result from the use of reductions-in-force. Estimated savings from the use of buyouts rather than reductions-in-force totaled about \$80 million in fiscal year 1998 for 31 federal agencies who had offered buyouts earlier in the 1990s.

GAO also issued reports in 1999 that identified problems with the data used to manage the federal equal employment opportunity redress procedures and made recommendations for improving the data so that the causes for complaints could be identified and corrective measures could be taken. The Equal Employment Opportunity Commission's recent promulgation of changes to the regulations governing the equal employment opportunity complaint process (29 CFR part 1614) was based in part on earlier reports documenting significant growth in complaint workloads. The Commission also cited GAO's work in its fiscal year 2000 budget request for additional resources to better manage its workload, improve case processing quality and timeliness, provide technical assistance to agencies, and expand the use of alternative dispute resolution.

More fundamentally, however, GAO identified strategic management of the government's human capital—the people that define its character and capacity to perform—as the key remaining managerial area needing reform to support businesslike and results-oriented management in the federal government. Although a consensus on the framework for human capital reform is not yet apparent, GAO suggested that agency leaders could still take practical steps to improve their human capital practices. To this end, GAO published a discussion draft entitled Human Capital: A

Self-Assessment Checklist for Agency Leaders to begin focusing agency managers' attention on a systematic, thoughtful assessment of whether, and how well, their human capital management policies and practices are aligned to support the organization's "shared vision"—the mission, vision for the future, core values, goals, and strategies by which the organization has defined its direction and expectation for itself and its people. Through the refinement and application of this Checklist and through planned reviews of key human capital policies and practices, GAO plans to improve assessment methodologies and identify and facilitate the implementation of human capital practices that will improve federal agencies' economy, efficiency, and effectiveness.

In December 1998, the Bureau of Labor Statistics announced that, beginning in 2002, it will update every 2 years the expenditure weights used in the Consumer Price Index. In 1997, GAO reported that the current practice of updating the weights every 10 years or so was a source of inaccuracy in this key economic measure. GAO had recommended that the Bureau's Commissioner update the weights on a more frequent schedule.

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 of dollars 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. GAO's work continues to show the high risk to a successful census due to uncertainties surrounding the Census Bureau's ability to build an accurate address list, motivate people to participate in the census, and staff key field data collection operations.

Key Open Recommendations

Summary reports on GAO's reviews of agencies' fiscal years 1999 and 2000 annual performance plans have identified important opportunities to improve the usefulness of these plans for congressional and other decisionmakers. These opportunities include (1) better articulating a results orientation, (2) coordinating crosscutting programs, (3) showing the performance consequences of budget and other resource decisions,

(4) clearly showing how strategies will be used to achieve results, and (5) building the capacity within agencies to gather and use performance information. GAO recommended that the Director of OMB ensure that agencies make continued progress in improving their plans. Similarly, GAO suggested that the Congress use the plans as a basis for oversight hearings. (GAO/GGD/AIMD-98-228, and GAO/GGD/AIMD-99-215)

GAO 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 authoritative guidance defining key terms in the act. Therefore, GAO 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. (GAO/GGD-94-105)

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 reported that this is a continuing problem since agencies have varying interpretations of section 610 of the Act. In its report GAO said that Congress might wish to consider clarifying that particular issue of concern to the agencies. However, to date Congress has not clarified this issue. (GAO/GGD-99-55)

In reviewing the fiscal year 1997 buyout programs of six agencies, GAO found that they had been better managed than was generally the case governmentwide during the 1994 and 1995 non-Defense buyout window. However, GAO 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, GAO 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)

GAO also recommended in August 1999 that the Equal Employment Opportunity Commission develop estimates of the effects of forthcoming changes in discrimination complaint processing regulations and procedures on agencies' and the Commission's workloads, and complete the development of measures and indicators to track and assess the effects of these changes on caseloads. To give congressional decisionmakers the necessary information for allocating resources, GAO also recommended that the Commission (1) develop estimates, under various timeframes, of the resources needed to reduce its average hearings processing time to meet regulatory requirements, and (2) establish an acceptable level of timeliness for processing appeals and develop estimates of the resources needed to meet the new standard. (GAO/GGD-99-128)

GAO found that the Bureau of Labor Statistics does not have written guidelines or policies regarding supervisory review of analysts' decisions on whether to accept substitutions for items that have been tracked for inclusion in the Consumer Price Index. To help ensure that this index is protected from the potential effects of errors or inconsistencies resulting from analysts' decisionmaking, GAO recommended, in June 1999, that the Bureau's Commissioner evaluate, on a periodic basis, the degree of consistency and accuracy of substitution decisions and evaluate the resulting effects on the accuracy of the Consumer Price Index. (GAO/GGD-99-84).

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue Areas.

Financial Institutions and Markets Issue Area (Budget Function 800)

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

Impact of GAO's Work

Supervision of the financial services industry is taking place in a period of rapid change, as formerly clear and distinct industry lines have become increasingly fuzzy. Banks and thrifts, which used to serve different roles, 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. In turn, securities firms are increasingly involved in providing credit. The consolidation of financial institutions from different segments of the industry is resulting in large financial service conglomerates that offer a range of financial services beyond the mission of any one regulator. As markets become more global, foreign and domestic institutions perform similar functions and interact with savers and investors in similar ways. This globalization of financial firms and markets as well as the use of constantly advancing technology has created opportunities for increased efficiencies, but has also increased the risk that large-scale financial crises could spread quickly. Work in the Financial Institutions and Markets issue area explores the implications of these changes for the Congress and the regulators, as well as for the industry and its customers.

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 (1) assess the ability of the financial services industry and its regulators to maintain a stable and efficient financial system; (2) evaluate how prepared financial regulators are to respond to the increasing predominance of conglomerates, the continuing global interdependence of financial markets, and advances in information technology and financial innovation; and, (3) assess the effectiveness of regulators in ensuring fair access to financial services and deterring fraud and abuse.

Our work has improved the operation of the financial system as a whole and individual components of it. Our primary mission—working on safety and soundness issues—helps protect the taxpayer from the need to rescue one or more financial institutions or sectors. Related work on agency

operations has led to improvements in the regulators' effectiveness. Our work also has an investor/customer focus to help ensure that financial services industry customers get what they pay for.

We have conducted a series of assignments on the oversight provided to housing government-sponsored enterprises and reported on weaknesses in the safety and soundness and mission compliance oversight provided to the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Federal Home Loan Bank System. This body of work has led to our conclusion that the three housing regulators who supervise these government-sponsored enterprises should be merged creating a single housing government-sponsored enterprises regulator that could more effectively oversee the safety and soundness and mission compliance oversight of these enterprises. These reports helped to spur an ongoing debate in this Congress on how to reform the System.

Our work on over-the-counter derivatives market has provided the framework for debating this 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 technology issues helped alert the Congress to the need for the Securities and Exchange Commission to improve its monitoring and reporting of the securities industry's progress in achieving year 2000 compliance. Our work on international year 2000 compliance noted that large U.S. and foreign financial institutions were concerned about infrastructure providers, such as telecommunications and power not being year 2000 compliant. Related work also alerted the Congress to shortcomings in the insurance industry's preparation for achieving year 2000 compliance. We have also reported on the projected growth in on-line banking systems and the considerable challenges bank regulators are facing in overseeing on-line banking services provided by depository institutions. Other technology work has included a comprehensive assessment of the effects of the Small Order Execution System on the operation of the Nasdaq Stock Market. This work has identified the need to ensure that the planned design of a new electronic trading system provides for fair access to the market while ensuring immediate, automatic execution of investors' orders at the best possible prices.

Key Open Recommendations

Financial Institution Reforms

Our report on the Federal Home Loan Bank System recommended that the Federal Housing Finance Board improve its oversight of System banks and that Congress provide the Board with specific enforcement authorities as it has provided other government-sponsored enterprises regulators. This report as well as others 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 and GAO/GGD-98-203)

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. The System has completed its reviews and the Congress is considering what next steps it should take. (GAO/GGD-96-128)

Our testimony and report on modernizing the U.S. bank structure made suggestions that incorporated many of the advantages we found in foreign bank regulatory systems. We noted that consolidation of agencies responsible for 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. (GAO/GGD-97-23 and GAO/T-GGD-97-117)

Our report assessing HUD's mission oversight of Fannie Mae and Freddie Mac found the need for improvement in several areas. To strengthen HUD's oversight of these housing enterprises, we recommended HUD (1) develop a better understanding of whether the housing goals are enhancing housing affordability and opportunities for targeted groups as intended by Congress, and (2) coordinate with the Office of Federal Housing Enterprise Oversight on reviews of enterprise compliance data. We also suggested that to insure nonmortgage investments are consistent with the purposes expressed in their charters HUD closely monitor the enterprises' use of nonmortgage investments. (GAO/GGD-98-173, GAO/T-GGD-98-177 and GAO/GGD-98-48)

Our report on the Federal Agriculture Mortgage Corporation (Farmer Mac) noted the potential for mission overlap among Farmer Mac, the Farm Credit System, and the Federal Home Loan Bank System. We recommended that the Congress consider the interactions among the activities and charters of these government-sponsored enterprises as part of its ongoing oversight. (GAO/GGD-99-85)

We reported that Internet banking heightens various types of banking risks, including security, reputation, and transactional risks. We recommended that financial institution regulators share information on the problems depository institutions have had in operating Internet banking activities and share effective examination methods. We also recommended that regulators establish procedures to obtain centralized information on institutions' plans to offer Internet banking services. To help ensure the safety and soundness of Internet banking at credit unions, we also recommended that the National Credit Union Administration expedite its development of Internet banking examination procedures. (GAO/GGD-99-91 and GAO/T-GGD-99-152)

We also reported that the Federal Reserve Board's merger approval process lacked transparency. To enhance the transparency and improve the efficiency with which Community Reinvestment Act issues are addressed, we recommended that the Federal Reserve Board develop guidelines that summarize how public comments raising community reinvestment concerns are used along with Community Reinvestment Act examination information in board decisions on merger applications. (GAO/GGD-99-180)

Securities

We examined the Small Order Execution System and its effects on the Nasdaq Stock Market. This system was developed to allow small orders placed through it to be automatically executed against Nasdaq market makers at the best bid or ask price displayed on the Nasdaq system. Nasdaq is in the process of developing a system to replace the Small Order Execution System. We recommended that the Securities and Exchange Commission ensure that the new system correct trading advantages the Small Order Execution System provides some users, while maintaining the ability to automatically execute small orders at the best possible price. (GAO/GGD-98-194)

Our reports on fines imposed and collected in the futures and securities industry found that some self-regulatory organizations did not maintain automated records to document that their fines were paid. We also found

indications that the amount of imposed fines was unpredictable and the effectiveness of the imposed fine was not known. We recommended that the Chairman of the Securities and Exchange Commission obtain and analyze information on disciplinary sanctions, particularly fines, to understand possible disparities among the self-regulatory organizations and identify ways to improve disciplinary programs. We further recommended that the Chairman of the Securities and Exchange Commission and the Chairperson of the Commodities Futures Trading Commission encourage self-regulatory organizations to maintain automated records of their fine collection activities. (GAO/GGD-99-8)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue Areas.

Government Business Operations Issue Area (Budget Function 800)

GAO Contact: Bernard L. Ungar, 202/512-8387

Impact of GAO's Work

We conduct audits and evaluations focused on civilian agency business activities, including asset management (typically facilities) and the procurement of goods and services. We focus primarily on the government's two largest business entities—the General Services Administration (GSA), which influences the management of assets valued at nearly \$500 billion, and controls or oversees over \$60 billion in annual government spending; and the United States Postal Service, which has revenue of more than \$58 billion annually. In 1999, our work also involved the activities of other entities including the Department of the Treasury, the Department of Veterans Affairs, the National Gallery of Art, the District of Columbia government, and the Architect of the Capitol.

Procurement Issues

We issued a report on how foreign governments perform procurement activities that, in the United States, fall under the responsibility of the GSA's Federal Supply Service and Federal Technology Service. We reported that Canada, the United Kingdom, Australia, and New Zealand had reassessed the role of their central procurement agencies that have activities similar to GSA. For example, in the United Kingdom, central procurement agencies have more flexibility to manage personnel and financial matters than traditional government departments. New Zealand privatized its central procurement agency, and allows its agencies to use the private sector business that was created to help meet their procurement needs. In addition to organizational changes, these countries shifted to greater reliance on the private sector through such methods as outsourcing and empowerment of civil servants to make business decisions.

We also issued a report on the District of Columbia's Financial Responsibility and Management Assistance Authority's procurement practices. We reported that the Authority did not always comply with its procurement regulations or follow sound contracting principles when it awarded and administered the nine contracts that we reviewed.

Postal Issues

Our work over the past year has focused on the Postal Service's performance and the major management challenges facing the Service. In our testimony at the annual House oversight hearing, we identified four major challenges facing the Postal Service as the 21st century quickly approaches: (1) maximizing performance in the face of increasing

customer demands and choices, (2) managing employees—the Service’s most valuable asset—to maximize attainment of agency goals and continuous improvement of employee performance, (3) maintaining financial viability by controlling costs and enhancing revenues, and (4) adapting to a rapidly changing communications and delivery environment with a growing number of competitors. We noted that although the Service has made progress and is continuing to make significant changes, time appears to be growing short for the Service to successfully address these challenges so that it can sustain and improve current performance levels and remain competitive into the 21st century. We also testified on consumer problems with deceptive mail and made recommendations to improve the quality of postal data used in two areas, (1) ratemaking and (2) Equal Employment Opportunity-related data.

Facility Management Issues

Our work in this area focused on various aspects of federal facilities acquisition and related support services. To help the Congress evaluate the operations of the Federal Buildings Fund, we evaluated GSA’s efforts to improve its estimation process for rent expenses, including the establishment of a new computer-based program for tracking expenses. We reported that the changes being made, if properly implemented, would significantly improve GSA’s estimation process for rent expenses. We also did a comparison of space acquisition alternatives involving leasing, lease-purchase, and construction. We reported that although construction was almost always estimated by GSA to be the least costly approach for meeting long-term space needs, it was not always the approach proposed. Non-economic factors weighed heavily in the acquisition decisions for the 24 cases that we reviewed.

Additionally, we assisted Congress in its efforts to evaluate the need for specific facility acquisitions, namely the new United States Mission to the United Nations in New York and newly leased space for the Secret Service’s Uniformed Division. We also reported on the fluctuations in the Public Buildings Service’s travel and training expenditures, including the costs associated with events sponsored off-site and employee participation in management development programs. Finally, we testified on the status of GSA’s efforts to upgrade the security of federal buildings under its operation.

Other Government Business Issues

In addition to the work highlighted above, we responded to a number of congressional requests covering a wide range of topics. For example, we provided information on the new dollar coin. We contracted for a public opinion poll that showed 65 percent of adult Americans would prefer the

Statue of Liberty image on the face of the new coin, as opposed to 27 percent who favored Sacagawea—a Shoshone interpreter who accompanied the Lewis and Clark expedition. We also reviewed selected operational practices (procurement and personnel) of the National Gambling Impact Study Commission and identified the amount of federal campaign contributions from the gambling industry for the last four elections. Additionally, we provided congressional decision-makers with information on the award of disadvantaged small business contracts by the Treasury Department. Finally, we assessed selected travel-related issues at the Department of Veterans Affairs. We reported that (1) the Department's budget requests have exceeded its travel expenditures by million of dollars since 1996, (2) the Department reprogrammed these excess travel funds without informing Congress, and (3) the Department lacked adequate internal controls over delegated travel authority and limited open travel authorizations.

Key Open Recommendations

Postal Service

We recommended in our 1994 report on postal labor-management relations that the Postal Service, unions, and management associations develop a long-term framework agreement to change the workplace environment in mail processing and delivery functions. During the past year, the Service has continued to make progress in improving its labor-management relations. The Service has identified a number of goals and strategies to improve its workplace relations and to enhance various employee programs, such as its diversity and safety programs. However, problems still exist that appear to create barriers between the Service and its main employee organizations, including four major postal labor unions and three management associations. Such barriers have often stood in the way of agreements being reached among the eight organizations, including postal labor unions' collective bargaining agreements, that could help ensure the most effective management of the Service's employees. We continue to believe that a framework agreement could help the eight organizations focus on common approaches for addressing persistent labor-management relations problems so that the Service's work environment can be improved and its competitive position in a dynamic communications market can be maintained. (GAO/GGD-94-201A)

Procurement

To improve contracting operations of the District of Columbia Financial Responsibility and Management Assistance Authority, we recommended

that the Chair of the Authority require the Executive Director to (1) approve and justify all waivers of Authority contracting regulations in writing, (2) only extend contracts in writing and prohibit the Executive Director from extending or modifying expired contracts, and (3) include in contract files a written certification, signed by an appropriate official, stating that the contractor's performance was or was not satisfactory. (GAO/GGD-99-134)

The Federal Prison Industries (FPI) needs to institutionalize internally an assessment of overall customer satisfaction with the services it provides and to use this assessment to measure and improve its performance. We recommended the Director, Bureau of Prisons, direct FPI's Chief Operating Officer to: (1) examine available approaches to collect and use customer satisfaction data to determine the most cost-effective approaches for FPI; (2) develop a plan for collecting customer satisfaction data that would allow for supportable conclusions about federal customers' views on timeliness, prices, and quality; (3) develop a timetable for implementing the plan; and (4) set performance goals for the levels of customer satisfaction that FPI wants to attain and measure results against these goals. (GAO/GGD-98-50)

User Fees

In our report on agency compliance with user fee review requirements, we recommended that the Director of OMB clarify the user fee reporting instructions by specifying how agencies should report the results of their user fee reviews and address the issues of compliance with the biennial review requirements, including the requirements regarding statutorily set fees and agencies' consideration of potential new user fees. OMB noted in its July 1998 revision of OMB Circular A-11 the requirement for the biennial review of user charges for agency programs and stated that agencies should ensure that estimates are developed in accordance with the full cost recovery policy set forth in OMB Circular A-25. While the July 1998 revision to OMB Circular A-11 does emphasize the biennial review requirement and full cost recovery, it does not address how agencies should report the results of the biennial review. As of August 1999, OMB was still considering other measures in regards to user fee reviews. (GAO/GGD-98-161)

See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue Areas.

Tax Policy and
Administration Issue
Area (Budget
Function 800)

GAO Contact: James R. White, 202/512-9110

Impact of GAO's Work

We conduct evaluations of tax policy and administration to provide the Congress, the executive branch, and the public with timely, accurate, and objective analyses and information to improve the operation and administration of our nation's tax system. This entails the revenue side of the budget—the estimated \$1.7 trillion in tax receipts that finance the federal government's operations and the over \$581 billion in tax expenditures that promote numerous social and economic objectives. The IRS, the federal agency responsible for tax administration, is a principal focal point of our work, and as a result of recently passed legislation, the agency is reorganizing to better reflect the needs of diverse taxpayer groups. Our work strategies will directly target IRS' actions to modernize operations and improve service to taxpayers.

The federal government has realized over \$2.1 billion in savings over the last 2 years as a result of statutory and administrative changes we recommended. Of that total, (1) over \$1 billion comes from savings resulting from congressional action to expand the definition of wealth in the earned income credit; (2) \$848 million comes from a phase out of the Section 936 tax credit in U.S. possessions; and (3) \$289 million comes from a reduction in IRS' systems modernization program budget that resulted from IRS' establishment and use of explicit decision criteria when planning and evaluating its technology investments.

In addition to these cost savings, the impact of our work is reflected in efforts to improve the economy and efficiency of tax administration and the quality of tax-related information provided to the Congress. For example, our reports and testimonies have recommended ways to improve the efficiency and effectiveness of the tax system by addressing such subjects as collecting delinquent taxes and identifying unreported income, responding to taxpayers' inquiries and reducing the burden of complying with the tax laws, modernizing IRS to achieve greater productivity and better management of its operations, and revising IRS' performance measures for compliance and enforcement activities.

Because of our recommendations, IRS has (1) improved strategies for managing its customer service initiatives by (a) developing an approach and guidance for managers to determine the cost and benefit information for its customer service improvement initiatives, and (b) developing guidance for measuring the results of its customer service improvement initiatives in relation to its customer service objectives and included such information in a database for tracking results; (2) in conjunction with the Treasury's Financial Management Service, conducted a study to definitively determine the time and interest cost differences between sending tax payments to lockboxes and sending them to IRS; (3) developed procedures to ensure the completeness and reliability of information on original issue discount bond issuances that were included in IRS' Publication 1212; (4) taken steps to review and improve its Telephone Routing Interactive System by contracting for an independent assessment of the system before deploying and implementing new applications; (5) included an interactive installment agreement process as part of its worldwide web page to assist taxpayers in determining their eligibility for paying taxes in installments; (6) issued a new form to assist taxpayers in preparing claims for innocent spouse relief and revised related tax forms, instructions, and publications to make innocent spouses more aware of the relief available to them; (7) issued new guidance that clarifies supervisory responsibility and accountability in preparing employee evaluations to ensure that the law and policy on using enforcement statistics is followed; (8) revised Form 1040 tax packages for tax year 1998 to include information on Earned Income Credit sanctions for fraudulent claims; (9) made a requirement in its contract proposal for systems modernization that all contractors meet certain standards in software development capability; (10) opened an integration, test, and control center facility for integration and acceptance testing of modernization and critical system development projects; (11) established a steering committee to better manage requirements and changes to the Compliance Research Information System, the primary analytical tool to be used for conducting compliance research; and (12) completed the National Office and district office research infrastructure and developed working groups within these compliance research organizations to monitor the effectiveness of IRS' compliance research. As a result of our recommendations, the Office of Personnel Management will restart reporting the taxable amount of annuities to retirees beginning with the January 2001 tax statements.

High-Risk Areas

In January 1999, we reported on certain high-risk areas throughout the government. At IRS, the areas included the management and collection of billions of tax dollars in accounts receivable as well as significant levels of tax filing fraud.

Tax Revenue in Accounts Receivable

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. For years, IRS' efforts to collect these delinquent taxes have been seriously hampered, primarily, by outdated equipment and processes, old accounts that are difficult to collect, incomplete taxpayer information for targeting collection efforts, and the absence of a comprehensive strategy and detailed plan to address the systemic nature of the underlying problems.

IRS has attempted to deal with these problems, in part, by 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 collection processes performed by collection employees in field offices. However, IRS still needs a comprehensive strategy, involving all aspects of its operations, that sets collection priorities, modernizes outdated equipment and processes, and establishes goals, timetables, and a system to measure progress.

Filing Fraud

Filing fraud refers to the filing of fraudulent refund claims by taxpayers and/or tax return preparers. Most of the fraudulent refund claims identified by IRS involved the Earned Income Credit (EIC) available to low-income, working taxpayers. In April 1997, IRS released the results of its study of EIC noncompliance on tax returns filed in 1995 (i.e., tax year 1994 returns). That study showed that of the \$17.2 billion in EIC claims on tax year 1994 returns, about \$4.4 billion (25.8 percent) was estimated to be overclaims. In response to IRS' findings, Congress provided IRS with new enforcement tools and an increase in funding specifically designated for EIC-related activities. In fiscal year 1998, IRS began implementing a plan that, over a 5-year period, calls for attacking EIC noncompliance through expanded customer service, strengthened enforcement, and enhanced research. As we reported in July 1998, most of IRS' efforts under the EIC compliance initiative had not progressed far enough at the time we completed our work to judge their effectiveness. IRS plans to do annual studies of EIC compliance starting with a baseline study of returns filed in

1998. Using the results of the baseline study and subsequent years' studies, IRS plans to measure the rate of compliance and improvement in that rate over time. Those studies should eventually provide the necessary data to assess the impact of IRS' efforts on reducing the incidence of noncompliance associated with the EIC. (GAO/GGD-98-150)

Key Open Recommendations

Although there are many open recommendations relating to our work in the tax policy and administration issue area, IRS, Treasury, OMB, and other affected agencies have indicated their agreement and intent to implement the majority of them. In some cases, actions are underway and progress is being made; while in others, implementation has not yet begun.

Tax Expenditures

Tax expenditures—tax provisions that grant special relief to encourage certain behaviors or to aid taxpayers in special circumstances—cost over \$581 billion of federal revenue annually. Tax expenditures are not subject to systematic review, and policymakers have few opportunities to make explicit comparisons between tax expenditures and federal spending programs. Thus, our work in this area offers policymakers important insights on whether the tax expenditures we reviewed are achieving their intended goals. Our work has shown that tax expenditures should be scrutinized more closely and more often to ensure that, when used, they are the most effective means to an end.

In reviewing the growth of federal revenues forgone through income tax expenditures, we made several recommendations to strengthen their oversight. We stated that should the Congress wish to consider tax expenditure efforts in a broader context of the allocation of federal resources, it could further integrate them into the current budget processes. Options to integrate consideration of related outlay and tax expenditure efforts could promote a more thorough review by the legislative and executive branches of alternatives to achieving federal objectives. We further recommended that the Director of OMB, in consultation with the Secretary of the Treasury, further integrate tax expenditures into the budget process by, among other things, revising the budgetary presentation of tax expenditure information to highlight for the public and policymakers the fiscal and other consequences associated with tax expenditures. We also recommended that OMB and Treasury continue designing and testing a structure for including tax expenditure performance reviews as required under the Government Performance and Results Act. (GAO/GGD/AIMD-94-122)

GAO found that IRS' principal tax-exempt bond enforcement effort, the Expanded Bond Audit Program, had concentrated almost exclusively on possible noncompliance cases that were identified by others and that were a part of an alleged surge in abusive bonds issued in anticipation of stricter requirements in the Tax Reform Act of 1986. To achieve more effective oversight using existing Expanded Bond Audit Program resources, we recommended that IRS identify and make better use of information to detect noncompliance and direct enforcement efforts, provide final guidance to staff assigned to tax-exempt bond enforcement, and reassess staffing levels and locations and training needs to take into account the program's future. In addition, to make more effective use of resources throughout the agency to promote voluntary compliance in the tax-exempt bond industry, IRS should develop and implement a plan to guide the agency's tax-exempt bond oversight efforts by establishing clear objectives, developing strategies to achieve the objectives, assessing staff and information needs to carry out the strategies, and setting measurable goals. (GAO/GGD-93-104)

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 of sources and uses of funds submitted to states by developers that form the basis of decisions about the value of tax credits granted 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 efficiently 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 Internal Revenue Code. IRS is taking steps to address these recommendations. (GAO/GGD/RCED-97-55)

Taxpayer Compliance

IRS is changing its tax compliance philosophy. Although it will continue to use audits to detect taxpayer noncompliance, IRS is exploring methods other than enforcement to encourage compliance, such as assistance and education. This new approach involves researching ways to improve compliance for specific market segments—groups of taxpayers that share characteristics or behaviors. Given the indefinite postponement of the Taxpayer Compliance Measurement Program, we recommended that IRS devise a method to better ensure that reliable compliance data will be available when needed for the research effort and that IRS establish milestones and monitoring mechanisms for developing the measures needed for evaluating success. (GAO/GGD-96-109)

Based on audits, IRS annually recommends tens of billions of dollars in additional taxes. IRS reports these recommended taxes to Congress as its audit results. However, not all recommended taxes are assessed, and not all assessed taxes are collected. IRS' existing performance measures do not cover all audit-based revenues or costs. Measuring the taxes recommended does not account for the related assessments and collections, nor does it account for indirect revenue gains, such as when audits enhance voluntary compliance. We recommended that IRS develop meaningful ways to report the results to the Congress from tracking, over a reasonable number of future years, existing IRS data on the assessment and collection of additional amounts recommended in specific types of audits closed for each fiscal year. This information would provide better measures of the impacts of audits across IRS than those just on taxes recommended. We also recommended that IRS develop a method to track the direct staff costs of collecting tax assessments associated with specific types of audits. Similarly, IRS should determine how to account for its indirect costs in auditing returns, settling audit disputes, and collecting audit assessments by type of audits. In analyzing how to account for these indirect costs, IRS may find that the activity-based costing model being developed can serve as a helpful tool. (GAO/GGD-98-128)

The most common type of IRS audit of individual taxpayers is the correspondence audit. These audits are done through the mail, with IRS typically asking taxpayers for more support on one or two simple issues on a tax return. We reviewed IRS' correspondence audit program and found that for fiscal years 1992-97, the annual number and results of correspondence audits done by IRS varied considerably. We made several recommendations to IRS for improving the program including (1) documenting the support for audit findings and recommendations in the audit work paper files, (2) ensuring consistency in the treatment of

audited EIC claims by collecting and using the information required, especially verification from third parties to justify the claims, (3) including all types of closed audits from service centers in the samples for measuring audit quality, and (4) determining, through statistically valid and cost-effective means, the reasons why taxpayers do not respond to IRS' audit letters so that IRS can identify ways to encourage more taxpayers to respond. (GAO/GGD-99-48)

The way IRS conducts its audits has been criticized by taxpayers, tax professionals, and the Congress as being overly intrusive and burdensome. Much of this criticism has stemmed from IRS' renewed emphasis on detecting unreported income. In a 1994 initiative, IRS launched a training program that stressed the need to consider a taxpayer's financial status by focusing on whether his or her income and expenses were roughly proportional. The training program emphasized certain audit methods, sometimes referred to as financial status audit techniques, to identify unreported income. To provide better assurance that financial status techniques are not overly burdensome and intrusive to taxpayers and that the most productive use is made of limited audit resources, we recommended that IRS further pursue efforts to develop more specific criteria on when, and to what extent, to use financial status techniques. In addition, the Internal Revenue Service Restructuring and Reform Act of 1998 limited IRS' use of financial status techniques to situations where a reasonable likelihood of unreported income exists. (GAO/GGD-98-38)

IRS audits the largest companies under its Coordinated Examination Program. Although IRS auditors recommend sizable sums of additional taxes through the program, the companies often appeal and litigate the recommended assessments. We recommended that IRS increase the effectiveness of the Coordinated Examination Program by giving the program's executive director authority over the program's budget resources and staff allocations at the district office level, and improving controls to ensure that Appeals coordinates with Counsel before deviating from standard positions on any Coordinated Examination Program tax issues. (GAO/GGD-94-70)

We also reviewed IRS' monitoring and administration of the filing compliance of U.S. citizens residing abroad. In that regard, we made several recommendations aimed at increasing and improving the data that could be used to enhance IRS' ability to monitor the filing compliance of these taxpayers. We also suggested ways for IRS to educate this group as to their filing requirements. (GAO/GGD-98-106)

Y2K	<p>We reviewed IRS' plans to ensure that its core business processes will function properly after the century date change. In recognizing the magnitude of IRS' efforts to make its outdated systems year 2000 compliant, we recommended that IRS take the necessary steps to ensure that it has adequately assessed the vulnerabilities of its core business processes in the event of year 2000-induced system failures by developing and testing contingency plans for core business processes if existing plans are not appropriate. Although IRS has developed contingency plans for its core business processes, it had not yet completed testing of all its plans. Where tests have been completed, we detected weaknesses in two plans that raised questions about the extent to which similar weaknesses may exist in the other plans. IRS plans to take actions to ensure the completeness and consistency of all business contingency plans. (GAO/GGD-98-138)</p>
Accounts Receivable/Collection	<p>We studied techniques that IRS could use to increase the collection of delinquent taxes. We recommended that IRS identify and implement ways to increase cooperation with state governments in collecting delinquent taxes. (GAO/GGD-93-67)</p> <p>One technique IRS uses to increase the collection of delinquent taxes is offers in compromise. To improve administration of its offer program, we recommended that IRS develop appropriate measures to evaluate the program as a collection and compliance tool. (GAO/GGD-94-47)</p>
Tax Simplification	<p>We reviewed the development of revised federal tax deposit regulations by Treasury and IRS to determine whether they complied with IRS' principles of improving voluntary taxpayer compliance, reducing burden, and simplifying taxpayers' ability to use them. We recommended that Treasury provide documentation to show that their regulations comply with statutory and executive guidance. This would provide some assurance that the tax regulations reflect stakeholder needs, incorporate key measures of simplicity, and that these measures of simplicity help judge whether existing regulations are too complex and whether regulations under development are sufficiently simple. (GAO/GGD-95-8)</p> <p>See chapter 5, Improving Financial and Information Management Programs, Financial Management and Accountability as well as Information Management Issue Areas.</p>

Improving Financial and Information Management Programs

Budget Issue Area (Budget Function 990)

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Impact of GAO's Work

During fiscal year 1999, GAO's federal budget work focused on improving the budgetary information available to policymakers and the public on the government's current overall fiscal position and the long-term financial health of the nation—including the important role the Social Security and Medicare programs play in that outlook. We also looked at the integration of cost and performance information in budget decisions. In examining federal budgetary structures and processes, we bring information from our own audit and evaluation work to the attention of budget decisionmakers and identify improvements in executive and legislative budget processes that highlight important trade-offs implicit in budgetary choices. We also provide information on how other countries have dealt with decisions on fiscal policy and budget presentations.

Assessing the Fiscal Position of the Federal Government

During fiscal year 1999, the federal budget moved from deficit to a unified budget surplus. As a result, the nature of the debate, which for more than the last decade has focused on deficit reduction, has shifted. Since continued surpluses in the near term depend on continued restraint, for the seventh year, the Congress has requested that GAO provide a compendium of options—based on GAO work—for achieving budgetary savings. This compendium identifies approaches to addressing performance problems in a budgetary context. GAO has also been asked again to assist the Senate Budget Committee in its creation of oversight task forces to review specific program performance issues.

Since the goal of a balanced unified budget has been achieved, increased attention has been paid to the longer term fiscal outlook. We continued to provide updated simulations of the long-term implications of current fiscal policy for the nation's economic and budgetary future—looking out some 50 years—based on a long-term economic model we first prepared in 1992. This model shows both that deficit reduction has improved the long-term outlook and that current fiscal policy remains unsustainable over the long term. In 1999 the Senate Budget Committee, the Senate Finance Committee, and the House Ways and Means Committee have been interested in the intersection of Social Security (and Medicare) with the long-term budget and economic simulations. Our work on the long term has played a significant part in analyzing various Social Security and Medicare proposals as the Congress seeks to examine these proposals in the context of the broader budget and the economy. Our report on issues

involved in investing the Social Security Trust Fund in equities became more important with the President's proposal for some such investment.

The advent of a growing surplus has also triggered widespread interest in the relationship between the surplus/deficit and debt. At the request of the Senate Budget Committee, we updated our widely read 1996 primer on the federal debt and issued a second report analyzing how Treasury reduced debt held by the public in fiscal year 1998 and the first 10 months of fiscal year 1999.

Both the Senate Budget Committee and the House Ways and Means Committee have asked us to examine and analyze the issues involved in managing a decline in debt held by the public.

Improving Budgetary Choices

In 1999, our work on the links between the Government Performance and Results Act's performance plans and budget requests was a catalyst for governmentwide efforts to infuse performance information into the resource allocation process. Our reviews of how well agencies presented the performance consequences of their fiscal year 1999 and 2000 budget requests both (1) identified practices that agencies could use to clarify and strengthen links between their performance plans and budgets, and (2) became the focus of congressional efforts to encourage OMB and agencies to make performance budgeting a high priority. In April, we recommended that OMB develop a constructive and practical agenda to further clarify the relationship between budgetary resources and results. Echoing this recommendation, the Chairs of the Senate Appropriations and Governmental Affairs Committees wrote to department and major agency heads to ask that they read our report and consider how to strengthen plan-budget links in their agencies. In July, our reports and subsequent testimony became the focus of a House Government Reform Committee hearing on progress in performance budgeting. Responding to these actions, OMB (1) announced that it would begin the long-delayed pilots in performance budgeting, (2) described in its announcement memo for the fiscal year 2001 budget process an explicit agenda to assess the status of agency efforts to better link planning and budgeting, and (3) provided a list of specific questions that OMB will pose to agencies during the budget deliberation process.

We also continued our work on linking the information in financial statements and audits to budget deliberations. And, in 1999, we began looking at budget execution and implementation as it relates to changing resources and the shifts to increasing results-orientation.

Key Open Recommendations

Federal Credit Reform

We recommended that the OMB Director work toward identifying ways OMB could further assist agencies to implement credit reform more rapidly and accurately. OMB is developing a new credit subsidy calculator that is expected to help agencies calculate subsidy components. We remain convinced that consistent high-level attention to credit reform implementation is necessary to ensure that the estimates can be used for consideration of any changes in credit programs. (GAO/AIMD-98-14)

Budgeting for Federal Insurance

In an examination of the budget treatment of federal insurance programs, we reported that a cash-based treatment in which premiums are reflected as inflows and expenditures are recorded later when claim payments are made does not accurately represent either the impact of the insurance on the economy or the full cost to the federal government. We recommended that the Congress consider encouraging the development and subsequent reporting of annual risk-assumed cost estimates in conjunction with the cash-based estimates. We also recommended that OMB develop risk-assumed cost estimation methods and report on these methods. HR 853, the Comprehensive Budget Process Reform Act introduced in February 1999, calls for budgeting for the risk-assumed cost for insurance programs. Its approach is modeled upon our work. In drafting the bill, congressional staff consulted with us extensively and drew heavily on our report. OMB also worked with the congressional staff on this proposal. (GAO/AIMD-97-16)

Year-End Spending

In a review of agency spending in the fourth quarter of the fiscal year (“year-end spending”), we recommended that to improve oversight of agencies’ execution of the budget, OMB reemphasize compliance with OMB Circular A-34’s requirement that agencies provide quarterly data no later than 20 days after the close of a calendar quarter and that OMB examine quarterly reporting by agencies that varies significantly from planned or historical rates. We also recommended that OMB continue its efforts to integrate budget and accounting reporting at year-end and report periodically on progress made. OMB continues to indicate progress in implementing the Federal Agencies’ Centralized Trial Balances Systems (FACTS) II. While primarily used for year-end reporting, agencies are to use this system to report quarterly budget and accounting data. By September 14, 1999, agencies not using FACTS II to report fiscal year 1999 year-end data were required to submit a joint letter from their Chief Financial Officer and Budget Officer explaining why they are not fully

Chapter 5
Improving Financial and Information
Management Programs

using FACTS II, including when they will start using it for quarterly reporting. These letters were to be sent to Treasury, OMB's Comptroller, and the agency's OMB program examiner. (GAO/AIMD-98-185)

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

Financial Management and Accountability Issue Areas (Budget Function 990)

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Impact of GAO's Work

During the past year, we continued to make significant contributions to improving the reliability of financial management reporting, controls, and operations across government by (1) completing our second annual audit of the financial statements of the federal government, identifying weaknesses that impair the ability of the agencies covered by the Chief Financial Officers (CFO) Act of 1990 to obtain unqualified audit opinions, and identifying and recommending solutions to internal control weaknesses, (2) assisting the Congress in putting in place reforms and overseeing efforts to improve financial management across government, and (3) carrying out Government Corporation financial audits and providing other financial audit and review and analysis assistance to the Congress.

Auditing the U.S. Government's Financial Statements

On March 31, 1999, the Secretary of the Treasury, in consultation with the OMB Director, issued the Financial Report of the U.S. Government for Fiscal Year 1998. These government-wide financial statements, which were prepared and issued under provisions of the Government Management Reform Act, included our audit report as required by the act. (See GAO/AIMD-99-130.)

For fiscal year 1997, in the first report on the U.S. government's financial statements, we reported that because of the serious deficiencies in the government's systems, recordkeeping, documentation, financial reporting, and controls, the amounts reported in the financial statements and related notes did not provide a reliable source of information for decisionmaking by the government or the public. Our report on the U.S. government's financial statements for fiscal year 1998 reached the same conclusion.

These deficiencies affect the reliability of the financial statements and the government's ability to accurately measure the full cost and financial performance of programs and manage its operations.

Major challenges noted in our latest report included the federal government's inability to

- properly account for, and report on, billions of dollars of property, equipment, materials, and supplies as well as certain stewardship assets;
- properly estimate the cost of most major federal credit programs, the related loans receivable, and loan guarantee liabilities;
- estimate and reliably report material amounts of environmental cleanup and hazardous waste disposal liabilities and related costs;
- determine the proper amount of various reported liabilities, including postretirement health benefits for military employees, accounts payable, and other liabilities;
- accurately report major portions of the net cost of government operations;
- determine the full extent of improper payments that occur in major programs and that are estimated to involve billions of dollars annually;
- ensure that all disbursements are properly recorded; and
- properly prepare the federal government's financial statements, including balancing the statements, accounting for billions of dollars of transactions between governmental entities, and properly and consistently compiling the information in the financial statements.

Also, the federal government continues to have material weaknesses in controls related to its tax collection activities, which affect its ability to efficiently and effectively account for and collect the government's revenue. These weaknesses have resulted in both taxpayer burden and lost revenue.

Such deficiencies prevented us from being able to form an opinion on the reliability of the financial statements of the U.S. Government for fiscal year 1998. These deficiencies significantly impair the federal government's ability to adequately safeguard assets, properly record transactions, and comply with selected provisions of laws and regulations related to financial reporting.

Also, in conjunction with our fiscal year 1998 financial audit work, we reviewed the status of CFO agencies' efforts to meet Federal Financial Management Improvement Act (FFMIA) requirements. FFMIA calls for auditors to report on whether agencies' financial management systems

substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level. These requirements are critical for ensuring that agency financial management activities are consistently and accurately recorded, and timely and uniformly reported throughout the federal government. However, there has been little discernible progress since last year in meeting those requirements, and as of October 25, 1999, auditors for 20 of 23 CFO agencies reported that the agencies' financial systems did not comply substantially with FFMIA's requirements.¹ FFMIA also requires agencies to prepare remediation plans that specify corrective actions and intermediate target dates and resources necessary to implement those actions, but our analysis of agencies' remediation plans identified weaknesses that limit their usefulness. Overall, as a result of the audits of CFO agencies' financial statements and FFMIA's requirements, agencies are more aware of their financial management weaknesses and have started addressing them. However, it will take time, concerted effort, and additional investment to raise government financial management systems to the level of quality and reliability envisioned by FFMIA so that these systems will generate reliable, useful, and timely information on an ongoing basis, not just as of the end of the fiscal year.

Another critical component of our financial statement audit work is the assessment of computer system security controls. We have been at the forefront in auditing computer security. We developed the Federal Information System Controls Audit Manual—GAO's methodology for computer security reviews—which has been adopted and widely used across the federal audit community. Through our financial audits and in working with the inspectors general, significant information security weaknesses in systems that handle the government's unclassified information have been reported in each of the major federal agencies. These widespread computer control weaknesses are placing critical government operations at great risk of fraud, disruption, and inappropriate disclosures. In September 1998, we issued a report entitled: Information Security: Serious Weaknesses Place Critical Federal Operations and Assets at Risk (GAO/AIMD-98-92), which summarized numerous computer security weaknesses throughout the government. We recommended that the Director of OMB and the Assistant to the President for National Security Affairs ensure that efforts to address federal information security are coordinated under a comprehensive strategy.

¹The statutory reporting deadline for audit reports discussing the results of the fiscal year 1998 financial statement audits for the CFO agencies was March 1, 1999. As of October 25, 1999, the Department of Education had not yet issued its fiscal year 1998 audited financial statements.

Another key internal control over federal receipts and disbursements is the monthly Fund Balances with Treasury accounts reconciliation process. As we and other auditors have previously reported, agencies have had long-standing problems reconciling their Fund Balances with Treasury accounts. In an October 1998 report (Financial Audit: Issues Regarding Reconciliations of Fund Balances With Treasury Accounts, GAO/AIMD-99-3), we presented an in-depth analysis of the agency problems identified during fiscal year 1997 and recommended ways for Treasury to enhance its assistance to agencies to help them fulfill their responsibility to timely and properly reconcile Fund Balances with Treasury accounts.

As part of our fiscal year 1998 audit work, we again monitored and evaluated the effectiveness of agencies' reconciliation processes for Fund Balances with Treasury accounts. In addition, we followed up on Treasury's actions to improve its assistance to agencies in their reconciliation efforts. In our September 1999 report (Financial Audit: Issues Regarding Reconciliations of Fund Balances With Treasury Accounts, GAO/AIMD-99-271), we reported that reconciliations of agencies' Fund Balances with Treasury accounts continue to be a significant problem, although auditors reported that some agencies had improved their reconciliation processes. In addition, we reported that Treasury has completed actions to address four of the five recommendations related to improving assistance to agencies and resolving the problems we noted in the October 1998 report. While Treasury is working on enhancements to update the Government On-line Accounting Link System to address the last recommendation, we recognize that competing demands associated with Year 2000 computer conversion issues have taken precedence in making system modifications. We will continue to evaluate Treasury and agency actions to address these reconciliation problems.

**Financial Statement Audits of
CFO Act Agencies**

We continued to work with Executive Branch agencies, including CFOs and Inspectors General, to strengthen agencies' financial operations and reporting, and the scope and methodologies of their financial audit procedures. Our audits and the Inspectors General audits of major agencies' (and major agency components) financial statements for fiscal year 1998 continue to result in (1) an identification and analysis of deficiencies in the government's recordkeeping, financial reporting, and control systems, and (2) recommendations to correct them. Fixing these problems represents a significant challenge because of the size and complexity of the government and the discipline needed to follow sound financial management and reporting practices.

For fiscal year 1998, we audited IRS' financial statements and the Schedule of Federal Debt Managed by Treasury's Bureau of the Public Debt. We also performed audit procedures on cash balances maintained and internal controls over the cash receipts and disbursements processed by Treasury on behalf of the federal government.

We also worked closely with the Inspectors General at DOD, SSA, and HHS on their financial statement audits. At other agencies, we reviewed the results of financial audits performed by the Inspectors General and independent public accounting firms. This audit work continued to result in the identification and analysis of deficiencies in the government's record-keeping and control systems as well as recommendations to correct them.

**Assistance to the Congress in
Implementing and Overseeing
Financial Management
Infrastructure Improvements**

The executive branch recognizes the extent and severity of existing deficiencies and that addressing them will continue to require concerted improvement efforts across government. In response to our fiscal year 1997 consolidated financial statement report, the President required heads of agencies with significant financial management deficiencies to submit corrective action plans and quarterly status reports to OMB. Further, the President has designated financial management reform as a top management priority.

With concerted effort, the federal government can continue to make progress toward achieving accountability and generating reliable financial and management information on a regular basis. We are continuing to work with OMB, the Treasury, and agencies across government on the actions necessary for achieving legislative reform goals and make specific suggestions for fixing weaknesses in recordkeeping, financial reporting, and internal controls. For example, based on our analyses and recommendations related to DOD:

- the Air Force and Navy collected over \$185 million in nonrecurring research, development, and production costs which had not been charged to foreign military sales customers' trust fund accounts;
- the Congress acted on excess carryover of funded work identified for a key Navy appropriation, which resulted in it being reduced by \$26 million for fiscal year 1999;
- DOD improved its projections of workload for information processing services provided to business operation fund customers, which resulted in DOD reducing customer budgets to reflect lower prices for these services; and

- the Air Force started reconciling certain accounting and budgeting information in an effort to provide greater assurance that prices of inventory items recover their cost.

Other agencies also adopted our recommendations to improve the government's financial management reporting and infrastructure:

- the Department of Veterans' Affairs now more accurately computes the future liability for compensation benefits—the fiscal year 1998 estimated liability of \$578 billion was \$381 billion more than the estimate reported the previous year;
- the Department of Education enhanced the control over activities related to guarantors and lenders participating in student aid programs by establishing an organizational unit to oversee and direct the government's interest through on-site reviews and analysis of various reports; and
- the Department of Agriculture improved the reliability of its loan program cost estimation processes by performing sensitivity analyses to identify key cash flow assumptions, improving cash flow models, and developing appropriate supporting documentation for key cash flow assumptions.

Other Financial Statement Audits

Our financial audits of the legislative branch, Government Corporations, and reviews of the financial operations of the District of Columbia, also improved the reliability of financial reports and controls across government.

Legislative Branch Audits

We helped the Congress enhance Legislative Branch accountability by performing audit and other assistance for various Legislative Branch entities and activities. We performed audits of the Capitol Preservation Commission and the Congressional Awards Foundation and arranged for audits of the U.S. Government Printing Office and the Senate Restaurants and a management review of U.S. Capitol Police administrative operations. In addition, we performed review-type procedures associated with selected legislative branch activities including House Interparliamentary Groups and annual expenditure reports for House committees. We have also assisted the Senate, the House, the Architect of the Capitol, and interested congressional oversight and appropriations committees by advising on various financial and information management system initiatives underway or under consideration within the Legislative Branch.

Government Corporations

We conducted financial statement audits of the Federal Deposit Insurance Corporation's (FDIC) three funds (Bank Insurance Fund, Federal Savings and Loan Insurance Corporation Resolution Fund, and Savings

Association Insurance Fund). These audits included an assessment of the entities' internal control systems over financial reporting, safeguarding of assets, and compliance with laws and regulations. In response to issues identified through our audits, FDIC has improved review procedures and quality control in its process for estimating the recoveries from assets from failed institutions, thus improving the information used to record key estimates in the financial statements.

District of Columbia

Our audit of the District of Columbia's Highway Trust Fund for fiscal year 1998 showed that 5 of 18 GAO recommendations addressing internal control weaknesses had been implemented. However, new weaknesses were identified related to transfer of motor fuel receipts and related potential lost interest; adherence to licensing requirements; segregation of duties; and assumptions and methodologies used for forecasted statements. The District stated some of these problems have been addressed and that others should be addressed by the end of fiscal year 2000. We will evaluate the effectiveness of the actions taken by the District as part of our audit of the Fund's fiscal year 1999 financial statements.

We also identified and made recommendations to address several issues that resulted from DC Courts management's improper execution of its responsibility to operate within available resources. As of October 15, 1999, the proposed District of Columbia appropriations bill for fiscal year 2000, if enacted, would address four of our recommendations. We continue to believe that the DC Courts should perform all legislatively required investigation and reporting related to its overobligation of its fiscal year 1998 appropriation.

High-Risk Areas

At those agencies where identified deficiencies are most serious, we have designated financial management operations as high-risk. A high-risk designation is intended to highlight individual departments and agencies that are material to the government's financial statements and have been unable to produce auditable financial statements for their own operations. Treasury's U.S. Customs Service has made major strides since we began to focus on its financial management as a high-risk area. Customs has made several important improvements in its ability to assess and collect duties and excise taxes and received unqualified opinions on its financial statements for the past 3 fiscal years. Because of these improvements, we no longer consider Customs financial management high risk, although we will continue to monitor its progress.

Defense Financial Management

Long-standing weaknesses in DOD's financial management operations continue to result in wasted resources, to undermine DOD's ability to manage an estimated \$250 billion budget and \$1 trillion in assets, and to undermine the reliability of the information provided to the Congress. Since 1995, we have monitored DOD's efforts as it struggled to resolve the many problems brought about by decades of neglect and delays in fully instituting sound financial management practices. Our audits continue to show that DOD is unable to

- properly account for and report billions of dollars of property, equipment, inventory, and supplies, such as uninstalled engines and service craft;
- estimate and report on material amounts of environmental and disposal liabilities and related costs;
- determine the liability associated with the future cost of post-retirement health benefits for military employees;
- accurately report on the net cost of its operations;
- properly account for billions of dollars of transactions, including \$4 billion in differences between checks issued by DOD and reported to the Department of the Treasury; and
- ensure that all disbursements are properly recorded and reconciled resulting in increased vulnerability to fraudulent and improper payments.

In addition, until DOD upgrades the skills of its financial personnel and successfully overcomes serious design flaws in its financial systems, it is unlikely to achieve the wide-ranging reforms necessary to address its long-standing financial management deficiencies.

DOD has started to devote additional resources to correct its financial management problems. DOD has begun work on both short-and long-term improvement initiatives, including its first Biennial Financial Management Improvement Plan. However, while DOD's plan represents an important step in improving DOD's financial management operations, it needs to be supplemented in several critical areas.

Forest Service Financial
Management

Since the financial problems at the Forest Service have been so pervasive and long-standing, we designated Forest Service financial management as a high-risk area in January 1999. While progress has been made, the Inspector General's February 1999 audit report on the Forest Service's fiscal year 1998 financial statements—a disclaimer of opinion—shows that the agency remains unable to (1) reliably track major assets worth billions of dollars, (2) accurately allocate revenues and costs to its programs in its financial reports, and (3) accurately prepare its financial statements. The

report also identifies numerous financial reporting errors and major internal control weaknesses. For example, the Forest Service lacks supporting records to substantiate, at a detailed level, the amounts it either owes or is owed by others.

The USDA's Inspector General and outside consultants have provided the Forest Service with detailed recommendations that, if implemented, provide the path that the Forest Service must follow to achieve financial accountability. The recommendations address the need for improving internal controls and implementing a modern financial management system that meets federal accounting standards and requirements.

In line with these recommendations, USDA and the Forest Service have completed several actions and begun others that, if successfully carried out, represent important steps toward resolving the Forest Service's financial management problems. For example, the Forest Service has established a new financial organization and management team that will help provide the strong management and leadership needed by the Forest Service to correct its long-standing accounting and reporting deficiencies. In addition, the Forest Service has recently implemented its new accounting system, the success of which is key to resolving these deficiencies. However, it is too early to tell whether the system provides the capabilities needed to achieve basic accountability at the agency.

Other major challenges remain. For example, the Forest Service must successfully resolve a key issue of how to ensure that clear lines of responsibility and accountability for financial management extend throughout the Forest Service's highly decentralized and autonomous organizational structure. The Forest Service has not yet taken steps to address this organizational accountability issue (GAO/T-AIMD-99-106). Furthermore, the Forest Service must continue to work collaboratively with the Inspector General to improve accountability over real and personal property.

FAA's Financial Management

Because of continuing financial problems at FAA, we designated FAA financial management as a high-risk area in January 1999. The Inspector General's March 1999 audit report on FAA's fiscal year 1998 financial statements—a disclaimer of opinion—continued to identify significant financial management weaknesses that expose the agency to waste, fraud, abuse, and mismanagement. Specifically the Inspector General reported that property, plant, and equipment (PP&E) valued at \$11.9 billion on the balance sheet could not be substantiated. The report identified numerous

errors and weaknesses in FAA's process for keeping track of amounts related to PP&E. Specifically these errors included (1) the inability to substantiate costs associated with work-in-process, (2) incorrectly valuing or not providing support for the value of real property, and (3) expensing instead of capitalizing costs associated with personal property.

During fiscal year 1999, FAA undertook an extensive effort to identify and record the baseline cost of unrecorded PP&E assets and to adjust its records. It also began to comprehensively address its systems needs that are required to maintain PP&E accountability on an ongoing basis. Full implementation of the systems is not expected until 2001. Until these systems are implemented, accounting for the acquisition of these assets will continue to require costly, time-consuming manual processes that are inherently prone to error. Also, strong internal controls are needed to ensure accurate accounting. While FAA has made some improvements in identifying baseline costs of PP&E, it still needs to establish effective systems and controls to properly account for ongoing PP&E activity.

Similarly, FAA needs to establish an accurate baseline for its inventory in the field known as field spares. FAA has established procedures to improve accountability for field spares inventory; however, these procedures have not been fully implemented.

IRS Financial Management

IRS has made progress in addressing the financial management problems and issues that our financial statement audits have identified over the years. For example, its ability to receive an unqualified opinion on its custodial financial statements the past 2 years is largely attributable to its efforts to improve significant internal controls in critical areas, such as the reconciliation of tax receipts and refunds between its systems and those of Treasury's Financial Management Service. However, IRS had to use extensive ad hoc procedures to prepare auditable financial statements due to deficiencies in its general ledger system. Specifically, IRS' general ledger system cannot routinely generate timely and reliable financial information as a tool for managing operations or as a basis for preparing financial statements. These weaknesses adversely affect IRS' ability to manage its financial operations, expose the federal government and taxpayers to financial loss, and create undue burden to taxpayers. While IRS acknowledges these weaknesses, and has efforts underway to address many of them by integrating them into its overall systems modernization effort, some of the solutions may take years to put into place.

IRS financial management problems are further exacerbated by internal control weaknesses over the safeguarding of tax receipts and taxpayer data and the issuance of erroneous or fraudulent refunds. IRS has issued several new policies and procedures to address the safeguarding issues that, once implemented, should significantly improve the safeguarding of such tax receipts and taxpayer data. Efforts to address weaknesses with refunds, such as an automated matching of W-2 and other third party information to tax returns as they are processed, will need to be addressed as part of IRS' long-term tax systems modernization plans.

IRS Receivables

Serious financial management system deficiencies and the lack of reliable information continue to impede IRS' efforts to manage unpaid tax assessments. As of September 30, 1998, IRS had identified \$222 billion in unpaid tax assessments that were due to the federal government. However, of these assessments, which have historically been referred to as IRS' accounts receivable, only \$81 billion represents amounts due from taxpayers for which IRS can support the existence of a federal tax receivable through either taxpayer agreement or a favorable court ruling.² The remainder consists of (1) compliance assessments for which neither a taxpayer nor a court has affirmed that the amounts are owed, and (2) write-offs, which represent unpaid assessments for which IRS does not expect further collection. Our work has shown that of the \$81 billion in taxes receivable, \$55 billion is not likely to be collectible due to factors such as financial hardship, bankruptcy, or unwillingness to pay on the part of the taxpayers.

Striving to close the gap between the amount of taxes owed the government and the amount likely to be collected is a major challenge for IRS. However, IRS' long-standing system deficiencies make this challenge even more difficult. For example, IRS lacks a subsidiary ledger that accumulates unpaid tax assessments on an ongoing basis to enable it to distinguish categories of unpaid assessments, quickly and effectively pursue collection of unpaid taxes, and help prevent against pursuing collection against taxpayers whose tax liabilities have already been paid. IRS has taken some corrective actions, and other actions are planned. However, significant improvements will not be possible until implementation of systems modifications which, based on IRS' plans, will take a number of years.

²When Statement of Federal Financial Accounting Standards No. 7 became effective for fiscal year 1998, these transactions were redefined and are now appropriately referred to as federal taxes receivable.

Key Open Recommendations

Department of Defense

As we testified in May 1999, while no major part of DOD has passed the test of an independent audit, the atmosphere of “business as usual” in the financial management operations at DOD has changed. DOD now reports that it is working on short-term actions to improve financial accountability and to help support the President’s goal of obtaining an unqualified opinion on the federal government’s financial statements. In 1998, DOD also submitted to the Congress its Biennial Financial Management Improvement Plan, which includes for the first time, DOD’s long-term strategies for improving its financial management activities. However, because of the pervasive and entrenched nature of the problems facing DOD, it will take considerable effort, time, and sustained top management attention to turn DOD’s reform efforts into day-to-day management reality.

The financial audits at DOD have provided further clarification of the scope and magnitude of the DOD’s problems, and recommendations to correct them. These problems not only hamper the DOD’s ability to produce timely and accurate financial management information, but also significantly impair efforts to improve the economy and efficiency of its operations. Key areas of concern relate to ineffective asset accountability, which affects DOD’s visibility over weapon systems and inventory, and unreliable cost and budget information, which affects DOD’s ability to effectively measure performance, reduce costs, and maintain adequate funds control.

Both short and long-term actions to address these issues will be imperative if DOD is to effectively reform its financial management operations. The following are among our most important recommendations related to DOD-wide and individual military service financial management issues that have yet to be fully implemented.

DOD-Wide Programs

In November 1995, we testified that given the serious and pervasive nature of DOD’s financial management problems, and the need for more immediate progress, DOD needs to consider additional steps to fix its longstanding weaknesses. Specifically, we reported that to turn the Secretary’s financial management reform initiative—the predecessor to the 1998 Biennial Plan—into substantive improvements, DOD needs to take immediate action to (1) assess the number and skill levels of its financial management workforce, and (2) establish an outside board of experts to provide counsel, oversight, and perspective to its reform efforts. (GAO/T-AIMD-96-1)

In September 1997, we reported that DOD needs to expedite plans to implement a deferred maintenance accounting standard to comply with the new federal requirement beginning with fiscal year 1998. Accurate reporting for DOD's deferred maintenance, particularly for its estimated \$590 billion investment in mission assets such as submarines, ships, aircraft, and combat vehicles, is particularly important. For example, deferred maintenance on mission assets, if reliably quantified and reported, can be an important performance indicator of mission asset condition (a key readiness factor). However, both Army and Navy officials informed us that they were reluctant to develop procedures to implement the required accounting standard until DOD issues overall policy guidance. While DOD officials stated that they have plans underway to develop deferred maintenance guidance, we reported our concern that these plans may not be in time to develop service-specific policies and procedures needed to implement the new federal accounting standard. We recommended that DOD take action to ensure that DOD-wide policy is in place as soon as possible. However, DOD has not yet been able to put such a DOD-wide policy in place. (GAO/AIMD-97-159R)

In September 1997, we reported on serious computer-related weaknesses uncovered during a review of DOD's Military Retirement Trust Fund. With reported liabilities for fiscal year 1996 of \$548 billion, the Fund would continue to be material to the consolidated governmentwide financial statements. The data security administration weaknesses found during the review included inadequate control over access to information on pension fund participants. Such uncontrolled access also poses risks to other sensitive personal- and career-related information such as social security numbers, pay rates, and medical test results. While the auditors found that compensating controls—largely dependent on the retention of key employees—were in place, they cautioned against long-term reliance on such controls. We recommended a series of actions to address these weaknesses, including upgrading security to ensure that participants' data is adequately protected. (GAO/AIMD-97-128)

In November and December 1997, we reported that DOD has not yet implemented the federal accounting standard that requires recognizing and reporting liabilities such as those associated with aircraft and ammunition disposal, nor has it provided guidance to the military services in this area. We reported that the cost of aircraft disposal can be reasonably estimated and that information on the three major disposal processes—demilitarization, storage and maintenance, and hazardous materials removal and disposal—is available to develop cost estimates. In

recognition of the importance of this information, the Congress passed legislation requiring DOD to develop life-cycle environmental costs, including demilitarization and disposal costs for major defense acquisition programs. We recommended that DOD take action to ensure the prompt issuance of guidance on the recognition of a liability for aircraft and ammunition disposal costs and to include the estimated aircraft disposal liability in its financial statements. However, DOD has not yet issued guidance on recognizing and reporting these costs. (GAO/AIMD-98-9, GAO/AIMD-98-32)

In December 1997, we reported that of the \$115.6 billion that DOD reported as inventory, \$113.7 billion should have been reported as operating materials and supplies, or plant, property, and equipment. At the same time, other items such as repair parts and consumables were not reported at all. Such misclassification and underreporting will negatively affect the reliability and usefulness of the military services' and DOD's financial statements. One reason for these errors was that DOD's financial statement preparation and accounting policy guidance misinterpreted and was inconsistent with federal accounting standards. We recommended that the DOD Comptroller take action to revise its accounting policy guidance to be consistent with federal standards. DOD has not yet revised its accounting policy guidance in this area. (GAO/AIMD-98-16)

In June 1998, we reported that, drawing on lessons learned from our survey of state government and private sector organizations, training should receive a strong emphasis as a means of upgrading workforce knowledge of current financial management, accounting, and reporting requirements. DOD's financial personnel face the challenge of leading DOD's efforts to produce reliable financial data (1) throughout a large and complex organization with acknowledged difficult financial deficiencies and (2) that build upon the existing requirements to include recent, more comprehensive accounting standards and federal financial management systems requirements. Yet, over half of the key DOD financial managers we surveyed—all of whom held leadership positions—had received no financial- or accounting related training during 1995 and 1996. We recommended a number of actions to upgrade the technical accounting and related knowledge of DOD financial personnel, including the development and implementation of a formalized, structured training program for financial management personnel throughout DOD. While DOD has a number of initiatives underway intended to upgrade the knowledge, skills, and abilities of its financial management personnel, it has not yet implemented a formalized, structured DOD-wide program. (GAO/AIMD-98-126)

In October 1998, we reported that DOD was not always recovering nonrecurring research, development, and production costs from the foreign military sales trust fund as major defense equipment items were delivered to customers. In order to ensure the recovery of such costs, we recommended that DOD review a portion of closed cases as well as all open cases to assess whether any of these costs had not been collected and to promptly collect these costs when it was found that amounts were due. DOD has already realized \$185 million in budgetary savings from the recovery of nonrecurring costs for foreign military sales. Further, it is in the process of completing its review of closed and open cases; however, as of August 1999, the results of this review had not yet been communicated to the Under Secretary's office. (GAO/AIMD-99-11)

In January 1999, we issued a report on our analysis of DOD's first Biennial Financial Management Improvement Plan. In developing its plan, DOD provided a first-ever vision of its future financial management environment. It also represents a significant landmark because it recognizes, for the first time, a discussion of the importance of data from the programmatic functions of personnel, acquisition, property management, and inventory management to the success of DOD's financial improvement efforts. In addition, the plan includes an array of initiatives intended to move DOD from its current state to its envisioned financial management environment. However, the plan lacks certain critical elements necessary for producing sustainable financial management improvement over the long term. In order to help ensure that DOD's plan provides a sound foundation for fundamentally reforming DOD's financial management operations, we recommended a number of immediate actions that should be taken to develop and issue a supplemental plan. (GAO/AIMD-99-44)

In June 1999, we issued a report evaluating the perpetual inventory records at the DLA's distribution depots—accounting for an estimated 75 percent of DOD's reported inventories. We found that measures used to monitor the reliability of these records had several significant control weaknesses and, as a result, did not provide a reliable measure of record accuracy. We recommended a number of actions to improve the procedures to ensure the accuracy and reliability of DLA's distribution depot inventory counts and perpetual inventory records. (GAO/AIMD-99-132)

Air Force Programs

In June 1998, we reported that the Air Force was having difficulty producing reliable financial information on the supply management activity group's operations, setting prices for inventory the group sells to

customers, and generating sufficient cash to discontinue the practice of advance billing customers. In order to improve financial management over Air Force inventory, DOD and the Air Force needed to develop (1) an implementation plan that identifies specific actions needed to improve financial reporting for the supply management activity group, (2) a cash forecasting model which enables the Air Force to more accurately for cash required cash levels, disbursements, and receipts, and (3) an effective process for determining the cost of goods sold. Our recommendations were aimed at ensuring that the supply management activity group's prices cover the full cost of operations and that they generate enough cash to pay the group's bills, which has not been the case in recent years. DOD is in the process of developing a plan to improve financial reporting, which it expects to complete by the end of 1999. The Air Force and the Defense Finance and Accounting Service have held a series of summits to discuss issues concerning the Air Force Working Capital Fund's cash management and are developing a methodology to forecast required cash levels and end-of-period cash positions. Further, the Air Force is working on a long-term solution to develop more accurate prices. If effectively implemented, these actions should help the Air Force to stem wide price fluctuations and a corresponding depletion of funds. (GAO/AIMD/NSIAD-98-118)

In September 1998, we issued a report detailing improvements needed in Air Force vendor payment systems and controls. Our review was undertaken as a result of two specific cases of fraud involving vendor payments, one involving over a half a million dollars and the other almost \$1 million. We found that the two cases of fraud resulted from a weak control environment, including a lack of segregation of duties, and weak controls over remittance addresses. Similar internal control weaknesses continue to leave Air Force funds vulnerable to fraudulent and improper payments. We recommended a series of actions to address the continuing vulnerabilities in the vendor payment process. (GAO/AIMD-98-274)

Army Programs

In December 1993, we reported that the Army's budget execution system had fundamental weaknesses that limit the Army's ability to ensure its compliance with the Anti-Deficiency Act. The report also pointed out that inaccurate reporting could cause the Army to underestimate its future required outlays. In addition, we reported that the lack of sustained DOD leadership has impaired Army's ability to strengthen financial accountability. We recommended that the DOD CFO (1) evaluate and resolve budget execution and disbursement problems, and (2) implement existing security access policies and automated data processing contingency plans.

However, DOD has not yet been able to fully implement corrective actions in this area. (GAO/AIMD-94-12)

In January 1998, we reported on our review of the accuracy of data in the Army's Continuing Balance System-Expanded (CBSX). The Army uses CBSX not only for financial reporting, but as its central logistics system for reporting the types, quantities, and location of equipment; monitoring the equipment readiness of its warfighting units; and filling equipment shortages in those units scheduled for mobilization. We found that the Army does not have an effective process to ensure that equipment transactions from Army units are received by CBSX. Over 40 percent of the adjustments to CBSX were required due to transactions not received by CBSX. The Army's ongoing efforts to improve CBSX address some of the causes of adjustments. However, these efforts do not fully address transactions that were not received by CBSX. Unless its improvement efforts include processes to ensure that transactions are received by CBSX, these efforts will not correct the largest cause of CBSX adjustments. We recommended that the Acting Secretary of the Army ensure that a number of actions are taken that will ensure that CBSX receives applicable transactions. (GAO/AIMD-98-17)

Navy Programs

In March 1996, we issued a report to complete our initial reviews of each of the military services' financial management operations. In that report, we expressed our concern that the Navy had not taken advantage of the 5 years since the passage of the CFO Act or the experiences of its counterparts in the Army and the Air Force to address the pervasive and long-standing financial management problems that hamper the Navy's financial operations. We concluded that the Navy and Defense Finance and Accounting Service must now play "catch up" by giving the area a higher priority and sense of urgency if it is to meet the objectives of the CFO Act.

We recommended that the DOD Comptroller and the Navy's Assistant Secretary for Financial Management take a number of actions to improve the credibility of the Navy's financial reports. Our recommendations focused on placing high priority on implementing basic required financial controls over Navy accounts and reports, and developing a plan for producing reliable financial statements that will address (1) staffing issues, (2) short-term measures to improve data quality in existing financial systems, (3) strategies for promptly meeting U.S. general ledger requirements, and (4) offices or positions that will be held accountable for identified actions. (GAO/AIMD-96-7)

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

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

In September 1996, we issued a report concerning improvements needed in the Standard Accounting and Reporting System (STARS) selected to serve as Navy's system for general fund accounting. We found that the planned STARS implementation is expected to produce some net cost savings. However, its implementation plans were hampered by the lack of target systems architecture—or blueprint—which 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 January 1999, we issued a report addressing the effects of problems in accounting for Navy's transactions on funds control and financial reporting. We found that current policies and procedures used for funds control have left DOD and the Congress without assurance that Navy has not exceeded available budget authority for lengthy periods of time. We also found that these problems affected the accuracy and reliability of the Navy's financial reporting, particularly the Navy's Statement of Net Cost and the Statement of Budgetary Resources. We recommended that DOD

take a series of actions aimed at ensuring an effective Navy funds control system, including revising problem disbursement policies and procedures and properly recording obligations in the Navy's official accounting and funds control records. (GAO/AIMD-99-19)

Department of Energy

Our work at DOE's Power Marketing Administrations (PMA) demonstrated that the system for monitoring repayment of the PMAS' power-related costs does not ensure that the federal government recovers all costs that it is entitled to recover. We recommended ways to improve the monitoring system in order to maximize the federal government's recovery of costs related to its involvement in power-related activities. Specifically, GAO recommended that DOE (1) require independent reviews of the PMAS' power repayment studies, upon which rates are based, to ensure that they include all relevant costs, (2) include the full costs of federal employee pension and postretirement benefits in rates, (3) incorporate and maintain clear cost recovery policy guidance that specifically states that the full cost of federal employee pension and postretirement benefits be included in rates, (4) establish a process within DOE for tracking and resolving repayment issues, and (5) revise the order under which it delegates to the Federal Energy Regulatory Commission authority for reviewing three of the PMAS' rate proposals to give the Commission more authority to review and challenge rate proposals. In addition, GAO recommended that the Commission utilize this additional authority in reviewing rate proposals, including reviewing and analyzing the results of the independent reviews of the PMAS' power repayment studies. In recent work at DOE, we found that DOE has begun to recover the full cost of federal employee pension and postretirement health benefits through the rates set by the PMAS. (GAO-AIMD-98-164)

Department of the Interior

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 identified challenges facing Interior's implementation of a new trust asset and accounting management system. We pointed out the need for the Secretary to (1) ensure that Interior's information systems are compatible and effectively satisfy Interior's business needs by developing an information systems architecture for Indian trust operations, and (2) reduce the risks of acquiring a service for managing assets and land records by clearly

defining requirements and implementing an effective risk management plan. (GAO/AIMD-99-53, GAO/T-AIMD-99-238)

Department of Transportation

Federal Aviation Administration

Our work at FAA identified several actions needed to achieve asset accountability for plant, property and equipment (PP&E) as well as inventory. Our recommendations included (1) ensuring the timely completion of current efforts to identify, record, and provide support for all PP&E owned by FAA in order to establish a baseline of PP&E costs, (2) performing a comprehensive internal control assessment of current PP&E accounting practices and identifying and implementing new PP&E controls where necessary to ensure ongoing accountability, (3) prioritizing the acquisition of systems that are capable of accurately accounting for PP&E efficiently and effectively on an ongoing basis, (4) ensuring the timely implementation of planned procedures to improve inventory accountability, and (5) performing an internal control assessment of field spares accountability practices and implementing new field spares controls where necessary to ensure ongoing accountability. (GAO/AIMD-99-212)

Department of the Treasury

Customs Financial Management

Customs faces certain challenges that are primarily related to controlling access to sensitive data that are maintained in its automated systems and maintaining complete and reliable information in its core financial systems. There are a number of open GAO recommendations related to these financial management challenges. However, Customs is in the process of taking or plans to take actions to address them. For example, in September 1998, Customs began implementing a nationwide in-bond shipments compliance program that is intended to provide some assurance over compliance of these shipments through random examinations of such items.³ In addition, Customs plans to incorporate a customer-based accounts receivable subsidiary ledger as part of the Automated Commercial Environment system initiative. Pending available funding for the Automated Commercial Environment system, the new initiative will include the Automated Centralized Accounts Receivable Subsidiary Ledger and is expected to meet all financial reporting requirements when completed. Further, according to Customs officials, Customs' Quality Planning for Asset Management project initiated plans to

³In-bond shipment refers to goods that are authorized, by law, to be moved within the United States before release or export without appraisal or classification.

replace the current Federal Financial System with a Joint Financial Management Improvement Program-approved core financial system that would enable Customs to record transactions on an accrual basis. This initiative has been approved by Customs' Investment Review Board and the Quality Planning for Asset Management project is moving forward pending funding availability.

Financial Management Service

The Financial Management Service (FMS) uses lockbox services at commercial banks to collect certain payments made to the federal government, including federal taxes. Our work identified weaknesses in FMS' monitoring of lockbox bank operations related to on-site reviews and lockbox bank audits. Without effective monitoring, FMS does not know whether the banks are adequately safeguarding and properly processing federal collections. We recommended that FMS (1) perform periodic on-site reviews of general lockbox banks as prescribed in FMS' internal policies and procedures, (2) require banks to obtain semiannual internal and biannual external audits of their IRS lockbox operations, (3) develop and provide to the banks specific guidance as to the type and scope of the external audits or other services, (4) enforce the requirement for banks to obtain internal and external audits in compliance with their lockbox depositary agreements with FMS, and (5) develop and implement a policy to obtain and review audit results including procedures to follow up with banks and agencies on any weaknesses identified in their lockbox operations to ensure that the problems are corrected. (GAO/AIMD-99-219)

Internal Revenue Service

Although progress has been made, IRS continues to experience major accounting, reporting, and internal control deficiencies in several areas. To help IRS address these deficiencies, we have made numerous recommendations over the years aimed at helping the agency strengthen both its custodial and its administrative operations. For example, with respect to its custodial responsibility for collecting the nation's taxes, we have recommended IRS (1) monitor and test effectiveness of actions to reduce errors in calculating and reporting manual interest accruals on delinquent taxes, (2) manually review and eliminate duplicate or other previously paid assessments to ensure related accounts are appropriately credited for payments received, (3) ensure that its modernization blueprint includes developing a subsidiary ledger to accurately and promptly identify, classify, track, and report all IRS unpaid assessments by amount and taxpayer, and that the blueprint includes the ability to compare W-2 and other third party information to tax returns as they are processed to prevent improper refunds, (4) establish procedures to ensure that fingerprint checks are initiated on all job applicants, applicants are

fingerprinted at the earliest possible time in the job application process, and prohibit new employees from handling cash receipts until their fingerprint results are received and reviewed, (5) study the feasibility of improving security for deposits in transit and develop a policy to ensure that contracts related to courier services do not unduly expose the government to losses, and (6) analyze factors causing delays in processing and posting trust fund recovery penalties and develop procedures to reduce the impact of these factors. (GAO/AIMD-94-22, GAO/AIMD-99-15, GAO/AIMD-99-16, and GAO/AIMD-99-193)

In addition to these recommendations over its custodial responsibilities, we have also made numerous recommendations to address shortcomings in IRS' administrative operations. These include (1) promptly resolving differences between IRS and Treasury records of IRS' appropriation balances and reconciling accounts monthly, (2) promptly investigating and clearing suspense account items, (3) developing subsidiary records that will provide reliable accounts payable, undelivered orders, and nonpayroll operating expense data, and (4) developing procedures and controls that will ensure that detailed property and equipment records are accurately maintained. (GAO/AIMD-99-196)

Department of Veterans Affairs

Our work at the Department of Veterans Affairs disclosed the lack of appropriate management and operational controls in place to maintain accountability over the direct loan and loan sale activities within its Housing Credit Assistance program. Our recommendations focused on ways to control loan and property assets, adhere to federal legislation and guidance regarding cash management, account for loan sale activities in accordance with federal accounting standards and related guidance, and monitor contractor servicing of its direct loan and loan sale activities. (GAO/AIMD-99-24)

Tennessee Valley Authority

Our assessment of the Tennessee Valley Authority's (TVA) 10-year business plan found that TVA is moving in the right direction by addressing the key issues it faces—its high fixed financing costs and large investment in nonproducing and other deferred assets that have not been recovered through rates. However, we also found that the plan does not fully address certain costs, including the cost of (1) increasing generating capacity to meet the growth in demand for power, (2) complying with new and proposed environmental regulations, and (3) nonpower programs that were formerly fully funded through appropriations. In addition, while TVA has acknowledged major changes to several of the plan's goals and assumptions, the 10-year plan has not been formally updated to reflect

these changes. We concluded that until the plan is formally updated, the Congress and other external users of the plan will not have the current information needed to make policy, oversight, and investment decisions related to TVA. Because of this, we recommended that TVA (1) move quickly to formally update the plan, and (2) periodically report to the Congress and other plan users about its progress toward meeting the plan's objectives. TVA said that it plans to revise and reissue the plan within the next few months. (GAO/AIMD-99-142)

Computer Security Issues

In September 1998, we issued a report that summarized numerous computer security weaknesses throughout the government. We recommended that the Director of OMB and the Assistant to the President for National Security Affairs ensure that efforts to address federal information security are coordinated under a comprehensive strategy. The objectives of such a strategy are to encourage agency improvement efforts and measure their effectiveness through an appropriate level of oversight. These recommendations have not yet been addressed. (GAO/AIMD-98-92)

In December 1998, we issued a report that highlighted progress the IRS has made in improving computer security controls over its tax processing systems and facilities since we first reported this issue. While the IRS has made progress, we found that serious weaknesses continue to exist, which place taxpayer data at risk of unauthorized disclosure or modification. We made numerous recommendations to the Commissioner of Internal Revenue aimed at improving the physical and logical controls over IRS' computer resources and taxpayer data, and at improving the Service's servicewide computer security management program. IRS agreed with our recommendations and indicated that it has efforts underway to correct the remaining weaknesses. We will continue to monitor its progress. (GAO/AIMD-99-38)

Serious access control weaknesses at the Department of Agriculture's National Finance Center were identified in our July 1999 report. We recommended that the Center ensure that an effective entity-wide security planning and management program be implemented at the center. In addition, we recommended that access control weaknesses identified in the areas of logical, system software, and physical controls be corrected. In September of 1999, the Department's Inspector General issued a qualified opinion on the Center's information technology controls. Its report cited our report as well as additional general controls findings to support their opinion. (GAO/AIMD-99-227)

In our August 1999 report citing serious weaknesses in DOD information security, we reported that our follow-up testing of controls previously identified as weak demonstrated that, while some corrective action has been taken, vulnerabilities persist in all areas of general computer controls. Of the DOD components, which we tested, only the Defense Information Systems Agency had begun to establish a comprehensive process to identify and resolve information security weaknesses. DOD's recently-created Department-wide Information Assurance Program, which is intended to address these issues in a coordinated manner department-wide, was still in its development stages. Thus, we could not assess the likelihood of its success. We reaffirmed our earlier recommendations and made further recommendations related to Defense Information Systems Agency's oversight program and the Department-wide Information Assurance Program. (GAO/AIMD-99-107)

In May 1999, we reported that, as part of our tests of NASA's computer-based controls, we successfully penetrated several mission-critical systems. Having obtained access, we could have disrupted NASA's ongoing command and control operations and stolen, modified, or destroyed system software and data. The agency is aware of these deficiencies. (GAO/AIMD-99-47)

Treasury's FMS maintains and operates a wide array of financial and information management systems to help process and reconcile money disbursed and collected by the various government agencies. Multiple banking, collection, and disbursement systems are also used to process agency transactions, record relevant data, transfer funds to/from the Treasury, and facilitate the reconciliation of these transactions. In connection with fulfilling our requirement to audit the U.S. government's financial statements, we reviewed the computer controls over key FMS financial systems. In October 1998, we reported that for fiscal year 1997, general computer control weaknesses at FMS and its contractor data centers placed the data maintained in FMS' financial systems at significant risk of unauthorized modification, disclosure, loss, or impairment. We recommended that FMS (1) correct the individual weaknesses that we identified and (2) establish an effective entitywide security planning and management program to further reduce its exposure to those risks. During our fiscal year 1998 audit, we reviewed the general and application computer controls over key FMS financial systems and we also reviewed the status of computer control weaknesses identified during our fiscal year 1997 audit. In October 1999, we reported that FMS had made some progress to correct or mitigate the risks associated with the computer control

weaknesses identified in our prior year report and that new computer control weaknesses were identified. Because significant computer control problems continue to exist at FMS, we reaffirmed our prior recommendation to establish an effective entity-wide security planning and management program, and we recommended that FMS correct each of the individual weaknesses that we had identified. (GAO/AIMD-99-10, GAO/AIMD-00-4)

In September 1998, we issued a report that outlined a host of computer security problems at the Department of Veterans Affairs. We made numerous recommendations to improve specific aspects of computer security and periodically report on progress addressing these weaknesses including identifying information security weaknesses as material internal control weaknesses in the Department's Federal Managers Financial Integrity Act annual report. The Department has implemented some recommendations and has developed a plan to address the other recommendations. We will continue to monitor its progress. (GAO/AIMD-98-175)

In June 1999, we issued a report on the Department of Veterans Affairs' Austin Automation Center's progress in improving many of our previously reported information system control weaknesses. However, the Center had not yet established a framework for assessing risks and routinely monitoring and evaluating the effectiveness of information system controls. The Department has indicated that it will address these remaining issues and we will continue to monitor its progress. (GAO/AIMD-99-161)

Credit Reform Implementation

OMB Credit Subsidy 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, and (4) enhance the model's printed output to provide an audit trail showing which data the model used to calculate the subsidy cost. OMB staff stated that they took action on GAO's recommendations during the development of a new model which will be used in preparing credit subsidy estimates for the fiscal year 2001 and subsequent budgets. In addition, OMB has adopted GAO's suggested audit approach and hired an outside auditor to attest to the new model's reliability before its release to

federal credit agencies. The auditor's attestation report should be issued early in fiscal year 2000 and is expected to substantiate the validity of the new model and other improvements resulting from our recommendations. (GAO/AIMD-97-145)

Department of Agriculture

In January 1999 we reported that the Department of Agriculture lacked adequate systems and historical data to reasonably estimate the cost of its loan programs. These long-standing problems contributed to the auditor's inability to give an opinion on Agriculture's fiscal year 1997 consolidated financial statements and raised questions about the quality of the budget data related to the agency's loan programs. As a result, we recommended that the Secretary of Agriculture or his designee (1) implement an action plan to address deficiencies in estimating the cost of loan programs in a timely manner, (2) ensure that key cash flow model assumptions were documented, including a comparison to program requirements, (3) ensure that once all mission-critical systems are Year 2000 compliant, computer systems are updated to capture the data necessary to reasonably estimate loan program costs, and (4) consider hiring outside contractors to assist in gathering sufficient, relevant, and reliable data as a basis for credit program cost estimates.

The Chief Financial Officer is leading a working group to address the credit reform issues currently preventing the Department from reasonably estimating the cost of its loan programs and is seeking to implement these recommendations. The Department continues to address issues related to its loan program cost estimates, but none are fully resolved. (GAO/AIMD-99-31)

**Department of Housing and
Urban Development**

In January 1999, we reported that HUD did not prepare reasonable estimates of loan program costs in its fiscal year 1997 financial statements, the most recent year available at the time of our review, but had made recent improvements. We recommended that the Secretary of HUD implement its revised reestimate approach to enable HUD to prepare timely credit subsidy reestimates for both financial statement and budget submissions. We also recommended that the Secretary of HUD, or his designee, implement existing plans to develop written policies and procedures including a formal supervisory review process for estimating the cost of credit programs.

Department of Veterans Affairs

HUD has developed a streamlined approach to calculate its reestimates of the 1999 and prior cohorts in a more timely manner. Further, the agency has made progress in documenting its cash flow models and developing written policies and procedures. HUD has not yet fully implemented its streamlined approach to calculating its reestimates. In addition, HUD has not yet finalized its documentation for its cash flow models and its written policies and procedures. (GAO/AIMD-99-31)

In January 1999, we reported that the Department of Veterans Affairs had serious problems performing basic accounting for its loan programs and, therefore, did not have a reliable basis for the loan program cost estimates included in its financial statements. These problems also raised questions about the reliability of loan program cost information submitted for budgetary purposes. As a result, we recommended that once the Department's basic accounting issues were resolved, in order to correct the deficiencies that we identified in the direct and guaranteed loan program cost estimation processes, the Secretary of Veterans Affairs or his designee (1) compare estimated cash flows to actual cash flow experience to validate the quality of the estimate as part of the annual reestimation process, (2) develop and implement written policies and procedures that include a formal supervisory review process and a coordinated approach among the program, budget, and accounting staff for estimating the cost of credit, (3) use sensitivity analysis as a tool to identify key cash flow assumptions, (4) continue efforts, with the assistance of contractors, to create and use a model and develop the necessary data to calculate the liability for the guarantee on sold loans and record the related liability in the financial statements.

The Department has hired a contractor to construct a new model for estimating and reestimating the subsidy for direct and guaranteed loans. Further, the Department is developing and implementing written policies and procedures that include both a formal supervisory review process and a coordinated approach for estimating the cost of credit programs. (GAO/AIMD-99-31)

Scope of Certain Pension Plan Audits

Audits of employee benefit plans are a key safeguard for protecting assets held by plans. The Employee Retirement Income Security Act of 1974 (ERISA) currently allows plan administrators to exclude from the scope of those audits investments held by certain regulated institutions, such as banks and insurance companies. In 1998, the Department of Labor testified that about 40 million workers were covered by plans with about \$1 trillion in assets that, under ERISA, were not subject to full scope audits. We

continue to believe that the provision of ERISA, which allows this limited audit scope, should be eliminated. (GAO/AFMD-92-14)

District of Columbia

DC Courts

In our review of the District of Columbia Courts' (DC Courts) financial operations for fiscal year 1998, we identified problems in its planning and budgeting. In its first year of operations with direct federal funding, DC Courts underwent changes to its functions and responsibilities. DC Courts' management did not properly execute its responsibility to operate within available resources. For fiscal year 1998, DC Courts overobligated its budgetary resources by approximately \$4.6 million, resulting in a violation of the Anti-Deficiency Act. Appropriate recognition of obligations incurred and resources available and compliance with federal laws and guidelines addressing its financial management are crucial to improving DC Courts' performance in this area. We recommended that the Joint Committee on Judicial Administration perform all necessary investigation and reporting under the Anti-Deficiency Act related to DC Courts' overobligation of its fiscal year 1998 appropriation. (GAO/AIMD-99-226)

Highway Trust Fund

After our first two audits of the District of Columbia's Highway Trust Fund for the periods ended September 30, 1996 and 1997, we had unresolved material weaknesses in the areas of revenue and general computer controls. Our recent audit of the Fund for the year ended September 30, 1998, showed that the District's Office of Tax and Revenue and Office of Information Systems had begun planning or implementing our recommendations to improve its internal controls. However, we continued to recommend that, among other things, the Office of Tax and Revenue establish procedures to improve cash management and ensure completeness of motor fuel tax receipts and the Office of Information Systems strengthen physical security over the facilities, system, and data by controlling all physical access to local area network centers. We also found additional weaknesses in the Office of Tax and Revenue's enforcing (1) procedures that require monthly transfers of motor fuel receipts from the District's General Fund and require reimbursement for potential lost interest from the District for amounts not transferred after thirty days and (2) implementation of licensing requirements. In addition, we found weaknesses in the Office of Finance and Treasury segregating duties between reconciliation preparation and review and independent review of all reconciliations and in the Chief Financial Officer overseeing the development of the underlying assumptions and methodologies for the

forecasted statements and the overall preparation and presentation of the financial forecasts. (GAO/AIMD-98-30, GAO/AIMD-98-254)

**DC Financial Management
Systems**

In fiscal year 1999, we followed up on the status of recommendations made in our review of the District of Columbia's acquisition and implementation of the new Financial Management System. We identified weaknesses in the areas of (1) software acquisition planning, (2) requirements development and management, (3) project management, (4) contracting and oversight, (5) evaluation, and (6) acquisition risk management. Corrections to address these weaknesses can be made by the District to future software acquisitions. We recommended that the District (1) document its decisions and update its planning documents to ensure that large acquisition projects, such as the District's new financial management system, can be effectively managed, (2) develop an organizational policy for establishing and managing software-related requirements, and (3) develop written policies for the execution of the software project, contract tracking and oversight activities, managing the evaluation of acquired software products and software acquisition risk management. The District of Columbia Financial Responsibility and Management Assistance Authority, along with the District's Chief Technology Officer and the CFO are developing new policies and procedures in response to our recommendations. However, these recommendations have yet to be fully implemented. (GAO/AIMD-98-88)

Information
Management Issue
Areas (Budget
Function 990)

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Impact of GAO's Work

Since the early 1990s, an explosion in computer interconnectivity, most notably growth in the use of the Internet, has revolutionized the way our government, our nation, and much of the world communicate and conduct business. The benefits have been enormous. Vast amounts of information are now literally at our fingertips, facilitating research on virtually every topic imaginable; financial and other business transactions can be executed almost instantaneously, often on a 24-hour basis; and electronic mail, Internet websites, and computer bulletin boards allow us to communicate quickly and easily with a virtually unlimited number of other individuals and groups.

At the same time, however, the risks associated with this dependence are increasing. In confronting the Year 2000—Y2K—problem, for example, the public faced a high risk that critical services provided by the government and the private sector could be severely disrupted by system and infrastructure-related problems. Moreover, criminals and terrorists, as well as others with relatively limited resources can now use computers to commit massive fraud or gain access to highly sensitive information, such as financial or medical records, for purposes of personal gain or sabotage. Furthermore, the federal government has had poor track record in taking advantage of information technology advances and building the capability and processes necessary to use information technology to make government more innovative, efficient, and responsive.

For the past several years, we have been following a consistent strategy aimed at helping the federal government to improve the management of its information technology resources, focusing particularly on the Y2K problem, information security, and the need to strengthen investment and modernization processes. Each of these three areas has been designated as high risk in GAO's High Risk series of reports. Our strategy is focused on (1) identifying the best information technology management practices used by leading public and private organizations practices, (2) developing the methods and tools necessary to incorporate these practices into agency management processes, (3) sharing the results of this work with

federal executives and managers, (4) applying these guides and methods to our own audits.

As the following discussion further illustrates, this strategy has enabled us to conduct assignments more quickly, achieve greater concurrence from agencies, and facilitate governmentwide reform efforts.

Mitigating Year 2000 Risks

In 1997, 1998, and 1999, we developed and issued a series of guides on the Year 2000 problem offering structured, step-by-step frameworks for reviewing the adequacy of agency planning and management of Year 2000 programs, developing and implementing business continuity and contingency plans, developing day one plans, and managing all testing activities related to Y2K. (See GAO/AIMD-10.1.14; 10.1.19; 10.1.21; 10.1.22). These guides were widely adopted in both the government and private sectors and internationally. Additionally, by applying them to our audits, we gained greater agency agreement on our findings and, in turn, quick actions on our recommendations. This year, in response to our recommendations:

- OMB and the President's Council on Year 2000 Conversion took a number of actions that should improve the likelihood of a successful transition to the year 2000. In particular, OMB established federal government Y2K program priorities, directed agencies to minimize software changes to Y2K compliant software, and began requiring agencies to develop and submit business continuity and contingency plans. The Council addressed the Y2K issue from a national perspective, establishing public/private partnerships to combat the problem and assessing the readiness of key national sectors.
- To ensure the continuity of core missions and operations and ensure effective testing of systems and processes, DOD provided detailed guidance to its components on remediation testing, developed a joint Y2K operational evaluation program to verify mission readiness, initiated functional area end-to-end testing, and began tracking development of contingency plans and tied contingency planning into operational and business continuity efforts. DOD components also took actions to bolster their capability to manage Y2K programs. The Air Force, for example, directed its program managers to identify and document data exchanges in formal interface agreements, while the Navy increased staffing levels within its Y2K coordination office and developed a departmentwide Y2K test strategy.
- The Department of Veterans Affairs completed testing of critical systems that support the delivery of benefits and health care services and developed business continuity and contingency plans for its regional

offices and medical centers. The Department also developed a database containing Y2K readiness information on its pharmaceutical and medical-surgical manufacturers and made this data available to the public through a web site. Similarly, the Food and Drug Administration established a clearinghouse on the Y2K status of biomedical equipment using status information provided by the Department of Veterans Affairs and other organizations.

- To more effectively identify and manage Y2K risks, the Health Care Financing Administration solicited the assistance of independent verification and validation contractors and strengthened documentation and management over electronic data exchanges. It also developed a business continuity and contingency plan to ensure that, no matter what, Medicare providers will be paid and beneficiaries will receive care into 2000.
- To ensure the continued processing of disability claims into 2000, the Social Security Administration established control points for monitoring and overseeing all state disability determination Y2K activities and a project team to work full-time on disability issues. It also assigned a Y2K disability coordinator to each regional office to assist in monitoring and tracking Y2K activities and completed local contingency plans to support its continuity planning effort. By taking these measures, the Social Security Administration reported that, as of January 31, 1999, all 50 disability determination systems had been renovated, tested, implemented and certified as Y2K compliant.
- To ensure the safe and expeditious movement of aircraft, the Federal Aviation Administration established a strong Y2K program office, which, in turn, developed an overall Y2K strategy, detailed standards and guidance for renovating, validating, and implementing mission-critical systems, a database of schedules and milestones for these activities, and a Y2K business continuity and contingency plan. The Federal Aviation Administration also repaired or replaced systems with date-related problems, tested these systems, and implemented these repairs and replacements in air traffic control facilities throughout the nation.

Strengthening Information Security

The Year 2000 challenge vividly illustrated the risks posed by a widespread system-induced computing problem. However, numerous other threats will continue to pose risks long after the Year 2000 problem has been resolved. Some, similar to Y2K, could cause severe disruption, while others more directly threaten the confidentiality and integrity of data. In the federal government these risks are not being adequately addressed. Our tests and evaluations of federal systems as well as those conducted by inspectors general show that these systems are not being effectively

protected, even though they process, store, and transmit enormous amounts of sensitive data and are indispensable to many federal agency operations.

For example, in 1999 we reported that penetration tests we conducted at one of NASA's 10 field centers showed that mission-critical systems responsible for command and control of spacecraft as well as the processing and distributing of scientific data returned from space were vulnerable to unauthorized access. A major contributing factor to our ability to penetrate these systems was that NASA was not effectively and consistently managing information technology security throughout the agency. (See GAO/AIMD-99-47) Also in 1999, many federal agencies were confronted with a barrage of computer viruses, notably the "Melissa" computer and "Explore Zip" viruses, as well as web site break-ins. In testimonies before Congress, we noted that these security breaches demonstrated just how quickly attacks can proliferate due to the intricate and extensive connectivity of today's networks; the vulnerabilities in commercial-off-the-shelf products; and weaknesses in the federal government's overall tracking, reporting, and response to such events. (See GAO/T-AIMD-99-146, GAO/T-AIMD-99-223, and GAO/T-AIMD-99-302).

To help agencies implement the kind of management framework that is required to effectively respond to evolving security requirements, we issued an executive guide in May 1998 entitled Information Security Management: Learning From Leading Organizations (GAO/AIMD-98-68). It describes a framework for managing risks through an ongoing cycle of activities coordinated by a central focal point. Building on that framework, in 1999 we issued a follow-on guide, entitled Information Security Risk Assessment: Practices of Leading Organizations (GAO/AIMD-99-139, Exposure Draft, August 1999). This guide offers federal managers a framework for ensuring that they fully understand the information security risks affecting their operations and implementing appropriate controls to mitigate these risks.

By developing these guides, sharing our evaluation methods and approaches with agency executives, and using these tools to support our audit work; we facilitated significant improvements in the protection of critical government assets. For example, in response to our reviews, the Department of State corrected 85 specific vulnerabilities in its protection over critical systems and took action to strengthen physical security protection over its headquarters. The Federal Aviation Administration recently established an effective Chief Information Officer (CIO)

**Enhancing Technology
Investment Processes**

management structure, and provided its new CIO with responsibility for developing, implementing, and enforcing air traffic control computer security policy. NASA is also now taking action on the recommendations we made to strengthen its protection over systems.

Addressing the Year 2000 problem has highlighted the importance of good information technology management and, to date, demonstrated that the government will likely approach future information technology challenges better prepared. Y2K has resulted in many agencies taking charge of their information technology resources in much more active ways than they have in the past, from inventorying and prioritizing systems to implementing reliable processes and better controls. In particular, it has prompted some agencies to establish much needed information technology policies in areas such as system configuration management, risk management and software testing. Y2K efforts have also reinforced an understanding of the importance of consistent and persistent top management attention, which is essential to solving any intractable problem.

In conducting our audits, we have continued to focus on whether agencies are spending their technology dollars on the right things; whether they have processes and capabilities to effectively design, develop or acquire, and maintain information technology systems; and whether their mission and program objectives are at risk because of ineffective development and maintenance of critical supporting systems. By focusing on these issues and continuing to develop best practice evaluations of specific elements of information technology management attributes and clear and well-documented guidance and methodologies, we have become a solution-oriented leader in the federal information technology community. In particular, we are represented on the federal CIO Council; our executives and managers are regularly called upon to discuss our evaluation methods and approaches with agency managers and to provide input on agency proposals to strengthen investment processes; and we are increasingly being called on to testify and report on major federal system investments. Spurred by the Y2K problem, agencies are now turning to our guidance and recommendations, and using them as a template for making concrete improvements in their management processes.

Most notable are actions underway at IRS. Our reviews over the past few years identified serious management and technical weaknesses with IRS' multi-billion dollar effort to modernize its tax systems. IRS agreed to implement our recommendations and has been working closely with us to

build its modernization capability. Recently, IRS established and opened its Integration, Test, and Control Center facility for the integration, integration testing, and systems acceptance testing of modernization and other critical system development projects. IRS also took action to require that all future contractors who develop software for the agency have mature software development capabilities. Further, in its fiscal year 1999 budget submission, IRS requested funding for a multi-year investment technology capital account, as it had the previous year, but reduced its request from \$500 million to \$323 million due to our testimony and continuing oversight of IRS' modernization efforts.

The Customs Service has also made progress over the past year to respond to our recommendations and strengthen its management of major information technology projects. In particular, Customs completed its target enterprise systems architecture and has defined investment processes intended to assure that the architecture is followed.

Key Open Recommendations

Mitigating Year 2000 Risks

As of October 1999, a high priority for many agencies is the completion of business continuity and contingency plans. Without such plans, agencies will not have well-defined responses when failures occur and may not have enough time to develop and test alternatives. To provide assurance that agency business continuity and contingency plans will work if needed, in January 1999 testimony, we suggested that OMB consider requiring agencies to test their business continuity strategies and set a target date for the completion of this validation. In testimony on October 29, 1999, we identified 20 of 23 agencies that had discussed their validation strategies in their high-level business continuity and contingency plans. (GAO/T-AIMD-99-50, GAO/T-AIMD-99-268).

Moreover, a critical part of any business continuity and contingency plan is the Day One strategy. Also known as day zero strategy, this plan comprises a comprehensive set of actions to be executed by an entity during the last days of 1999 and the first days of 2000. In our January 20, 1999 testimony, we suggested that OMB consider requiring agencies to develop and implement a Day One strategy. According to OMB's September 1999 quarterly report, agencies are working on these strategies as part of the business continuity and contingency planning. (GAO/T-AIMD-99-50).

**Strengthening Computer
Security**

Specific actions are still required by many agencies, including DOD, the Department of Agriculture, NASA, State, FAA, the Department of Veterans Affairs, and Treasury's Financial Management Service, among others, to strengthen their information security programs. Over the past several years, our recommendations to these and other agencies have focused particularly on the need for agencies to adequately (1) assess risks, (2) use the results of such assessments to select controls, (3) promote security awareness, (4) evaluate control effectiveness, and (5) coordinate their security program through a central agency focal point. (GAO/AIMD-99-227, GAO/AIMD-99-107, GAO/AIMD-99-10, GAO/AIMD-99-47, GAO/AIMD-99-38, GAO/AIMD-98-175, GAO/AIMD-98-155, and GAO/AIMD-98-145).

We have also recommended to OMB, Congress and other key players in the security arena that a comprehensive governmentwide strategy be implemented to ensure critical information assets are effectively protected. In particular, this strategy should (1) ensure that executive agencies are carrying out the responsibilities outlined in laws and requiring them to protect their information resources, (2) clearly delineate the roles of the various federal organizations with responsibilities related to security, (3) identify and rank the most significant information security issues facing federal agencies, (4) promote information security risk awareness among senior agency officials whose critical operations rely on automated systems, (5) strengthen information technology workforce skills, (6) evaluate the security of systems on a regular basis and (7) provide for periodically evaluating agency performance from a governmentwide perspective and acting to address shortfalls. (GAO/AIMD-98-92).

**Enhancing Information
Technology Investment
Processes**

While agencies are making inroads to implementing the management processes needed to effectively guide and implement information technology projects and ensure that they will enhance the delivery of services, much of this work is still only in the beginning stages and it is clear that considerably more needs to be done.

For example, we recommended that DOD implement performance measures to gauge the success of its effort to acquire and improve its extensive telecommunications networks; develop policies and related procedures that maximize the use of computer centers; and ensure that all viable business and system alternatives are explored before making major information technology acquisitions. Whether this can be done, however, hinges on DOD's ongoing effort to implement the requirements of the

Clinger-Cohen Act of 1996. (GAO/T-AIMD-99-93, GAO/AIMD-98-202, GAO/AIMD-98-5, GAO/AIMD-97-39, GAO/AIMD-97-6).

In response to our recommendations, Customs and IRS plan to adopt an incremental approach to their modernization programs so that they will know earlier whether acquisitions are cost-beneficial and performing well before investing hundreds of millions of dollars. The challenge now for Customs and IRS is to effectively implement these plans as well as other plans to implement our recommendations and to use the resulting information to make sound investment decisions. (GAO/AIMD-99-206, GAO/AIMD-99-41).

The Department of Agriculture has taken actions to respond to its inability to optimize its telecommunications resources. For example, it has identified improvements that it believes could reduce its annual \$200-plus million telecommunications investment by as much as \$70 million a year. It is also developing a telecommunications action plan for correcting its telecommunication management deficiencies. However, once this plan is developed, the Department will need to effectively implement it to correct deficiencies and achieve cost savings. (GAO/AIMD-98-131, GAO/AIMD-96-59, GAO/AIMD-95-97, GAO/AIMD-95-203).

While these agencies have begun taking constructive actions to implement our recommendations, others—as the following examples show—have not.

- The Department of Veterans Affairs has not developed an overall business process improvement strategy which is needed to specify what reengineering and improvement projects are needed, and how they are related and prioritized. It also has not defined the integrated information technology architecture needed to efficiently utilize information systems across the department. (GAO/AIMD-98-154).

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

- The National Weather Service has made little progress on developing a systems architecture that includes all weather forecasting and warning systems to guide its current and future systems development. (GAO/T-AIMD-98-97).
- SSA has neither completed nor established plans for performing in-process reviews of its Intelligent Workstation/Local Area Network initiative to compare estimated and actual costs, schedules, and benefits and to assess

risks. Further, it has not scheduled a post-implementation review to validate the first phase of the initiative's projected savings and to apply lessons learned in making other information technology investment decisions. (GAO/T-AIMD-99-259).

See chapter 3, Improving Human Services Programs, Education, Workforce, and Income Security Issue Area.

- HUD has not yet completed actions to strengthen the management and oversight of its over \$200 million multi-year financial systems integration effort, including preparing life-cycle cost and benefit estimates, finalizing project plans, and implementing processes to select, control, and evaluate individual investments. (GAO/AIMD-99-25)

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

Key Products

Mitigating Year 2000 Risks

Y2K Computing Challenge: Day One Planning and Operations Guide
(GAO/AIMD-10.1.22, October 1999).

Year 2000 Computing Challenge: FAA Continues to Make Important Strides,
But Vulnerabilities Remain (GAO/T-AIMD-99-285, September 9, 1999).

Year 2000 Computing Challenge: Readiness Improving Yet Essential
Actions Remain to Ensure Delivery of Critical Services (GAO/T-AIMD-99-268,
August 17, 1999).

Social Security Administration: Update on Year 2000 and Other Key
Information Technology Initiatives (GAO/T-AIMD-99-259, July 29, 1999).

Year 2000 Computing Challenge: Federal Efforts to Ensure Continued
Delivery of Key State-Administered Benefits (GAO/T-AIMD-99-241, July 15,
1999).

Year 2000 Computing Challenge: Concerns About Compliance Information
on Biomedical Equipment (GAO/T-AIMD-99-209, June 10, 1999).

Year 2000 Computing Crisis: Readiness of Medicare and the Health Care
Sector (GAO/T-AIMD-99-160, April 27, 1999).

Year 2000 Computing Crisis: Key Actions Remain to Ensure Delivery of
Veterans Benefits and Health Services (GAO/T-AIMD-99-152, April 20, 1999).

Year 2000 Computing Crisis: Defense Has Made Progress, But Additional
Management Controls Are Needed (GAO/T-AIMD-99-101 March 2, 1999).

Year 2000 Computer Crisis: Readiness Improving, But Much Work
Remains to Avoid Major Disruptions (GAO/T-AIMD-99-50, January 20, 1999).

Year 2000 Computing Crisis: A Testing Guide (GAO/AIMD-10.1.21,
November 1998).

Strengthening Information Security

DOD Information Security: Serious Weaknesses Continue to Place Defense
Operations at Risk (GAO/AIMD-99-107, August 26, 1999)

Information Security Risk Assessment: Practices of Leading Organizations
(GAO/AIMD-99-139, Exposure Draft, August 1999).

Information Security: Recent Attacks on Federal Web Sites Underscore Need for Stronger Information Security Management (GAO/T-AIMD-99-223, June 24, 1999).

Information Security: Many NASA Mission-Critical Systems Face Serious Risks (GAO/AIMD-99-47, May 20, 1999).

Information Security: The Melissa Computer Virus Demonstrates Urgent Need for Stronger Protection over Systems and Sensitive Data (GAO/T-AIMD-99-146, April 15, 1999).

IRS Systems Security: Although Significant Improvements Made, Tax Processing Operations and Data Still at Serious Risks (GAO/AIMD-99-38, December 14, 1998).

Financial Management Service: Areas for Improvement in Computer Controls (GAO/AIMD-99-10, October 28, 1998).

**Enhancing Information
Technology Investments**

IRS Management: Formidable Challenges Confront IRS as it Attempts to Modernize (GAO/T-AIMD/GGD-99-255, July 22, 1999).

Tax Systems Modernization: Results of Review of IRS' Initial Expenditure Plan (GAO/AIMD/GGD-99-206, June 15, 1999).

Indian Trust Funds: Interior Lacks Assurance That Trust Improvement Plan Will Be Effective (GAO/AIMD-99-53, April 28, 1999).

Customs Service Modernization: Serious Management and Technical Weaknesses Must Be Corrected (GAO/AIMD-99-41, February 26, 1999).

Defense Information Management: Continuing Implementation Challenges Highlight the Need for Improvement (GAO/T-AIMD-AIMD-99-93, February 25, 1999).

Customs Service Modernization: Ineffective Software Development Processes Increase Customs System Development Risks (GAO/AIMD-99-35, February 11, 1999).

HUD Information Systems: Improved Management Practices Needed to Control Integration Cost and Schedule (GAO/AIMD-99-25, December 18, 1998).

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