

GAO

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



January 1992

STATUS OF OPEN
RECOMMENDATIONS

Part D: Improving Justice,
General Government,
Financial and Information
Management, and
Evaluation Programs





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

Comptroller General
of the United States

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January 15, 1992

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

The Honorable Robert C. Byrd
Chairman, Committee on Appropriations
United States Senate

This is our annual report that summarizes the findings and open recommendations resulting from the General Accounting Office's (GAO) audits and other review work in federal departments and agencies on which satisfactory legislative or administrative actions have not yet been completed. To encourage prompt, responsive actions on its recommendations, GAO systematically follows up on them and annually reports on the status of open recommendations. This report, presented in four parts, contains information on a total of 2,334 GAO recommendations that were open as of September 30, 1991.

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

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher
Comptroller General
of the United States

Preface

This report provides information on the status of GAO's recommendations that have not been fully implemented. The report is intended to help congressional and agency leaders determine the actions necessary to achieve the desired improvements in government operations. Congressional leaders, in particular, may find this information useful in preparing for upcoming appropriations and oversight activities.

In recent years, GAO has issued a greater number of products, resulting in more recommendations. To accommodate this increased number of recommendations and enhance the report's usefulness, the report is presented in four parts:

- Part A: National Security and International Affairs Programs (GAO/OP-92-1A);
- Part B: Resources, Community, and Economic Development Programs (GAO/OP-92-1B);
- Part C: Human Resource Programs (GAO/OP-92-1C); and
- Part D: Justice, General Government, Financial and Information Management and Evaluation Programs (GAO/OP-92-1D).

Although the contents page includes all four parts, the sections that are highlighted are the ones that are found in that particular report part.

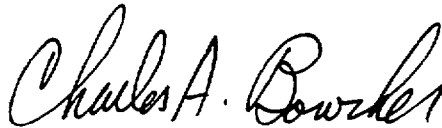
GAO's products with open recommendations are arranged by issue area within major budget function categories. Each issue area section begins with a summary of the impact of GAO's work and key open recommendations.

Each part of this report also includes two indexes that list the products contained in all four parts. Readers may use the "Committees of Jurisdiction" index to identify GAO products with findings and recommendations made to agencies for which committees have appropriation and oversight responsibility. Readers may use the "Recommendation Addressee" index to identify the same information by the agency to whom recommendations were addressed.

To help readers find information easily, the back cover of each part includes a "thumb index" that identifies the budget function categories and the two indexes. For example, to obtain pertinent information on defense programs, locate the budget category titled "National Defense (050)" in Part A.

The description of each GAO product includes the name and telephone number of a GAO manager to contact for additional information or assistance. Refer any information or questions not related to a specific product or recommendation to GAO's Office of Congressional Relations, (202) 275-5739.

Users desiring other parts of the report may order them by calling (202) 275-6241. Please direct comments, questions, or suggestions for improving this report to Chris Fossett, Office of Policy, (202) 275-1970.

A handwritten signature in black ink, reading "Charles A. Bowsher". The signature is written in a cursive, flowing style with a large initial "C".

Charles A. Bowsher
Comptroller General
of the United States

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*Budget function numbers are given in parentheses.

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Alphabetical Listing of Budget Function Categories

Budget Function Number	Budget Function Category	Part and Page Number
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500	Education and Employment	C; 489
270	Energy	B; 207
990, 998	Financial Management and Information Systems	D; 803
350	Food and Agriculture	B; 355
800	General Government	D; 667
250	General Science, Space, and Technology	A; 191
550	Health	C; 515
370, 450	Housing and Community Development	B; 399
600, 650, 700	Income Security	C; 585
850, 920	Intergovernmental Relations	C; 623
150	International Affairs	A; 143
570	Medicare and Medicaid	C; 553
050	National Defense	A; 1
300	Natural Resources and Environment	B; 251
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400	Transportation	B; 423

Example

Sample Entry

GAO Issue Area	Energy
Title	Gasoline Marketing: Consumers Have Limited...
Product Number/Date/ GAO Contact	RCED-90-50, 04/16/90 GAO Contact: Victor S. Rezendes, (202)276-1441
Background	Background Pursuant to a congressional request, GAO reviewed the Federal Trade Commission's (FTC) and the Environmental Protection Agency's (EPA) implementation of gasoline octane certification and posting requirements.
Findings	Findings GAO found that: (1) FTC and EPA did not monitor compliance with octane posting requirements or use octane test results to prosecute violators; (2) there were no federal controls to...
Recommendations to Congress	Open Recommendations to Congress Recommendation: Congress should amend the Petroleum Marketing Practices Act (PMPA) to include octane certification and posting for gasoline-alcohol blends and other alternative motor fuels that may become available to reduce air pollution. Status: Action in process.
Recommendation Status	Congressional Action Congressional Action: The Subcommittee on Energy and Power, House Committee on Energy and Commerce, held hearings on the report on June 20, 1990, and on June 21, 1991. The hearings...
Recommendations to Agencies	Open Recommendations to Agencies Recommendation: The Chairman, FTC, and the Administrator, EPA, in consultation with the appropriate congressional committees and the...
Recommendation Addressee (when more than one Addressee)	Addressee: Environmental Protection Agency Status: Action in process. EPA and FTC have initiated actions to determine the proper federal and...
Recommendation Status Status Comments	Addressee: Federal Trade Commission Status: Action in process. EPA and FTC have initiated actions to determine the proper federal and state roles and options that may effectively satisfy the PMPA requirements to ensure consumers of accurate octane postings.

Administration of Justice (750)

Administration of Justice

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Administration of Justice

Issue Area Summary: Administration of Justice

Impact of GAO's Work

The federal role in criminal law enforcement has been expanding, especially the war on drugs and prosecutions of white collar crime, such as bank and thrift fraud. The Congress enacted major crime bills in 1984, 1986, 1988, and 1990 that (1) included sentencing reform plus mandatory minimum sentences for a number of crimes; (2) established a national "drug czar" to coordinate efforts to reduce the sale and the use of illegal drugs; and (3) provided substantial additional resources to federal law enforcement agencies, the courts, and the prisons. This expansion is reflected in the doubling of the budget authority for administration of justice activities from \$6.1 billion to an estimated \$12.8 billion from fiscal year 1984 to fiscal year 1991. Budgets for corrections, primarily federal prisons, grew more than 400 percent, from \$495 million to \$1.7 billion.

We have identified savings in prison construction costs and problems in law enforcement data and computer security and have developed models and information to help the Congress and federal agencies estimate the potential workload impact of budgetary choices for law enforcement agencies. We have major work under way on bank and thrift fraud prosecutions, sentencing reform, mandatory sentences, prison system expansion, and the war on drugs.

One consequence of the heightened federal role in criminal law enforcement is a growing federal prison population. Even before implementation of the federal sentencing guidelines, the number of persons being sent to federal prisons was increasing. The Bureau of Prisons (BOP) plans to spend almost \$3 billion on prison construction by the end of fiscal year 1995 to more than double the 1989 capacity of 34,200.

BOP could save millions in expansion funds by revising its design standards to make greater use of double-bunking (two persons in a cell or living area) in both new construction and in computing existing prison capacity. BOP subsequently adopted a limited double-bunking policy that will reduce prison construction costs by more than \$190 million over the next several years. The Commission on Alternative Utilization of Military Facilities and the Department of Defense (DOD) are implementing our recommendation that DOD notify the Commission (of which BOP is a member) of all property that could be converted to prison use.

As a result of a congressional request, we developed two models to assist in allocating law enforcement resources.

The first is designed to estimate how budgetary increases or decreases for one or more components of the criminal justice system—investigative agencies, U.S. Attorneys, the courts—would affect the workload of the entire system, including the prisons. It also identifies how budgetary choices could create potential workload bottlenecks for the U.S. Attorneys and the courts by creating more incoming work than they are likely to be able to handle within existing resources.

The second model is designed to assist the U.S. Attorneys allocate positions among the 94 U.S. Attorney offices, on the basis of workload and case complexity in each office. The Executive Office of U.S. Attorneys is using this model in allocating U.S. Attorney positions and is beginning the development of its own case-weighting system to refine the model.

In other areas, we recommended and the Congress enacted legislation to improve procedures for deporting aliens, reducing aliens' incentives to delay deportation proceedings. The Congress also enacted our recommendation that the Department of Justice and the Customs Service be permitted to administratively forfeit all uncontested seizures and require Justice and Customs to produce annually audited forfeiture fund financial statements.

Key Open Recommendations

Customs Service

Between 1985 and 1990, the Customs Service's overtime expenditures grew from \$56.8 to \$102.8 million. A major contributor to this growth is the 1911 statute governing Customs overtime pay, which permits Customs inspectors to earn 2 full days' pay for as little as 15 minutes of work. If the Congress amended the statute to ensure that hours paid are more directly related to hours worked, the Congress could obtain monetary benefits up to \$50 million to \$60 million annually. The House Subcommittee on Oversight, Committee on Ways and Means, has recommended that premium pay for Customs inspectors be modified to mirror the Federal Employee Pay Act. Even with this statutory change, Customs needs better internal controls over its use of overtime to ensure that it is used only when appropriate. Customs has not yet initiated any actions to improve its management of overtime. (GAO/GGD-91-96, see p. 664.)

Immigration Management

During the past decade, weak management systems and inconsistent leadership at the Immigration and Naturalization Service (INS) have allowed serious problems to go unresolved. The agency has degenerated into a group of segmented autonomous programs, each handling its own set of problems with little attention to their interrelatedness. The agency also has a chaotic budget development process with little accountability for funds or attention to agencywide priorities. The current INS organizational structure, marked by complicated lines of authority and communication, adds to and perpetuates the agency's segmented management.

In January 1991, we recommended a series of actions that the agency should take immediately to address serious weaknesses in enforcement and service operations. The Department of Justice and INS must also articulate a long-term vision of how INS is to effectively implement the nation's immigration policy. (GAO/GGD-91-28, see p. 655.)

War on Drugs

Numerous federal agencies, with different missions and unique automatic data processing (ADP) and telecommunications systems, are participants in the war on drugs. This diversity heightens the need for central leadership, interoperable information systems, data integrity and security, and interagency coordination of intelligence data. We have recommended that the Director of the Office of National Drug Control Policy (ONDCP) establish clear, measurable objectives and specific target dates for meeting each of these needs and report to the Congress on plans and progress. (GAO/IMTEC-91-40, see p. 663.)

ONDCP does not have the data to determine the effectiveness of resources targeted toward high-intensity drug-trafficking areas. These resources could be better used by establishing local steering committees with state and local law enforcement agency representation, performance milestones, measurable goals for the use of funds received, and reports on progress achieved. (GAO/T-GGD-91-53, see p. 666.)

Asset Forfeiture

Together the Department of Justice and the Customs Service manage about \$1 billion in noncash property seized for drug-related violations. Both the Comptroller General and the Office of Management and Budget have designated the management of these properties as high-risk areas warranting special attention. In 1988, the Congress mandated that Justice and Customs develop a joint plan for consolidating the postseizure administration of properties seized for drug-related violations. To date, they have made little progress in doing so, though about \$2.5 million in annual administrative costs could be saved through consolidation. The Congress should now designate the U.S. Marshals Service as the leader in the consolidated management of assets because it has three times the inventory that Customs has, a larger staff, and a regional infrastructure for property management. (GAO/GGD-91-97, see p. 665.)

Prison Construction

Given the rapidly growing federal prison population, BOP must seek ways to minimize the costs of accommodating that population. Although BOP's new double-bunking policy is expected to result in about \$190 million in monetary benefits in the next several years, BOP could save more. The Bureau's revised design standards for new and existing facilities are inconsistent, requiring at least 90 square feet for double-bunking in new facilities and 75 in existing ones. Furthermore, the Bureau did not extend the new policy to areas where its experience has shown the policy to be feasible, such as cubicles or dormitories. Additional savings could be achieved by using double-bunking wherever feasible. (GAO/GGD-91-54, see p. 660.)

Our review of prison privatization found that the concept showed some promise but needed more thorough testing. BOP lacks the statutory authority to contract for privately owned and operated prisons, however. The Congress should grant BOP explicit statutory authority to design and implement programs to test and evaluate the potential benefits (including cost savings) and limitations of privatizing some prison operations. (GAO/GGD-91-21, see p. 658.)

ADP Management and Security

Effective drug and criminal law enforcement requires reliable, useful, and readily available case management data; information sharing among law enforcement agencies; and security regarding extremely sensitive data, such as the identification of undercover agents. In the past 14 months, we have identified computer security weaknesses at the main Justice data center, ineffective information resources management (IRM) in the Department, and the sale of surplus computer equipment whose memory contained extremely sensitive data.

The Department has not yet acted on our recommendation that the Attorney General ensure that all litigative organizations perform risk analyses and correct identified problems in their management information systems. The Department also needs to develop uniform, accurate, and complete case information and an IRM plan and augment the capabilities of its central IRM office if it is to get the most from its IRM expenditures. We have urged the Attorney General to ensure that all Justice components conduct information management risk assessments and develop plans to correct problems identified. (GAO/IMTEC-90-69, see p. 652, and GAO/IMTEC-91-4, see p. 655.)

The lack of reliable case management data and costs has limited the Department's ability to assess the effectiveness and costs of its various activities, such as defense procurement fraud prosecutions. The Department has made some progress in developing the needed case management data. The Criminal Division has developed the ability to track the time devoted to defense procurement fraud cases, and the Executive Office of the U.S. Attorneys is developing a case-weighting system. Effective resource use requires that all Justice components have good case management data that reflect the time and resources needed for different types of cases. Without such data, the Department cannot accurately estimate the resources needed to pursue specific types of cases. (GAO/GGD-88-96, see p. 647.)

Recently, the Justice Department designated as surplus computer equipment that contained in its memory extremely sensitive information, including the identification of confidential informants. Given these recent breaches in security, the Attorney General should direct all Justice agencies to identify surplus computer equipment to determine whether it could have contained sensitive data. If it did, Justice should assess the extent to which compromising such data may damage or may have damaged its mission and the lives of witnesses, confidential informants, and undercover agents. (GAO/T-IMTEC-91-6, see p. 660.)

**Products With Open
Recommendations:
Administration of Justice**

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Immigration Reform: Verifying the Status of Aliens Applying for Federal Benefits

HRD-88-7, 10/01/87 GAO Contact: Joseph F. Delfico, (202)275-6193

Background

Pursuant to a legislative requirement, GAO reviewed the problems states encountered in verifying with the Immigration and Naturalization Service (INS) the eligibility of alien applicants for various federal aid programs.

Findings

GAO found that: (1) four of the six states it reviewed estimated costs and savings of about \$127,000 and \$3.1 million, respectively, in unemployment compensation as a result of alien verification pilot projects; (2) in 1983, California realized over \$19 million in savings before it abandoned its verification program as a result of a lawsuit; (3) New York realized about \$52,000 in savings but included erroneous payments; (4) only Colorado verified the eligibility of alien applicants for the Medicaid, Food Stamp, and Aid to Families with Dependent Children (AFDC) programs, but state officials did not favor continuance of the pilot project because they believed that savings were small and few aliens sought benefits; (5) the six states it reviewed realized savings of about \$579,000 in education assistance programs; (6) there was no alien verification for housing programs in the six states, since federal law and the courts prohibited denial of assistance to aliens; and (7) the federal and state governments do not collect data on alien program applicants and verification costs, making savings estimates difficult and unprojectable.

Open Recommendations to Agencies

Recommendation: The Secretaries of Agriculture, Education, Health and Human Services, Housing and Urban Development, and Labor should begin developing criteria and methodologies for granting waivers and ensure that states and other administering agencies begin developing, through such means as pilot tests, empirical performance data related to Immigration Reform and Control Act (IRCA) verification procedures for use in deciding waivers.

Addressee: Department of Agriculture
Status: Action in process. The Food and Nutrition Service (FNS) completed a study of the cost-effectiveness of IRCA verification procedures for the Food Stamp Program and concluded that IRCA procedures did not appear cost-effective when compared with the usual verification procedures. Interim final regulations were published in October 1988; final regulations are expected sometime in 1992 after Farm Bill regulations are completed.

Addressee: Department of Education
Status: Action in process. Education completed its national pilot test and determined that applying IRCA verification procedures to postsecondary institutions would not be cost-effective. In its March 1988 report to Congress, Education waived its participation in the IRCA verification program. Regulations were published for comment in April 1991. The agency is still addressing comments.

Addressee: Department of Health and Human Services

Status: Action in process. Regulations implementing this recommendation are on hold following a related court case the Health Care Financing Administration (HCFA) lost in California. The Department of Health and Human Services (HHS) is seeking legislation that is subject to a lengthy approval process. More information will be available in late 1991.

Addressee: Department of Housing and Urban Development

Status: Action in process. The Department of Housing and Urban Development (HUD) sees no reasonable basis to grant waivers and believes that the telephone access method would be cost-effective even for the smallest administering entities. On October 19, 1988, HUD issued proposed rules describing alien verification. HUD expects its Office of the General Counsel to issue final rules in late 1991.

Recommendation: The Secretaries of Agriculture, Education, Health and Human Services, Housing and Urban Development, and Labor should increase efforts to provide guidance to administering entities on IRCA requirements, the criteria and procedures for granting waivers, and the types of verification costs that will be reimbursable.

Addressee: Department of Agriculture
Status: Action in process. The Department of Agriculture (USDA) issued an interim rule on implementation requirements and reimbursable verification costs on October 7, 1988. The issuance of final regulations is expected sometime in

1992. USDA does not plan to develop criteria and procedures for requesting waivers other than those set forth in the law.

Addressee: Department of Education

Status: Action in process. Education decided to waive the act's requirements, but is developing regulations to implement an alternative verification system. Regulations were published for comment in April 1991. The agency is currently addressing the comments.

Addressee: Department of Health and Human Services

Status: Action in process. Regulations implementing this recommendation are on hold following a related court case HCFA lost in California. HHS is seeking legislation that is subject to a lengthy approval process. More information will be available in late 1991.

Addressee: Department of Housing and Urban Development

Status: Action in process. On October 19, 1988, HUD issued proposed rules for administering entities on the IRCA verification requirements. Final rules are expected by late 1991. Guidance on waivers is not anticipated until some experience with the process has been gained.

Recommendation: The Secretaries of Agriculture, Education, Health and Human Services, Housing and Urban Development, and Labor should develop and implement plans for capturing data on numbers of alien applicants, savings, and costs of verification with INS and for monitoring the system to ensure that administering entities use the most effective and economical verification means.

Addressee: Department of Agriculture
Status: Action in process. The USDA interim rule guiding state food stamp

agencies opting to implement IRCA verification procedures before October 1, 1988 requires them to submit for review and approval a state plan attachment and budget projection statement that provides data on the numbers of alien applicants, expected savings, and verification costs. Final regulations are expected to be published in 1992.

Addressee: Department of Housing and Urban Development

Status: Action in process. HUD procedures will include minimal recordkeeping requirements to capture sufficient data. HUD believed that existing systems would be sufficient for monitoring and stated that existing entities were responsible for determining the most effective means of administering HUD programs, including verification.

Immigration Control: A New Role for the Social Security Card

HRD-88-4, 03/16/88 GAO Contact: Joseph F. Delfico, (202)275-6193

Background

Pursuant to a legislative requirement, GAO: (1) explored ways to reduce the potential for fraud in obtaining and using social security number (SSN) cards; and (2) identified technological alternatives for making the card more resistant to counterfeiting.

Findings

GAO found that: (1) the SSN application process was vulnerable to fraud, since there were thousands of different documents applicants could use to support their applications; (2) support documents, such as birth certificates,

were easy to obtain, counterfeit, or alter, with no practical way for the Social Security Administration (SSA) to verify them; and (3) employers were untrained in document verification. GAO also found that: (1) designating the SSN card as the only acceptable document aliens could use for employment eligibility verification under the Immigration Reform and Control Act (IRCA) would simplify employment eligibility; (2) Immigration and Naturalization Service (INS) certification of alien employment eligibility could improve SSA procedures; (3) although magnetic strips, integrated circuitry, and lasers would make SSN cards more resistant to

counterfeiting, they would not preclude persons from using fraudulent documents to obtain valid cards; (4) the introduction of color copiers has posed a significant threat to SSN card integrity; and (5) although IRCA provided that general revenues finance changes to the SSN card, the Social Security Trust Funds paid for the replacement of 1.6 million cards at a cost of \$11.6 million.

Open Recommendations to Agencies

Recommendation: The Secretary of Health and Human Services should direct the Commissioner of Social

Security to experiment with increased document verification to determine the extent of fraud and the benefits of additional verification.
Status: Action in process. SSA has completed a document verification study. A draft of the study is being circulated internally and a decision on improving verification will be made in the near future.

Recommendation: The Secretary of Health and Human Services and the Attorney General should develop a plan for annotating SSN cards for aliens who are authorized to work in this country on a temporary basis.

Addressee: Department of Health and Human Services
Status: Action in process. Under IRCA, SSA needs a presidential delegation of authority to annotate the SSN card. This delegation is being negotiated.
Addressee: Department of Justice
Status: Action in process. To annotate the SSN card under IRCA, SSA needs a presidential delegation of authority. This delegation is being negotiated.

Recommendation: The Attorney General and the Secretary of Health and Human Services should study the cards confiscated from illegal aliens to identify

the extent and methods employed to obtain and use SSN cards.
Addressee: Department of Health and Human Services
Status: Action in process. The Department of Health and Human Services' (HHS) Inspector General is studying confiscated cards; the resulting report is to be completed in fiscal year 1992.
Addressee: Department of Justice
Status: Action in process. The HHS Inspector General is studying confiscated cards and preparing a report, to be completed in fiscal year 1992.

Defense Procurement Fraud: Justice's Overall Management Can Be Enhanced

GGD-88-96, 06/29/88 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO examined the Department of Justice's (DOJ) overall management of its defense procurement fraud investigations.

Findings

GAO found that DOJ: (1) lacked complete and timely information about case referrals and case status, since investigating agencies and DOJ attorneys frequently failed to report such data to its Fraud and Corruption Tracking (FACT) System; (2) did not gather information about the number of attorneys involved in defense

procurement fraud investigations and prosecutions; (3) stated that it needed more staff for such investigations and prosecutions, but lacked a case-weighting system that could help it assess and justify additional resource requirements; and (4) lacked written management plans outlining its current and future efforts in this area. GAO also found that: (1) turnover among attorneys and support staff had an adverse impact on investigations; (2) DOJ provided adequate, timely guidance to investigating attorneys on an as-needed basis; (3) DOJ case monitoring procedures varied according to each case's importance and sensitivity; (4) DOJ did not maintain written records of staff assignments or time commitments

to specific cases; and (5) attorneys did not develop general or specific written investigation plans.

Open Recommendations to Agencies

Recommendation: The Attorney General should develop a means for determining the amount of attorney resources being spent on defense procurement fraud and pursue the development of a case-weighting system.
Status: Action in process. The Criminal Division can now track time spent on defense procurement issues. The Executive Office for U.S. Attorneys is developing a case-weighting system.

Asset Forfeiture: An Update

T-GGD-89-17, 04/24/89 GAO Contact: J. William Gadsby, (202)275-8387

Background

GAO discussed how the Customs Service and the Department of Justice (DOJ) could more quickly process seized assets. GAO noted that: (1) such seized assets as cash and real estate have increased by 3,200 percent since 1979, now totalling \$1.1 billion; (2) both Customs and DOJ used their asset forfeiture funds to finance program expenses, share with state and local law enforcement agencies, and fund drug enforcement activities; (3) judicial forfeiture, required for seized cash amounts over \$100,000, took longer than administrative forfeiture; (4) no one contested 89 percent of judicially forfeited cash,

resulting in default judgments; (5) neither DOJ nor Customs had policies on how long transfer of seized assets to forfeiture funds should take, and frequently took more than 30 days to accomplish transfer; and (6) property equity, value, and title problems made disposal of forfeited real estate time-consuming and unprofitable.

Open Recommendations to Agencies

Recommendation: The Attorney General and the Secretary of the Treasury should: (1) ensure that, upon enactment of appropriate legislation, cash cases over \$100,000 which have not had

complaints for forfeiture filed with the court are reviewed for conversion to administrative forfeiture; and (2) establish priority processing of uncontested administrative cash seizures over \$100,000.

Addressee: Department of Justice
Status: Action in process. DOJ has formally agreed to implement this recommendation as soon as the legislative recommendation is adopted by Congress.

Addressee: Department of the Treasury
Status: Action in process. Treasury has formally agreed to implement this recommendation as soon as the legislative recommendation is adopted by Congress.

Profitability of Customs Forfeiture Program Can Be Enhanced

T-GGD-90-1, 10/10/89 GAO Contact: J. William Gadsby, (202)275-8387

Background

GAO discussed how effectively the U.S. Customs Service managed its noncash assets seized from criminal enterprises. GAO found that: (1) the volume of seized assets has increased 3,800 percent, to \$1.3 billion, since 1979; (2) remission of property to the owners after payment of fines or penalties accounted for \$301.8 million of the total property disposed, while sales, the next highest disposal category, accounted for \$42.8 million; (3) Customs did not maintain information on liens paid, storage costs, or any other program costs, and understated

revenues, because it did not collect data on fines and penalties collected in lieu of forfeiture; (4) in 1988, remissions expenses exceeded revenues by \$3.2 million because Customs granted relief for innocent owners for all or a portion of storage costs; (5) Customs' guidelines on constructive seizures, which allowed owners to maintain but not sell or mortgage properties, applied only to actions taken against offenders carrying small amounts of drugs; (6) declining average property prices reduced revenues 57 percent between 1988 and 1989 because drug traffickers used low-

value vehicles in an effort to hold down their overhead caused by Customs seizure and forfeiture; (7) Customs lost an average of \$204 per vehicle due to storage and sale expenses because regulations provided that it could junk property appraised at less than \$1,000; and (8) Customs' lack of internal controls has allowed the sale of property substantially below fair-market value without prior management approval.

Open Recommendations to Agencies

Recommendation: The Secretary of the Treasury should instruct the Customs Service to ensure that all areas within the program that are identified as vulnerable to internal control risk are effectively covered by Customs' internal audit plan.

Status: Action in process. The Treasury Inspector General (IG) is conducting a review.

Recommendation: The Secretary of the Treasury should instruct the Customs Service to rigorously monitor the contractor's risk management efforts, particularly efforts to avoid fraud, waste, and abuse.

Status: Action in process. The Treasury IG is conducting a review.

Recommendation: The Secretary of the Treasury should instruct the Customs Service to collect accurate program cost

data by seizure, including lien costs, to effectively report the financial performance of seizure and disposal operations both by type of disposal and category of property.

Status: Action in process. Customs is working to improve its information and accounting systems, including the collection of lien costs.

Immigration Control: Deporting and Excluding Aliens From the United States

GGD-90-18, 10/26/89 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO analyzed: (1) legal and administrative provisions governing the Immigration and Naturalization Service's (INS) release of aliens pending their deportation hearings held by the Department of Justice's Executive Office for Immigration Review (EOIR); (2) the frequency and conditions under which INS released aliens pending hearings and appeals; and (3) the number of aliens who did not appear at hearings and the consequences of their failure to appear.

Findings

GAO found that: (1) the government deported an average of 22,000 aliens annually between 1986 and 1988, although millions of aliens illegally entered the United States every year; (2) INS typically released apprehended illegal aliens on bond or on their own recognizance pending their deportation hearings; (3) about 27 percent of

apprehended aliens failed to appear for their deportation hearings in New York and Los Angeles; (4) EOIR immigration judges typically closed the cases of aliens who did not appear for hearings, citing their reluctance to hold hearings in absentia because INS may not have properly notified aliens about hearing dates, times, and locations; (5) INS notified aliens by letter of hearing times and places, but did not verify the addresses aliens gave them; (6) aliens who were reapprehended after failing to appear at hearings could still apply for relief from deportation; (7) aliens who failed to appear at hearings delayed the deportation process and actually increased their ability to meet such provisions for relief from deportation as residing in the United States for 7 years, establishing community roots, undertaking positive and beneficial activities, and establishing a family; (8) INS lacked adequate funding to apprehend most illegal aliens, detain those it apprehended, pursue those who did not appear at hearings, and ensure their removal when ordered to depart;

and (9) INS emphasized identifying and removing aliens who committed crimes for which they could be deported and assigned low priority to apprehending aliens whose only crime was being in the United States illegally.

Open Recommendations to Agencies

Recommendation: In connection with improving notification procedures, the Attorney General should direct INS and EOIR to develop a better means by which INS can inform aliens of their hearing date and location when apprehended.

Status: Action in process. INS and EOIR have agreed to meet and discuss improving notification procedures.

Recommendation: The Attorney General should direct the Commissioner, INS, to: (1) monitor the effect of implementing GAO recommendations; and (2) if the results show that immigration judges are reluctant to rule on such cases, develop

procedures, with EOIR input, covering the circumstances for which aliens' requests to have the locations of their deportation hearings changed would be

approved or denied. Such circumstances could include: (1) the basis for the aliens' requests; (2) the use of addresses, which

INS can verify; and (3) humanitarian concerns.
Status: Action not yet initiated.

Customs Automation: Duties and Other Collections Vulnerable to Fraud and Abuse

IMTEC-90-29, 02/28/90 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO assessed the U.S. Customs Service's automated revenue collection and deposit processes, focusing on its internal control weaknesses.

unaccounted-for collection documents could allow the potential for theft or fraud; and (3) weaknesses in Customs' ability to perform its mission were grounds for disclosure and actions under the Federal Managers' Financial Integrity Act of 1982.

and use of the new pre-numbered documents. At a minimum, internal controls should be instituted so that documents can always be traced to the individual to whom assigned, all changes in the status of documents are properly justified, and error reports on missing documents are promptly resolved.

Findings

GAO found that: (1) Customs could be losing millions of dollars in duties and other collections due to abuse and a breakdown of internal controls over its collection documents; (2) the 5 million

Open Recommendations to Agencies

Recommendation: The Commissioner of Customs should enforce stringent internal controls over the assignment

Status: Action in process. Customs has issued new directives, redesigned the Automated Collection System to track documents, and established time frames for resolving errors. New documents are to be issued in late 1991.

Immigration Reform: Employer Sanctions and the Question of Discrimination

GGD-90-62, 03/29/90 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a legislative requirement, GAO reviewed implementation and enforcement of Immigration Reform and Control Act of 1986 (IRCA) provisions regarding sanctions against employers who knowingly hire unauthorized workers, focusing on: (1) the act's implementation; (2) whether the act caused a widespread pattern of discrimination against U.S. citizens or

other eligible workers; and (3) whether the act caused an unnecessary burden on employers.

Findings

GAO found that: (1) the law reduced illegal immigration and did not pose an unnecessary burden on employers; (2) federal agencies generally carried out the law; and (3) the law had generally not been used as a vehicle to file

frivolous complaints against employers. GAO also found that: (1) it was difficult to determine whether discrimination was a direct result of IRCA; (2) 65 percent of employers reported that they complied with IRCA; (3) persons of Hispanic and Asian origin suffered higher levels of discrimination; (4) because of the law, about 10 percent of employers began one or more discriminatory practices; (5) 78 percent

of employers wanted simpler or better employee verification systems, and more employers that reported discriminatory practices desired such changes than those that did not report discrimination; and (6) about 9 percent of employers said that they only hired U.S.-born persons or did not hire persons with temporary work eligibility documents.

Open Recommendations to Congress

Recommendation: Congress may wish to consider: (1) leaving the sanctions and antidiscrimination provisions of the law as they are for the present time; (2) repealing those provisions; or (3) leaving the current provisions in place and enacting legislation to amend the IRCA verification system to reduce the extent of discrimination resulting from IRCA. **Status:** Action taken not fully responsive.

Recommendation: Should Congress decide to retain sanctions and improve the current verification system, it should keep in mind the three principles of: (1) reducing the number of work eligibility documents; (2) making the documents more counterfeit-resistant and less

vulnerable to being used fraudulently; and (3) applying any reduced work eligibility documents to all members of the work force. Congress could then defer further consideration of repealing the sanctions and antidiscrimination provisions of IRCA until a simpler and more reliable verification system has been in place for sufficient time to evaluate its effectiveness.

Status: Action not yet initiated.

Congressional Action: Congress made some changes to IRCA through the enactment of the Immigration Act of 1990. It is not known if any further action is planned.

Open Recommendations to Agencies

Recommendation: The Attorney General should require the Commissioner, Immigration and Naturalization Service (INS), to begin to reinspect employers of unauthorized aliens to determine if they have come into compliance.

Status: Action not yet initiated.

Recommendation: The Attorney General should require the Commissioner, INS, to document in the official case file the

major events that occurred during the sanctions investigation, such as: (1) whether the employer was educated about the law's requirements; and (2) the reasons for changes in the fine initially assessed that could affect the penalties for subsequent violations.

Status: Action not yet initiated.

Recommendation: The Attorney General should require the Commissioner, INS, to modify the General Administrative Plan (GAP) program to provide reliable measures of employer compliance in various industries, nationwide, and within INS regions. The GAO-proposed sampling plan is one way to obtain such reliable measures.

Status: Action taken not fully responsive. The reliability of some GAP data has improved, but the sample design does not allow reliable regional or industrial compliance projections.

Recommendation: The Attorney General should require the Commissioner, INS, to establish an automated employer sanctions information system that can be used to more effectively implement the program.

Status: Action not yet initiated.

IRCA Anti-Discrimination Amendments of 1990

T-GGD-90-51, 06/27/90 GAO Contact: Lowell Dodge, (202)275-8389

Background

GAO discussed proposed immigration antidiscrimination legislation. GAO found that: (1) there was a substantial amount of discrimination as a result of the Immigration Reform and Control Act (IRCA); (2) education and reform would help reduce discrimination; (3) the proposed legislation retains the

verification and sanctions system while seeking to reduce its discriminatory impact; (4) the proposal fails to address improvements needed in the IRCA verification system; (5) the legislation would extend antidiscrimination protection to seasonal workers who obtain temporary resident status under IRCA; (6) the legislation would require the establishment of Special Counsel

regional offices in five specified cities; and (7) little purpose would be served by extending existing IRCA reporting requirements.

Open Recommendations to Congress

Recommendation: Congress should change any mandate for further GAO

reports concerning IRCA-related discrimination to omit the current language from IRCA that: (1) specifically requires GAO to determine whether a widespread pattern of discrimination exists which has resulted solely from employer sanctions; and (2) triggers expedited procedures for repeal of sanctions on this basis.
Status: Action not yet initiated.

Recommendation: Congress should ensure that any bill language leaves GAO discretion to determine what methodology and criteria to use for its final report and how to characterize its findings based on the information and methodologies developed.
Status: Action not yet initiated.

Recommendation: If there are to be further reporting requirements for GAO, Congress should make those requirements consistent with the draft bill language.
Status: Action not yet initiated.

Congressional Action: Congress has not taken any action to require a report on IRCA by GAO.

Justice Automation: Tighter Computer Security Needed

IMTEC-90-69, 07/30/90 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO reviewed the Department of Justice's (DOJ) computer security program, focusing on compliance with the Computer Security Act of 1987 and other applicable laws and regulations.

Findings

GAO found that: (1) DOJ computer security programs had many weaknesses that posed significant risks to the integrity of its computer systems and sensitive information within its organizations; (2) security program weaknesses included security deficiencies, unprepared or untested contingency plans, and inadequate security training; (3) although DOJ moved its main data center operations from an older facility to improve computer operations security, the new center still had several material security weaknesses that could adversely affect its operations and pose significant risks to litigating organizations' data; and (4) main data center weaknesses included inadequate physical security, inadequate contingency planning and risk assessment, computer operations

weaknesses, long-standing security weaknesses, and inadequate oversight.

Open Recommendations to Agencies

Recommendation: The Attorney General should immediately correct the security weaknesses described in this report; specifically, ensure that all litigating organizations prepare and test contingency plans, perform thorough risk analyses, correct the problems identified, and establish mandatory computer security training programs.
Status: Action in process. Contingency plans have been prepared for litigating organizations; however, all of the plans have not been tested. Risk analyses have been completed for all litigating organizations and problems identified have been addressed. In May 1991, DOJ made computer security training mandatory, requiring all employees to receive minimum training by late 1991. Training began in May 1991.

Recommendation: The Attorney General should immediately initiate steps at the main data center to ensure that: (1) a contingency plan is completed, and identified physical and computer

operations weaknesses are corrected; and (2) a full-scope risk assessment of overall physical, system, and telecommunications security is conducted, and any weaknesses found are corrected.

Status: Action in process. Estimated completion date: late 1991. The contingency plan has been completed but it has not yet been tested. Data center security improvements were begun in February 1991; completion is expected by the end of fiscal year 1991.

Recommendation: The Attorney General should improve the Justice Management Division's (JMD) leadership and oversight of departmental computer security programs by ensuring that security staff: (1) perform periodic audits and reviews of sensitive systems; (2) certify the adequacy of security safeguards; and (3) monitor the litigating organizations' compliance with computer security training requirements.

Status: Action in process. A new compliance review unit is being staffed in the JMD security office. Seven security reviews were completed in late 1990 and early 1991. Another four are scheduled to begin during 1991. DOJ has agreed to certify the adequacy of

security safeguards on a system-by-system basis. Training is to be monitored by tracking employee certifications of training received.

Recommendation: The Attorney General should report the computer security

deficiencies as a material internal control weakness under the Federal Managers' Financial Integrity Act (FMFIA), and discuss the actions that will be taken to correct the weakness.

Status: Action in process. In a June 20, 1991 memo to the Office of Management

and Budget, DOJ stated that it intended to designate automatic data processing security as a material weakness under FMFIA in its 1991 report and discussed planned corrective actions.

Information Management: Immigration and Naturalization Service Lacks Ready Access to Essential Data

IMTEC-90-75, 09/27/90 GAO Contact: Jack L. Brock, (202)275-3195

Background

GAO assessed how effectively the Immigration and Naturalization Service (INS) managed its information resources to support its mission, focusing on information needed by headquarters and field officials to adequately carry out their missions.

Findings

GAO found that: (1) INS managers and field officials did not have adequate, reliable, and timely information to effectively carry out its mission; (2) INS information resources management (IRM) problems included incomplete and inaccurate program and management data, a loose collection of automated information systems, and ad-hoc, labor-intensive, manual systems that were inaccessible; (3) individual office autonomy resulted in regional and central offices developing redundant systems; (4) INS lacked information needed to effectively deal with criminal aliens, process applications, and account for or collect fees, which increased its

risk of admitting illegal aliens and granting benefits to ineligible aliens; (5) INS could not collect millions of dollars in breached surety bonds and other penalties; (6) the INS IRM plan offered conceptually sound goals, but provided little direction on how to meet them; (7) INS did not implement policies to promote information sharing and standardized system development; and (8) INS took steps to correct information problems by enhancing systems' capabilities and improving its IRM planning process.

Open Recommendations to Agencies

Recommendation: The Attorney General should direct the Commissioner, INS, to take a leadership role in defining INS information needs and developing an architecture that will provide sufficient guidance in creating an efficient and effective IRM environment. This would include revising the INS long-range IRM plan and its corresponding priorities and should: (1) be directed by a full-time

project manager who will ensure a joint and coordinated effort among headquarters and field IRM officials and program managers; (2) identify existing and planned information systems that have redundant information; and (3) ensure top management commitment and resources needed to implement this long-term effort.

Status: Action in process. The Attorney General appointed a task force to work with INS to reform IRM. Some progress has been made, but the task force is not yet finished. The INS initiated an information architecture study and expects to issue a final plan in late 1991.

Recommendation: The Attorney General should strengthen the Department of Justice's IRM review program and direct the Commissioner, INS, to follow the Attorney General's lead in broadening the focus and frequency of IRM reviews. An aggressive review effort by Justice and INS will help ensure that INS creates a fully integrated information systems environment.
Status: Action not yet initiated.

Prison Expansion: Program to Identify DOD Property for Prison Use Could Be Improved

GGD-90-110, 09/28/90 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO determined whether the Commission on Alternative Utilization of Military Facilities and the Department of Defense (DOD) adequately considered military property for conversion to minimum security prisons as an alternative to new prison construction.

Findings

GAO found that: (1) as of September 1990, the Commission had not identified any DOD property for conversion to prison use, but the Commission had not completed its review of properties; (2) because the executive order governing the program did not specify that DOD report bases subject to closure to the Commission, DOD excluded them and failed to report some excess military property to the Commission; (3) the Commission's internal control weaknesses for receipt and review of documents resulted in its failure to review 41 percent of DOD-reported properties; (4) the 2,958 properties that the Commission did review may have had inaccurate and inconsistent property descriptions; (5) the Commission judged most of the reviewed properties as not suitable for prison use; and (6) the Commission's enabling legislation did

not address such significant correctional needs as the federal government's need for higher security prisons, and state and local governments' needs for additional prison space.

Open Recommendations to Agencies

Recommendation: The Secretary of Defense should require that bases subject to closure be reported to the Commission as soon as a final decision on closure status has been made.

Status: Action in process. Estimated completion date: 01/92. The Commission's next report is due in January 1992. DOD stated it will identify base closure property to the Commission for review during the upcoming cycle.

Recommendation: The Secretary of Defense should instruct the: (1) services to report to the Commission the excess property that has been reported to the General Services Administration (GSA); and (2) Army to report to the Commission its civilian property.

Status: Action in process. Estimated completion date: 01/92. DOD has agreed to report to the Commission excess property that has been reported to GSA or is classified civilian.

Recommendation: The Commission on Alternative Utilization of Military Facilities should establish controls to ensure that it receives and reviews all property survey forms completed by the services.

Status: Action in process. Estimated completion date: 01/92. DOD, responding in its role as Commission chair, stated that it would institute procedures to ensure it receives all surveys and distributes them to the reviewing agencies.

Recommendation: The Commission on Alternative Utilization of Military Facilities should take steps to improve the property survey form to increase the likelihood of obtaining consistent and meaningful data. Actions to improve the property survey form would include redesigning it to eliminate ambiguous and open-ended questions, tailoring it to identify property for prison use, and pretesting it to identify and correct any other problems.

Status: Action in process. DOD, responding in its role as Commission chair, stated that it would review and revise the survey form and instructions to eliminate weaknesses GAO identified.

Information Resources: Problems Persist in Justice's ADP Management and Operations

IMTEC-91-4, 11/06/90 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO reviewed the Department of Justice's (DOJ) automatic data processing (ADP) management and operation capabilities.

resources management (IRM) office in accordance with applicable laws; and (5) the DOJ senior IRM official did not have clear authority to direct component organizations to implement departmental IRM decisions.

Recommendation: To strengthen the management of information resources within DOJ, the Attorney General should clarify the senior IRM official's authority in implementing departmental IRM decisions.

Findings

GAO found that: (1) problems affecting the overall management of DOJ information technology resources included DOJ components' development of separate systems, incomplete and unreliable data, and lack of an overall ADP and case management plan; (2) DOJ did not adequately respond to previous GAO recommendations to develop uniform, accurate, and complete case management information; (3) DOJ lacked the resources to adequately monitor its ADP contracts and properly conduct its oversight responsibilities; (4) DOJ structured its central information

Open Recommendations to Agencies

Recommendation: To strengthen the management of information resources within DOJ, the Attorney General should require that DOJ case management systems have uniform, accurate, and complete information on cases and require DOJ to develop an IRM plan.

Status: Action in process. DOJ is developing a standard case management system for departmentwide use. DOJ also contracted with FEDSIM for a requirements analysis.

Status: Action in process. On June 20, 1991, the Attorney General issued a memo on the senior IRM official's role. GAO does not believe that the clarification is adequate.

Recommendation: To strengthen the management of information resources within DOJ, the Attorney General should augment, where needed, DOJ central IRM office capabilities in the technical and management areas, ADP contract management, and oversight. **Status:** Action in process. DOJ has hired a deputy assistant attorney general for IRM. DOJ also is hiring more oversight staff for the Department Security Office.

Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems

GGD-91-28, 01/23/91 GAO Contact: J. William Gadsby, (202)275-8387

Background

GAO conducted a general management review of the Immigration and Naturalization Service (INS) to assess its overall role and performance and identify ways to meet the challenges it

faces while experiencing unprecedented growth and change.

Findings

GAO found that INS management: (1) was constrained by such environmental

factors as the diversity of its mission, unpredictable and changing world conditions, negative perceptions of its abilities, and difficulty in coordinating its work with various agencies and outside interest groups; (2) failed to provide effective leadership, resulting in

the development of a group of autonomous, segmented programs; (3) failed to address critical strategic issues facing its enforcement mission and did not delineate responsibilities among the various programs, resulting in program overlaps, inconsistent implementation, and ineffective personnel use; (4) failed to address the increase in convicted aliens and unauthorized aliens in its detention program, resulting in inadequate and understaffed facilities; (5) lacked an overall enforcement strategy to integrate interrelated programs, clearly delineate responsibilities, determine appropriate staff for those responsibilities, and assess detention needs; (6) failed to fully utilize new revenue sources to improve service delivery problems and alleviate substantial delays in adjudication processing; (7) failed to resolve problems involving delays at land border crossings and excessive overtime costs within its inspection program; (8) had a chaotic approach toward budget development and weak controls over revenue and expenditures; and (9) had a decentralized organizational structure that increased geographic fragmentation of program operations. GAO also found that the INS Commissioner, in early 1990, centralized budget control and personnel functions and developed a reorganization proposal, but failed to provide stronger accountability systems or adequately address serious geographic and program fragmentation in its enforcement program.

Open Recommendations to Agencies

Recommendation: To address the overlap and duplication in the enforcement program, the Commissioner, INS, should assess the enforcement mission and determine the appropriate units and personnel needed to carry out the various roles. As a general rule, the Border Patrol should

concentrate its efforts at the borders, and Investigations Division agents should be assigned tasks commensurate with their training and grade level.

Status: Action taken not fully responsive. In March 1991, INS completed a cursory assessment of enforcement roles. However, this study did not address what unit and type of personnel should carry out the multifaceted enforcement program.

Recommendation: To deal with problems in the detention program, the Attorney General and the Commissioner, INS, should work together to determine the level of funds needed to fill all required detention positions and address the security problems at detention facilities. The Commissioner should take steps to immediately address the dangerous situations at the El Centro and Krome detention facilities. INS should initially attempt to resolve those staffing and security shortages within existing resource constraints. In the long term, the Commissioner should develop a detention plan that not only determines the detention space needed, but also specifically outlines the level of security required for the increasing number of aliens detained. The Commissioner should also ensure that staff requirements, both in terms of number and funds needed, become an integral part of detention planning so that new facilities are not only built, they are also adequately staffed.

Addressee: Department of Justice: Immigration and Naturalization Service
Status: Action taken not fully responsive. Justice and INS will not discuss specific recommendations until the management report by AG consultants is public. Although some actions have been taken to increase staff and security at selected detention facilities, INS has not developed a comprehensive plan that specifies how to detain those aliens who are required to be detained.

Addressee: Department of Justice

Status: Action taken not fully responsive. Justice and INS will not discuss specific recommendations until the management report by AG consultants is public. Although some actions have been taken to increase staff and security at selected detention facilities, INS has not developed a comprehensive plan that specifies how to detain those aliens who are required to be detained.

Recommendation: To confront the continuing delays in adjudications processing, the Commissioner, INS, should develop a long-term plan to improve processing of applications. Such a plan should include an annual assessment of adjudications work load and resources, and it should provide more resources to district offices that have historically not been able to process applications in a timely manner. This plan should also consider the impact of significant changes to the adjudications program, such as the establishment of the asylum corps and the role of the service centers in increasing productivity. INS leadership must take full advantage of opportunities to improve service through better resource management and effective use of new sources of revenues provided by the examinations fee account.

Status: Action taken not fully responsive. Justice and INS will not discuss specific recommendations until the management report by AG consultants is public.

Recommendation: To enhance INS inspections activities, the Commissioner, INS, should develop an inspection work-force plan that better identifies current staffing requirements and charts out actions for future staffing needs. Such a plan should specifically outline steps necessary to address the shortage of staff at land border crossings and the highly

inefficient use of overtime. In addition to better work-force planning, the Commissioner should take a number of other actions to address high overtime costs. Specifically, scheduling procedures at all ports of entry should be examined to minimize unneeded overtime. Also, the Commissioner should reexamine the 1931 act that authorizes overtime to see whether legislative revisions are needed to make the law more consistent with today's environment and prudent business practices.

Status: Action not yet initiated.

Recommendation: To strengthen the INS budget development process and controls over revenue and expenditures, the Attorney General, in consultation with the Director, Office of Management and Budget (OMB), should establish a group of top experts to work with the INS Commissioner on how best to design and implement an effective financial management system by the end of fiscal year 1991. Those experts should be from both other federal agencies and private organizations. Specifically, the financial management system must comply with applicable accounting principles, standards, and requirements and internal control standards and such policies and requirements as may be prescribed by the OMB Director.

Status: Action taken not fully responsive. INS has taken some steps to address financial management problems, including improving debt collection and establishing a resource management branch. However, INS has not assembled a top expert group, as GAO recommended.

Recommendation: In concert with the implementation of a financial management system, INS should put in place an integrated budget formulation process that provides more stability, is based on priorities established in the planning process, and allocates resources on the basis of work load.

Status: Action taken not fully responsive. INS established a resource management branch to develop budget priorities and to aid in resource allocation within programs, but more needs to be done to assess overall priorities among INS programs.

Recommendation: The Commissioner, INS, should continue to take steps to increase headquarters' role in program resource and policy decisions. However, before a revised organizational structure is adopted, the Commissioner should develop an enforcement strategy. Once specific roles and responsibilities of the various enforcement organizations are determined, the Commissioner should develop an organization to carry out those responsibilities. To this end, the Commissioner should consider consolidating all field enforcement functions, including Border Patrol and district enforcement organizations, under a revised field structure that would centralize all INS enforcement functions under a single official within a geographic area.

Status: Action not yet initiated.

Recommendation: The Commissioner, INS, should strengthen planning and accountability systems so that all managers are working toward the same goals and can be held accountable for organizational performance.

Status: Action taken not fully responsive. INS has hired a contractor to begin to develop agencywide planning in a total quality management (TQM) context. This is the first step in identifying organizational goals and priorities.

Recommendation: The financial management system, as designed by the Attorney General, should provide for complete, reliable, consistent, and timely information that is prepared on a uniform basis and is responsive to the

financial information needs of agency management.

Status: Action not yet initiated.

Recommendation: The financial management system, as designed by the Attorney General, should provide for the development and reporting of cost information.

Status: Action not yet initiated.

Recommendation: The financial management system, as designed by the Attorney General, should provide for the integration of accounting and budgeting information.

Status: Action not yet initiated.

Recommendation: The financial management system, as designed by the Attorney General, should provide for controls to ensure that all fees are being collected, deposits of funds are timely and adequately supervised, fee estimates are more accurate, and fees are used for the appropriate purposes.

Status: Action taken not fully responsive. INS has taken some actions to strengthen fee management, including issuing regulations to discourage the mailing of cash. However, INS still does not have a system to compare applications received with monetary receipts.

Recommendation: The Commissioner, INS, with input from the Department of Justice, Congress, and immigration interest groups, should clearly set priorities within the framework of the overall INS mission. Involvement of all those parties is critical, not only because of the additional perspective each brings to the process, but because with their involvement, they will be more committed to the priorities. Once priorities are established, the Commissioner should improve INS operational planning by: (1) developing program and unit operational plans

based on agencywide priorities that adequately consider program interrelationships; (2) coordinating and integrating all individual program and administrative function planning; and (3) designing a multi-year staff development program to ensure that appropriate people are properly trained and developed to manage INS and carry out its mission.

Status: Action in process. INS has hired a contractor to begin to develop

agencywide planning in a TQM context. This is the first step in identifying organizational goals and priorities.

Recommendation: The Commissioner, INS, should improve communication by: (1) clearly communicating priorities and goals so that program and unit managers can develop action plans that support and are integrated with overall INS priorities; and (2) involving more

managers in policy development decisions.

Status: Action not yet initiated.

Recommendation: The Commissioner, INS, should establish systems to foster accountability. Most critical to this process is the development of accurate, meaningful, and timely management information.

Status: Action not yet initiated.

Private Prisons: Cost Savings and BOP's Statutory Authority Need to Be Resolved

GGD-91-21, 02/07/91 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO provided information on the use of privately operated prisons and jails by federal, state, and local governments.

Findings

GAO found that: (1) some state and local governments used privately managed and operated prisons and jails to supplement their public facilities; (2) as of November 24, 1990, 24 government agencies contracted or planned to contract for prison or jail space for their adult general-inmate populations; (3) state correctional officials reported that privately managed and operated correctional facilities reduced overcrowding and provided prison space at a lower cost; (4) some state and local governments were reluctant to or decided not to use private prisons or jails because they believed that the benefits of privatization had not yet been proven; (5) the Bureau of Prisons (BOP) planned to contract to construct, staff, and

manage a minimum-security facility for short-term alien prisoners; (6) BOP believes that more testing and experience are needed before operational questions about privatization benefits can be answered; (7) public policy questions concerning the extent to which the government should privately contract for the management and operation of prisons were difficult to resolve; (8) the Immigration and Naturalization Service and the U.S. Marshals Service reported that they used private-sector facilities within their jurisdictions primarily to quickly ease overcrowding; (9) BOP lacked sufficient authority to contract to house adult general-inmate populations; and (10) more research and testing were needed on the benefits, limitations, and most effective applications of privatization.

Open Recommendations to Congress

Recommendation: Congress should grant BOP the explicit statutory authority to

design and implement demonstration programs and projects to fully test and evaluate the benefits and limitations of privatization. Such legislation should specifically authorize BOP to contract for privately operated prisons for demonstration purposes and, among other concerns, should address the need for adequate controls in those contracts to preserve the rights of federal prisoners, ensure contractor accountability, and provide for effective government oversight.

Congressional Action: Congress has not acted on the recommendations.

Open Recommendations to Agencies

Recommendation: Should Congress grant BOP authority to test privately operated prisons, the Attorney General should direct the National Institute of Justice (NIJ) to assist BOP in

determining the benefits and limitations of privatization. In this regard, NLJ should help design and build into BOP

tests a research component that would allow for empirical evaluations to demonstrate privatization's advantages,

disadvantages, and conditions for greatest potential.
Status: Action not yet initiated.

U.S. Attorneys: Better Models Can Reduce Resource Disparities Among Offices

GGD-91-39, 03/06/91 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO provided information on the Department of Justice's (DOJ) process for allocating attorneys among the 94 U.S. Attorney offices.

Findings

GAO found that: (1) between 1980 and 1989, the number of criminal matters and cases U.S. Attorneys handled increased by 36 percent, and the number of civil matters and cases increased by about 7 percent; (2) the U.S. Attorneys' offices' time used in processing criminal and civil matters increased by 56 percent, from 1,694 attorney work years in 1980, to 2,650 attorney work years in 1989; (3) the Executive Office of U.S. Attorneys' process to allocate new positions did not adequately account for the complexity of case loads, did not adequately measure the work done by different offices, and used the number of

judges as a predictor of the number of attorneys; (4) a GAO-developed work-load model suggested that staffing disparities existed among the U.S. Attorneys' offices; (5) for fiscal year 1989, the model determined that 44 offices spent significantly less attorney time than the model predicted for their criminal work loads and that 22 offices used significantly more time than predicted; (6) for the civil work load, there were 35 offices that took less time than predicted for their work loads and 37 that took more time than predicted; and (7) the allocation model showed a high level of agreement with the actual DOJ allocations, but differed substantially for some offices.

Open Recommendations to Agencies

Recommendation: The Attorney General should direct the Executive Office for U.S. Attorneys to implement a

quantitative work-load model for gauging the work loads of U.S. Attorney offices that is sensitive to variations in the time requirements of different types of cases.

Status: Action in process. The Executive Office for U.S. Attorneys is developing a system for collecting time and cost data for different categories of cases.

Recommendation: The Attorney General should direct the Executive Office for U.S. Attorneys to adopt a resource allocation model that responds to resource disparities among U.S. Attorney offices identified by the work-load model and can be used in conjunction with judgmental factors to allocate additional attorney positions.
Status: Action in process. The Executive Office for U.S. Attorneys has used the GAO model to assist in allocating new U.S. Attorney positions. It is also developing better time and cost data for different categories of cases.

Federal Prisons: Revised Design Standards Could Save Expansion Funds

GGD-91-54, 03/14/91 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO determined whether the Bureau of Prisons (BOP) was using reasonable and cost-effective measures of prison system inmate capacity in determining the extent of prison crowding and the need for additional facilities.

Findings

GAO found that: (1) BOP based its determination of rated capacity in existing facilities on a single-bunking standard; (2) the incidence of double-bunking varied widely among the facilities, but BOP used double-bunking extensively; (3) despite operating at 60 percent over rated capacity, BOP had not experienced unmanageable problems; (4) there was no evidence that double-bunking led to more incidents such as escapes or violence; (5) no federal statutes or regulations prohibited double-bunking; (6) while the American Correctional Association (ACA) holds to a single-bunking standard, adherence is not a prerequisite to ACA accreditation provided that other key standards are

followed; (7) BOP adopted a double-bunking standard for new medium-security facilities, and has used the new standard in preparing its expansion plans for the fiscal year (FY) 1992 budget; (8) BOP created a task force to review and update the capacity of existing facilities; (9) BOP could save substantial construction and operating costs by using a double-bunking standard to measure the rated capacity of all new and existing facilities; and (10) budgetary savings could be achieved by adopting a double-bunking standard requiring a cell size of less than 90 square feet and extending it to all cells of the prescribed size in a facility.

Open Recommendations to Congress

Recommendation: Congress should consider making funding of the BOP FY 1992 budget request for new facility construction contingent on BOP completing and justifying its transition to standards that include double-bunking wherever feasible.

Congressional Action: Congress did not implement the recommendation during

the FY 1992 budget cycle. GAO had a recent inquiry from the Senate Budget Committee staff, which indicates that there may be interest in the near future.

Open Recommendations to Agencies

Recommendation: The Attorney General should require the Director, BOP, to reassess current and proposed BOP design standards to ensure that its expansion plans and budget requests are premised on the use of standards that provide for double-bunking where feasible and limit single-bunking to those locations where double-bunking is clearly not feasible.

Status: Action taken not fully responsive. Although BOP has implemented a double-bunking policy more in line with the recommendation than its previous policy, some questions remain unanswered. GAO believes the improved policy may need to go further. The policy appears to be based on BOP intuitive judgment rather than actual experience.

Justice's Weak ADP Security Compromises Sensitive Data

T-IMTEC-91-6, 03/21/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

GAO discussed the Department of Justice's (DOJ): (1) recent sale of surplus

computer equipment that was later found to have highly sensitive data; and (2) continuing exposure to similar breaches of security. GAO noted that

DOJ: (1) showed patterns of neglect and inattention in ensuring information security nationwide; (2) was unable to provide it with such basic factual

information as the total number of employees in the U.S. Attorneys' Offices nationwide; and (3) could not be trusted to safely secure sensitive data.

Open Recommendations to Agencies

Recommendation: Because of the seriousness of this situation and the possibility of loss of life, the Attorney General should immediately identify all computer equipment designated surplus by DOJ components and determine whether it contained sensitive data.
Status: Action in process. DOJ has directed all components to identify all computer equipment designated surplus

since January 1990 and determine whether it contained sensitive data.

Recommendation: Because of the seriousness of this situation and the possibility of loss of life, the Attorney General should immediately ensure that every DOJ component that may have compromised sensitive data immediately prepare a damage assessment of the impact of the compromise on carrying out its mission and on the identity of such people as witnesses, confidential informants, and undercover agents.
Status: Action in process. DOJ is requiring any component that identified surplus computer equipment that could contain sensitive information to prepare

a damage assessment. Three components have prepared damage assessments.

Recommendation: The Attorney General should report the compromise of sensitive data and various security deficiencies as a material internal control weakness under the Federal Managers' Financial Integrity Act (FMFIA), and discuss the actions that will be taken to correct these weaknesses.

Status: Action in process. In a June 20, 1991, memo to the Office of Management and Budget, DOJ stated that it intends to designate automatic data processing security as a material weakness under FMFIA in its report expected in late 1991.

Mentally Ill Inmates: Better Data Would Help Determine Protection and Advocacy Needs

GGD-91-35, 04/17/91 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO reviewed the treatment of mentally ill inmates in correctional facilities, focusing on: (1) the extent to which correctional facilities subjected such inmates to abuse or neglect, as defined by the Protection and Advocacy for Mentally Ill Individuals Act; and (2) whether the act covered such inmates.

Findings

GAO found that: (1) the extent to which correctional facilities subjected mentally ill individuals to abuse and neglect was unknown; (2) the act provided for the establishment of protection and advocacy systems for the mentally ill (PAMI); (3) the National Institute of Mental Health (NIMH) reported in 1989

that 533 of the 18,498 cases PAMI handled dealt with prison and jail inmates, and Bureau of Prison (BOP) records indicated that, since 1986, 18 inmates had filed grievances involving mental health complaints, but some prisons may not have reported abuse or neglect cases to BOP or PAMI; (4) congressional testimonies suggested that state prisons and jails subjected mentally ill individuals to abuse and neglect; (5) two provisions of the act allowed inmates to be eligible for PAMI services; (6) in August 1990, NIMH revised its policy allowing PAMI to provide protection and advocacy services to mentally ill inmates in the general population and nonfederal facilities; (7) in 1987, the Department of Health and Human Services issued a determination that the act did not cover inmates in

federal facilities; and (8) more PAMI involvement with inmate complaints and effective PAMI activity reporting could result in more accurate data concerning the extent of abuse or neglect in correctional facilities.

Open Recommendations to Agencies

Recommendation: The Secretary of Health and Human Services should require NIMH to have PAMI identify in their annual reports to NIMH the number and types of complaints received and their status and disposition by type of facility for inclusion in the Secretary's annual report to Congress on protection and advocacy matters.

Status: Action not yet initiated.

Child Abuse Prevention: Status of the Challenge Grant Program

HRD-91-95, 05/09/91 GAO Contact: Joseph F. Delfico, (202)275-6193

Background

Pursuant to a legislative requirement, GAO provided information on the Department of Health and Human Services' (HHS) National Center on Child Abuse and Neglect's (NCCAN) Challenge Grant Program, focusing on: (1) the total amount of federal spending on child abuse prevention; (2) sources of revenue for state trust funds for abuse prevention activities; (3) the amount of funding from trust funds and other funding mechanisms used to apply for challenge grants; (4) prevention activities supported by challenge grants; and (5) administrative aspects.

Findings

GAO found that: (1) the total amount of federal funds spent on child abuse prevention was unknown; (2) by fiscal year (FY) 1989, 42 states had established child abuse prevention trust funds with revenues ranging from \$29,000 to over \$3 million, with a median trust fund

revenue of about \$240,000; (3) public and private mechanisms used to raise revenue for trust funds included state income tax checkoffs, state appropriations, interest income from endowments, surcharges on state licenses, and grants from private licenses; (4) 34 states used \$16 million in trust funds in their FY 1989 challenge grant applications, 15 states relied on dedicated line-item appropriations of \$9 million, and the other 8 states relied exclusively on child abuse prevention appropriations; (5) funding mechanisms other than trust funds and direct appropriations accounted for \$70 million in state funding, and included a broad range of programs; (6) although more than \$94 million in state funds were available for child abuse prevention activities, only \$40 million were considered for federal matching funds; (7) states relied on challenge grant funds to support community prevention programs and activities that could not be supported with state funds; and (8) other

funding mechanisms complicated grant administration.

Open Recommendations to Congress

Recommendation: If Congress decides to reauthorize the Challenge Grant Program to preserve the incentive for establishing and maintaining trust funds dedicated to preventing child abuse and neglect, it should consider amending the statute to award funds by either: (1) specifying more clearly which funding mechanisms qualify for matching funds; or (2) substituting a formula for the grant application process.

Congressional Action: S. 838 has been introduced to reauthorize the programs under the Child Abuse Prevention and Treatment Act, including the Challenge Grant Program. The bill, among other things, substituted a formula for allocating grant funds. The formula clarifies which funding mechanisms qualify for matching funds.

Asset Forfeiture: Need for Stronger Marshals Service Oversight of Commercial Real Property

GGD-91-82, 05/31/91 GAO Contact: J. William Gadsby, (202)275-8387

Background

GAO reported on various aspects of the Department of Justice's (DOJ) and the U.S. Customs Service's asset forfeiture programs.

Findings

GAO found that: (1) the failure of U.S. Marshals Service (USMS) districts to follow policy in performing such key program activities as those relating to

high-value commercial real properties resulted in a weakened internal control environment; (2) the lack of Assistant U.S. Attorney (AUSA) documentation of title information resulted in uninformed seizure decisions; (3) the lack of timely

and accurate property information inhibited effective management and oversight by property managers; (4) USMS districts failed to prepare decision documents on significant properties; (5) the lack of professional appraisals inhibited effective disposal decisions; (6) uneven oversight left the program vulnerable to mismanagement; (7) USMS did not implement such important control techniques as review and reconciliation of invoices; (8) the USMS National Asset Seizure and Forfeiture (NASAF) program was understaffed and employees were undertrained; (9) USMS districts lacked adequate policy and procedural guidance regarding roles and responsibilities for seizure and management of commercial real property; and (10) regional oversight was inadequate to ensure districts' compliance with USMS policies.

Open Recommendations to Agencies

Recommendation: To improve operations of the asset forfeiture program and better ensure USMS district office compliance with policies and procedures, the Attorney General should direct the Executive Office for Asset Forfeiture to meet with officials of all components participating in the DOJ asset forfeiture program to update and expand the 1984 memorandum of

understanding to clarify the roles of the investigative agencies, USMS, and AUSA in pre-seizure planning. The updated memorandum should clearly delineate who is to obtain title search information and notify USMS of upcoming seizures.

Status: Action not yet initiated.

Recommendation: To improve operations of the asset forfeiture program and better ensure USMS district office compliance with policies and procedures, the Attorney General should ensure that information such as title search reports, estimated market value, and potential government revenue is available for consideration in making the decision to seize property and is included on the order for seizure.

Status: Action not yet initiated.

Recommendation: The Director, USMS, should develop a training program for NASAF personnel with real property management responsibilities to address duties and responsibilities, including commercial property management and oversight of property managers.

Status: Action not yet initiated.

Recommendation: The Director, USMS, should link annual program review coverage to the USMS annual agency-wide assessment of program risk.

Status: Action not yet initiated.

Recommendation: The Director, USMS, should direct U.S. Marshals to: (1) make a formal written response to findings and recommendations included in program management reviews and specify what recommendations will be implemented, and how; and (2) set up a timetable for implementing the recommendations.

Status: Action not yet initiated.

Recommendation: The Director, USMS, should direct NASAF regions to follow up periodically on the progress of districts in implementing program review recommendations and report the progress to the Chief, USMS Seized Asset Division.

Status: Action not yet initiated.

Recommendation: The Director, USMS, should develop standards for the oversight of property managers by districts and require districts to perform oversight activities.

Status: Action not yet initiated.

Recommendation: The Director, USMS, should require that all property managers have contracts and that all contracts incorporate an effective oversight strategy.

Status: Action not yet initiated.

War on Drugs: Information Management Poses Formidable Challenges

IMTEC-91-40, 05/31/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO identified: (1) automated information systems used by federal

agencies in combatting illicit drugs; and (2) federal drug control community efforts to improve counterdrug information management.

Findings

GAO found that: (1) 24 civilian and intelligence agencies and 9 Department of Defense (DOD) components operated

over 100 drug control information systems; (2) due to the importance of effective management and sharing of information on drug trafficking activities and enforcement efforts, the Office of National Drug Control Policy (ONDCP) sponsored two interagency working groups to maximize the exchange and use of drug-related information; (3) individual agencies with varying degrees of independence needed effective central information resources management (IRM) leadership to ensure cooperative agency action and to successfully implement a governmentwide information management strategy; (4) interoperability problems among agencies' automated information systems and the use of unautomated data limited

how well agencies shared important drug investigative information; (5) data integrity problems that plagued agencies could cause misdirected interdiction operations and incriminate innocent persons; (6) agencies needed to better protect sensitive data; and (7) the proliferation of intelligence centers among agencies significantly complicated information management.

Open Recommendations to Agencies

Recommendation: The Director, ONDCP, should establish clear, measurable objectives and specific time frames for resolving each of the five issues mentioned in this report. In

addressing the leadership issue, it is important that ONDCP establish its information system goals, define mechanisms for resolving conflicts that may occur with agencies' primary mission goals, and ensure adequate funding and implementation of drug information programs.

Status: Action not yet initiated.

Recommendation: The Director, ONDCP, should report to the appropriate jurisdictional committees within Congress on ONDCP plans for addressing the five issues and periodically report on the progress made toward resolving them.

Status: Action not yet initiated.

Customs Service: 1911 Act Governing Overtime Is Outdated

GGD-91-96, 06/14/91 GAO Contact: Lowell Dodge, (202)275-8389

Background

Pursuant to a congressional request, GAO examined the U.S. Customs Service's use of inspectional overtime.

Findings

GAO found that: (1) Customs did not comply with federal regulations and its own procedures governing the use and payment of overtime for inspection services; (2) internal control weaknesses at five ports reviewed resulted in errors in work ticket preparation and certification, and in data entry in the overtime system; (3) local Customs policies and procedures for implementing overtime varied widely; (4) some inspectors scheduled and approved their own overtime, violating basic internal control requirements to discourage abuse and fraudulent activity; (5) Customs identified 184

apparent duplicates out of 790,767 work tickets processed in fiscal year (FY) 1989, resulting in about \$18,500 in overpayments; (6) overtime pay for Customs inspectors increased from \$56.8 million in FY 1985 to \$102.8 million in FY 1990; (7) Customs focused on ensuring that inspectors did not exceed the \$25,000 annual cap, rather than efficiently managing individual overtime assignments; (8) Customs management adopted such inefficient overtime practices as inconsistently adjusting shifts, using staggered hours to schedule work, using callbacks inefficiently, overstaffing on Sundays and holidays, and using incorrect rates for assignments lasting less than 1 hour; (9) Customs could save \$22 million annually if it extended the regular work-day schedule by 2 hours; and (10) the 1911 Act establishing overtime provisions hindered efficient overtime

management, since the special payments provided were premised on conditions that no longer existed.

Open Recommendations to Congress

Recommendation: Congress should reevaluate the basis for computing premium pay for Customs inspectors and make such revisions in the 1911 Act as are necessary to ensure that hours paid bear a more direct relationship to hours worked.

Congressional Action: The House Ways and Means Oversight Subcommittee has reported to the full Ways and Means Committee, strongly recommending legislation based on the GAO report and related testimony. The full committee plans to act in 1992.

Open Recommendations to Agencies

Recommendation: The Secretary of the Treasury should direct the Commissioner of Customs to improve internal controls over the administration of overtime by reviewing procedures at ports, districts, and regions and the National Finance Center to ensure they comply with Customs directives and internal controls standards.

Status: Action not yet initiated.

Recommendation: The Secretary of the Treasury should direct the Commissioner of Customs to improve internal controls over the administration of overtime by requiring corrective action for, and routine followup on, the problems that surfaced in peer review reports, and that the reports be distributed to headquarters as well as

field management levels for appropriate action.

Status: Action not yet initiated.

Recommendation: The Secretary of the Treasury should direct the Commissioner of Customs to improve internal controls over the administration of overtime by reviewing duplicate payments to determine whether fraud or abuse were present and take any necessary disciplinary and recovery actions.

Status: Action not yet initiated.

Recommendation: The Secretary of the Treasury should direct the Commissioner of Customs to, as a minimum, more efficiently manage inspectional overtime by aggressively employing such techniques as shifts and staggered work hours to cover more of the work load within regular work hours.

Status: Action not yet initiated.

Recommendation: The Secretary of the Treasury should direct the Commissioner of Customs to, as a minimum, more efficiently manage inspectional overtime by reimbursing overtime using the Federal Employees' Pay Act rates when assignments are continuations of assignments begun during regular hours and last less than 1 overtime hour.

Status: Action not yet initiated.

Recommendation: The Secretary of the Treasury should direct the Commissioner of Customs to, as a minimum, more efficiently manage inspectional overtime by developing procedures that better ensure the most efficient use of callback assignments, and that better match Sunday and holiday staffing to anticipated work load.

Status: Action not yet initiated.

Asset Forfeiture: Noncash Property Should Be Consolidated Under the Marshals Service

GGD-91-97, 06/28/91 GAO Contact: J. William Gadsby, (202)275-8387

Background

GAO reported on various aspects of the Departments of Justice (DOJ) and the Treasury asset forfeiture programs, focusing on: (1) compliance with the legislative requirement to develop and maintain a joint plan to coordinate and consolidate the post-seizure administration of properties seized for drug-related violations; and (2) the potential cost savings if all drug- and nondrug-related seizures were under such a program.

Findings

GAO found that: (1) little progress has been made in developing a plan to consolidate DOJ and Treasury post-seizure activities for properties seized for drug violations; (2) as of May 1991, no formal plans were under consideration, since both the U.S. Marshals Service's (USMS) and Customs Service's unilateral proposals for consolidation had been rejected by the other agency; (3) even though USMS and Customs had similar types of properties located in the same geographic areas, they independently managed and disposed of their seized

assets and paid substantially different rates for similar services; (4) the government could save an estimated \$2.5 million in program administration costs annually under a consolidated program from less duplication of effort, more streamlined operations, and lower vendor costs; and (5) although both agencies expressed concerns about consolidating the management and disposal activities related to their seized property programs, neither agency offered sound justification for not doing so.

Open Recommendations to Congress

Recommendation: Congress should amend the consolidation requirement in 21 U.S.C. 887 to also include all noncash properties seized by DOJ and Customs for nondrug-related violations.
Status: Action in process.

Recommendation: Congress should: (1) designate DOJ as the lead agency in developing the consolidation plan; (2) designate USMS as the custodian of the consolidated properties; (3) require that the plan be developed within 6 months of passage of such legislation; and (4) require that the plan include specific implementation timetables and specific actions to effectively address existing DOJ program deficiencies.

Status: Action in process.

Congressional Action: Two hearings were held, one before the Senate Committee on Governmental Affairs and another before the House Judiciary Committee. The committees are working with the Office of Management and Budget to implement the pilot project.

Drug Enforcement: Improving Management of Assistance to High Intensity Drug Trafficking Areas

T-GGD-91-53, 07/25/91 GAO Contact: Lowell Dodge, (202)275-8389

Background

GAO reviewed the Office of National Drug Control Policy's (ONDCP) administration of federal assistance to localities with severe drug trafficking problems, focusing on: (1) the extent to which decisions on how best to spend High Intensity Drug Trafficking Areas (HIDTA) funds were based on collaboration among federal, state, and local law enforcement agencies; (2) how the \$25 million in fiscal year 1990 HIDTA funds were actually spent; (3) the analytical base ONDCP established for assessing the effectiveness of that spending, as the Anti-Drug Abuse Act of 1988 required; and (4) how ONDCP plans will affect the continuation of HIDTA funding and the implications these plans may have on HIDTA efforts. GAO noted that: (1) despite calling for active involvement of state and local law enforcement agencies in assessing the needs of each HIDTA locality and developing plans on how best to spend

HIDTA funds, ONDCP guidelines were not sufficient to ensure that these agencies were fully integrated into the local HIDTA planning processes; (2) due to the late receipt of funds, agencies only spent \$1.5 million of the \$25 million appropriated on drug control operations, spending the rest on investigative and office equipment and moving additional agents to HIDTA localities; (3) ONDCP has not established a foundation for assessing HIDTA performance; and (4) ONDCP wished to continue the HIDTA effort through appropriations made directly to federal agencies so that program accountability would be transferred to those agencies.

Open Recommendations to Agencies

Recommendation: To promote federal, state, and local collaboration, cooperation, and coordination in developing HIDTA spending plans as

envisioned in the ONDCP guidelines, the Director, ONDCP, should modify those guidelines to require the establishment of local HIDTA steering committees with state and local law enforcement agency representation.

Status: Action not yet initiated.

Recommendation: As a basis for establishing accountability and assessing program performance, the Director, ONDCP, should reach agreement with the agencies receiving HIDTA funds on the: (1) performance milestones and measurable goals the HIDTA-funded initiatives would be expected to meet; (2) output measures that would be appropriate for evaluating progress and success in achieving those goals and milestones; and (3) way this information is to be reported.

Status: Action not yet initiated.

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Federal Management Issues

Issue Area Summary: Federal Management Issues

Impact of GAO's Work

General Management Reviews (GMRs)

Since 1982, we have been conducting broad reviews of the management processes and systems of major agencies. These GMRs give agency leaders our assessment of the actions needed to improve overall management and the Congress the information needed to better oversee federal operations. These reviews draw upon and complement our more customary evaluations of individual programs.

We have issued 37 GMR reports during the past 8 years, covering 20 agencies. The major themes of GMR recommendations emphasize the need for agencies to identify long-term strategies to prepare the agency for future mission challenges; strengthen accountability for day-to-day management through better internal controls; improve information resources management and financial management; and focus more effort on improving human resources management. Some recommendations can be fully implemented immediately, but many require organizational changes that can only be successfully achieved through a sustained, long-term process.

Agency leadership has generally been receptive to our GMR reports. For example, the Internal Revenue Service has established five key executive positions to provide leadership in improving information resources management, financial and accounting management, quality improvement, and human resources planning. In several cases, we have performed followup reviews to assess agency progress in implementing recommendations. For example, we found that the General Services Administration has made progress in improving operations in three of the four areas that had major problems— facilities management, executive leadership, and management information.

Congressional committees have found the reports useful for agency oversight hearings. The Congress also has acted on some of our recommendations. For example, the Congress established a second Deputy Director at the Office of Management and Budget to bolster that agency's management leadership capabilities.

Federal Asset Management and Disposition

Because of high congressional interest, we have given special attention to federal asset management and disposition activities of the Resolution Trust Corporation in liquidating assets from failed savings and loan institutions and the U.S. Customs Service and Marshals Service in disposing of assets seized as part of trade and drug enforcement operations. Through reports and frequent testimony, we have fostered considerable positive change in the organization and management of these activities. We will continue to work toward improving the asset management responsibilities of individual agencies and also examine whether the federal government could carry out these responsibilities more effectively by consolidating individual agency activities.

Key Open Recommendations

Our reports and recommendations are agency-specific and therefore fall into substantive areas that concern other issue areas. For example, a report on immigration management in the Department of Justice supplements and complements the work of the administration of justice issue area. Because our reports address specific programs, they are included in the appropriate issue area sections of this report. For example, our GMR report on the Immigration and Naturalization Service (INS) is found in the section on "Administration of Justice."

The following key open agency-specific recommendations relate primarily to actions needed to make fundamental improvements in agency operations. These recommendations deserve priority consideration and are described both here and in the appropriate substantive issue area sections.

Administration of Justice: Asset Forfeiture

The Department of Justice and the Customs Service have made little progress in developing a joint plan for consolidating the post-seizure administration of properties seized for drug-related violations that was mandated by the Congress in 1988. Duplication of effort continues and potential monetary benefits remain unrealized. We estimated that about \$2.5 million annually could be saved in administrative costs if all of Justice's and Custom's seized properties—drug and nondrug-related—were consolidated in one agency. Additional savings should accrue from lower vendor costs.

In June 1991, we recommended that the Congress designate Justice to lead the consolidation effort. We also recommended that the Marshals Service should be designated property custodian because (1) Justice's noncash property inventory is three times the size of Customs' inventory, (2) the Marshals Service has a staff of more than 200 and is experienced in managing property seized by other agencies, and (3) the Marshals Service has a regional infrastructure dedicated to program oversight and providing technical help to its 94 district offices. (GAO/GGD-91-97, see p. 665.)

**Administration of Justice:
Immigration Management**

During the past decade, weak management systems and inconsistent leadership at INS have allowed serious problems to go unresolved. The agency has degenerated into a group of segmented autonomous programs, each handling its own set of problems with little attention to their interrelatedness. The agency also has a chaotic budget development process with little accountability for funds or attention to agencywide priorities. The current INS organizational structure, marked by complicated lines of authority and communication, adds to and perpetuates the agency's segmented management.

In January 1991, we recommended a series of actions that the agency should take immediately to address serious weaknesses in enforcement and service operations. The Department of Justice and INS must also articulate a long-term vision of how INS is to effectively implement the nation's immigration policy. (GAO/GGD-91-28, see p. 655.)

**Government and Business
Operations: Government Printing
Office (GPO) Management**

GPO's operations are characterized by (1) costly, sometimes wasteful in-house production that relies on outdated equipment and disregards efficiency and quality, (2) a procurement system that lacks necessary and readily available performance information and continues to award contracts to poorly performing contractors, (3) poor communication with customers and poor systems for tracking and resolving customer complaints, and (4) weak accountability.

In September 1990, we made a series of recommendations for corrective actions. Although GPO agreed with our recommendations and adopted a comprehensive action plan, the Public Printer has been slow to implement the management reforms needed to improve GPO's operations. We also provided a framework for defining GPO's future role in government printing. We recommended that the Joint Committee on Printing should take the lead in bringing together GPO leaders, customers, unions, and experts to identify the future role and an implementing strategy for GPO. (GAO/GGD-90-107, see p. 716.)

**Related Products With Open
Recommendations Under
Other Issue Areas**

Product Title	
Management Review: Follow-Up on the Management Review of the Defense Logistics Agency (NSIAD-88-107)	93
U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (RCED-90-19)	370
U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (RCED-91-9)	383
U.S. Department of Agriculture: Improving Management of Cross-Cutting Agricultural Issues (RCED-91-41)	385

U.S. Department of Agriculture: Strengthening Management Systems to Support Secretarial Goals (RCED-91-49)	394
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Financial Institutions and Markets

Issue Area Summary: Financial Institutions and Markets

Impact of GAO's Work

When financial institutions and markets are poorly regulated, critical financial services can be disrupted and customers can lose confidence. To support the effective functioning of the nation's financial systems, we analyze (1) emerging issues and the financial health of various segments of the financial services sector, such as banks; (2) existing regulatory practices to see if they are working as intended; and (3) the continued appropriateness of federal policies governing financial institutions and markets.

In the aftermath of the thrift crisis, the Congress directed studies of the condition of federally established financial programs. We concluded that major overhauls were needed for the deposit insurance system, government-sponsored enterprises, and credit unions. Our work influenced legislation that is pending before the Congress. We also reported that the Bank Insurance Fund was likely to be insolvent by December 1991 and would need to be recapitalized.

During fiscal year 1991, we also reported that federal regulators had waited too long to intervene to correct unsafe and unsound practices at banks and that the stricter qualified thrift lender test might increase risks rather than making thrifts operate more safely. We also found that the securities sales practice violations had not been monitored through a regular inspection program nor had customer complaints been systematically collected. In addition, programs to prevent abusive sales practices in the futures markets have not been monitored adequately, and excess commissions are unregulated. Furthermore, market regulators lack the technical capabilities that are needed to oversee risks involved in market automation.

We also reported that the Resolution Trust Corporation lacked information to oversee thrift resolutions and that leveraged buyouts offered attractive financial incentives to purchasers and their advisers but that the increased debt burden might lead to layoffs or eventual company failure. We also found that the state-by-state insurance regulatory system was fraught with problems that could be only partially overcome through voluntary efforts sponsored by the National Association of Insurance Commissioners. In addition, insurance regulators need independent certification of company loss reserves.

Key Open Recommendations

Financial Institution Reforms

In our report on deposit insurance reform, we made recommendations to (1) strengthen supervision and the bank insurance fund, (2) change the economic incentives for bank owners and managers, and (3) update the structure and the regulation of bank holding companies. In a report on failed banks, we recommended that accounting and auditing reforms be enacted to provide an accurate gauge of the true financial condition of banks. The banking reform legislation before the Congress considers many of these recommendations. (GAO/GGD-91-26, see p. 692, and GAO/AFMD-91-43, see p. 850.)

The Federal Deposit Insurance Corporation (FDIC) acquires loans from failed banks and sells them to individual investors. An investor, who purchased \$33 million in failed bank loans from FDIC's Denver Consolidated Office, alleged that FDIC inaccurately represented one-third of those loans. We found that basic internal controls were not in place to ensure that the manual and automated records were properly updated to reflect the actual status of the loans. FDIC's Office of the Inspector General found, in its audits of other offices, internal control problems similar to those we found at the Denver office. Recommendations were made that FDIC act to ensure that internal control weaknesses did not exist at other FDIC offices and to correct the internal control weaknesses found at the Denver Consolidated Office. (GAO/IMTEC-91-61, see p. 703.)

In our report on credit unions, we recommended a number of regulatory and legislative actions to ensure the future soundness of the industry, including changes to (1) maintain safe and sound insurance operations, (2) upgrade the regulation and the supervision of credit unions, and (3) clarify the "common bond" characteristic distinguishing credit unions from banks and thrifts. Many of these reforms are also contained in current banking reform legislation. (GAO/GGD-91-85, see p. 699.)

In our report on government-sponsored enterprises, we recommended that a new regulatory board be established to oversee all enterprises and that this board be authorized to set capital rules and oversee enterprise activities. Various bills to change regulation of government-sponsored enterprises are pending before the Congress. (GAO/GGD-91-90, see p. 698.)

Securities

In a report on the U.S. government securities market, we recommended that the Congress (1) extend the Department of the Treasury's rulemaking authority, subject to a sunset provision; (2) authorize Treasury to adopt rules as needed over the sales practices of government securities brokers and dealers; and (3) require screen brokers to make transaction information available to market participants on a real-time basis. We also recommended that the Congress extend Securities Investor Protection Corporation insurance coverage to customer accounts in specialized government securities dealers. Legislation is pending before the Congress that would implement these changes, but the recent scandal in this market is likely to generate further scrutiny before changes are made. (GAO/GGD-90-114, see p. 689.)

Our report on investment advisers showed that regulatory oversight of advisers was very weak. We recommended that the Congress clarify its regulatory intent for the investment advisers program by either strengthening it to meet some minimal standard or repealing requirements for federal regulation of advisers. Legislation to strengthen the program has been introduced during the past two sessions of the Congress. (GAO/GGD-90-83, see p. 687.)

In a report on securities trading, we recommended that the Securities and Exchange Commission (SEC) periodically reconsider trading restrictions. SEC disagreed that such restrictions needed periodic review, so we remain concerned that anticompetitive results may develop when trading practices become outdated. (GAO/GGD-90-52, see p. 684.)

Our report on oversight of futures markets trading practices recommended that the Commodity Futures Trading Commission (CFTC) direct the exchanges to independently, precisely, and completely time each trade to prevent trading abuses. Improved trade timing requirements are included in the reauthorization bill pending before the Congress. (GAO/GGD-89-120, see p. 682.)

Our reports on programs to oversee sales practice abuses at equities and futures markets recommended improvements to strengthen these programs. While CFTC and SEC have committed to making certain changes, they have not yet been fully implemented. (GAO/GGD-91-52, see p. 696, and GAO/GGD-91-41, see p. 696.)

In a July 1991 report, we identified the need for SEC and CFTC to establish and maintain the technical capabilities to oversee the development and the operation of market systems. SEC and CFTC have taken preliminary steps to oversee market systems but agree that they lack the technical capabilities needed to control automation risks. We recommended that the Chairmen of SEC and CFTC take more aggressive action to establish the technical oversight capabilities to control the risks associated with automation. (GAO/IMTEC-91-21, see p. 695.)

**Products With Open
Recommendations: Financial
Institutions and Markets**

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Check Collection: Competitive Fairness Is an Elusive Goal (GGD-89-61)		681
Futures Markets: Strengthening Trade Practice Oversight (GGD-89-120)		682
Financial Markets: Tighter Computer Security Needed (IMTEC-90-15)		683
Securities Trading: SEC Action Needed to Address National Market System Issues (GGD-90-52)		684

Clearance and Settlement Reform: The Stock, Options, and Futures Markets Are Still at Risk (GGD-90-33)	685
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**Related Products With Open
Recommendations Under
Other Issue Areas**

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	Global Financial Markets: International Coordination Can Help Address Automation Risks (IMTEC-91-62)	172
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Banking: Government Check-Cashing Issues

GGD-89-12, 10/07/88 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a legislative requirement, GAO studied the difficulties recipients have in cashing government checks, focusing on: (1) banks' check-cashing policies; (2) nondepositors' options for cashing government checks; (3) characteristics of recipients who do not have bank accounts; and (4) government responses to check-cashing issues.

Findings

GAO found that: (1) nondepositors cashed government checks at banks, check-cashing centers, grocery and other stores, and through friends or relatives; (2) check-cashing fees varied considerably and were generally unregulated; (3) urban area banks were less likely than rural area banks to cash nondepositors' checks, citing unreimbursed expenses, crowded lobbies, and potential fraud; (4) low-income individuals without bank accounts were most likely to experience check-cashing problems; (5) 75 percent, 50 percent, and 14 percent of families receiving government checks for Aid to Families

with Dependent Children, Supplemental Security Income (SSI), and Social Security, respectively, did not have bank accounts; (6) these families cited high service charges, minimum balance requirements, mistrust of banks, and inconvenient hours and locations for not having bank accounts; and (7) federal, state, and local government efforts to facilitate government check cashing include use of electronic technology transfer, direct deposit of checks into bank accounts, and use of automatic teller machines.

Open Recommendations to Congress

Recommendation: If Congress determines that recipients of certain government checks should not bear costs associated with the cashing of government checks or should be assured of a low-cost option, Congress may wish to consider encouraging methods that utilize plastic cards and electronic funds transfer technology.

Status: Action in process.

Recommendation: Congress may wish to consider requiring the Department of Agriculture, the Department of Health and Human Services, and the Department of the Treasury, in consultation with state and local governments and banking and consumer groups, to assess the present delivery methods for all government benefits and to seek to develop coordinated delivery systems that would better meet the needs of recipients as well as reduce governmental delivery costs.

Status: Action in process.

Congressional Action: The House and Senate Banking Committee's Subcommittees have held hearings on proposed legislation on government check cashing and basic banking. GAO findings were used as a basis to include check-cashing-related requirements in a House-passed banking bill and a Senate bill. GAO work has been cited frequently in the deliberations. While legislation has not yet passed, check-cashing requirements based at least in part on the report continue to be included in proposed legislation.

Troubled Financial Institutions: Solutions to the Thrift Industry Problem

GGD-89-47, 02/21/89 GAO Contact: Craig A. Simmons, (202)275-8678

Background

In response to a congressional request, GAO discussed: (1) the benefits and disadvantages of merging the Federal

Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC); and (2)

actions needed to restore the deposit system's financial health.

Findings

GAO believes that: (1) the current strategy for resolving insolvent institutions is costly and does not consider the total cost to the government of resolving insolvent thrifts; (2) to help restore the deposit insurance system to financial health and prevent repetition of the savings and loan crisis, FSLIC should take control of insolvent thrifts until they can be effectively rehabilitated, merged, or liquidated; (3) FSLIC should be separated from the Federal Home Loan Bank Board (FHLBB) and reorganized to allow it to impose higher capital requirements and compel other reforms; (4) FSLIC should isolate unhealthy thrifts so that they cannot compete with adequately funded institutions; (5) the thrift industry should bear as much of the cost of resolving the savings and loan crisis as possible; (6) if Congress decides that the rest of the deposit industry should pay the remaining cost, it should spread that burden as evenly as possible to avoid placing certain industry sectors at a competitive disadvantage; and (7) a merger of FDIC and FSLIC would merely divert needed FDIC resources to cover FSLIC costs.

Open Recommendations to Agencies

Recommendation: The Board of Governors of the Federal Reserve System (FRS) should develop a specific proposal for clearly defining holding company financial responsibility for insured depository institutions.
Status: Action taken not fully responsive. The Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) applied the source-of-strength principle only to depository institutions and subsidiaries of the holding company. This topic is being considered in the current banking bill.

Recommendation: FHLBB, FSLIC, FDIC, and the Federal Reserve Board (FRB) should improve their supervisory capability.
Addressee: Federal Deposit Insurance Corporation
Status: Action in process. FDIC continues to add or redeploy staff to handle increased responsibilities granted by FIRREA. This issue is being addressed in the new deposit insurance reform legislation.
Addressee: Federal Reserve System: Board of Governors

Status: Action in process. FRS continues to reevaluate size, deployment, and compensation for the supervisory function. This issue is being addressed in new deposit insurance reform legislation.

Recommendation: FHLBB, FSLIC, FDIC, and FRB should undertake efforts to enhance the effectiveness of the related risk control infrastructure in the private sector.
Addressee: Federal Deposit Insurance Corporation
Status: Action in process. By August 1990, FDIC, Treasury, and FRB established rules to govern real estate appraisal procedures and provide uniform definitions of capital ratios for audit purposes. GAO has recommended other audit and corporate governance reforms. The issue is being considered in new deposit insurance reform legislation.
Addressee: Federal Reserve System: Board of Governors
Status: Action in process. FDIC, Treasury, and FRB are implementing rules governing real estate appraisal procedures and providing uniform definitions of capital ratios for audit purposes. The issue is being considered in new deposit insurance reform legislation.

Check Collection: Competitive Fairness Is an Elusive Goal

GGD-89-61, 05/12/89 GAO Contact: Craig A. Simmons, (202)275-8678

Background

In response to a legislative requirement, GAO assessed private banks' ability to compete with Federal Reserve banks in providing check collection services, focusing on: (1) the Federal Reserve System's exemption from the imposition of presentment fees; (2) the impact of the imposition of presentment fees on check collection system efficiency; and (3)

whether the Federal Reserve System required check clearinghouses to provide services to the Federal Reserve banks and whether those banks should pay check clearinghouses for any such services.

Findings

GAO found that: (1) the Federal Reserve uses its authority to deviate from state laws governing private banks to advance check collection system efficiency; (2) Reserve banks require paying banks to make payment on the same day Reserve banks present checks and without charging fees, to make check payments that Reserve banks have not endorsed,

and to make payment on checks Reserve banks present after the customary presentment time; (3) collecting banks need to match Reserve bank collection terms, including choosing which customers they serve, to be competitive; (4) Reserve banks do not have the authority to unilaterally vary from state check collection laws; (5) collecting banks negotiate agreements with other banks for check presentment and payment terms, which usually entail the collecting banks paying presentment fees to the paying banks; (6) presentment fees increased bank check collection costs from 18 to 40 percent; and (7) although banks join clearinghouses to facilitate check exchanges among banks, they still negotiate arrangements to present checks to banks outside the clearinghouse. GAO also found that the: (1) differences between the collecting and Reserve banks' abilities to present checks are not essential for the safety, soundness, or efficiency of the check collection system; and (2) Federal Reserve had not developed criteria for

evaluating competitive fairness, making it difficult to deal with potential conflicts of interest between its roles as a competitor and payment system overseer.

Open Recommendations to Agencies

Recommendation: The Board of Governors should clarify existing policies and procedures covering the Federal Reserve commitment to competitive fairness. Specifically, the Board of Governors should define its commitment to competitive fairness by explicitly adopting the principle that collecting banks should have the same abilities as Reserve banks to collect on checks unless fulfillment of payments system safety, soundness, or efficiency objectives indicate Reserve banks should take on unique abilities.

Status: Action in process. An industry advisory panel has been formed to review issues and a general policy statement has been adopted. A proposed

change in regulations regarding presentment practices was sent out for comment in June 1991. Action is not expected until early 1992.

Recommendation: The Board of Governors should, consistent with the recommended policy and procedural changes, develop a revised, comprehensive same-day-payment proposal that both balances the interest of paying collecting banks and eliminates differences in presentment abilities between Reserve and collecting banks that are not necessary for safety, soundness, or efficiency of the payments system.

Status: Action in process. The Federal Reserve informed GAO that it is pursuing the development of a workable same-day payment proposal, as recommended, with members of private industry. A draft was published for comment in June 1991, with action scheduled in early 1992.

Futures Markets: Strengthening Trade Practice Oversight

GGD-89-120, 09/07/89 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a congressional request, GAO assessed the Commodity Futures Trading Commission's (CFTC) and futures exchanges' effectiveness in deterring, detecting, and punishing trade practice abuses.

Findings

GAO found that: (1) futures exchanges did not always independently, precisely, and completely time all trades; (2) improved trade timing could eliminate trading information manipulations that

give noncompetitive trades the appearance of competitive execution; (3) although the exchanges attempted to reconstruct trade sequences through audits, control weaknesses existed in each exchange that allowed dishonest brokers opportunities to manipulate timing; (4) the exchanges planned to develop electronic audit trail systems to record transactions using hand-held terminals, but they did not plan full implementation for over a year and did not know the extent to which they would use the systems to control abuses; (5) although CFTC reviewed the exchanges'

surveillance programs, it did not review system documentation, test screening programs to determine whether the systems operated as intended, or require independent documentation assessments; (6) the number and severity of disciplinary actions varied by exchange but generally increased between 1984 and 1989; and (7) CFTC used investigative and disciplinary action information to judge specific exchange decisions, but did not formally analyze trends or compare results across exchanges, since there were no uniform

definitions to classify actions involving floor trade practice abuses.

Open Recommendations to Agencies

Recommendation: CFTC should direct the exchanges to independently, precisely, and completely time each trade and specify a time frame for meeting this requirement. Timing should be independent of the other trading data supplied by floor participants. Time recording should include the precise time the broker receives and records as executed each order, as well as the precise execution of times of noncustomer trades. CFTC should give the exchanges flexibility in deciding how to meet the requirement, but should also establish firm implementation dates. **Status:** Action in process. Improved trade-timing requirements, including specified implementation dates, are written into pending CFTC reauthorization legislation. Futures exchanges have already begun to design

and evaluate automated trade-timing devices that will provide independent, precise, and complete timing of trades.

Recommendation: CFTC should expand its reviewing and testing of exchange automated surveillance systems, or require that they be independently reviewed and tested, to determine whether they are operating as intended. **Status:** Action in process. CFTC has adopted 10 principles for developing standards for automated trading systems. However, CFTC noted that its technical capability may fall short of that recommended because of limited resources and other priorities. CFTC has also taken steps to develop a formal policy for automated system assessments.

Recommendation: CFTC should establish milestones for completing definitions of trade practice violations and trade practice investigations so that they can be consistently differentiated from other types of rule violations and

so that the definitions are uniform across exchanges.

Status: Action taken not fully responsive. CFTC officials stated that this recommendation has been fully addressed. The Joint Compliance Committee accepted its Disciplinary Action Subcommittee's proposed categories of rule violations at its April 1991 meeting and it has been adopted by all the self-regulatory organizations. The action taken is not fully responsive because no definition of trade practice investigation has been provided.

Recommendation: CFTC should begin making formal trend and comparative analyses of exchange investigations and disciplinary actions.

Status: Action in process. CFTC is working toward fully addressing this recommendation. CFTC now has a disciplinary action notice data base and is waiting for a few more months of data before doing analyses.

Financial Markets: Tighter Computer Security Needed

IMTEC-90-15, 01/05/90 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO reviewed the Securities Industry Automation Corporation's (SIAC) Common Message Switch and Intermarket Trading Systems, and the National Association of Securities Dealers' (NASD) Automated Quotations System, focusing on the: (1) number of instances of hacker or virus attacks on certain securities trading networks and their related systems; (2) reasonableness of existing controls used to prevent or detect securities trading systems misuse; and (3) existing regulatory framework

under which securities trading systems are accessed, operated, and overseen.

Findings

GAO found that: (1) the Securities and Exchange Commission (SEC), the stock exchanges, NASD, and SIAC reported no known instances of hacker or virus attacks on their systems; (2) the risk of such a threat was low, since NASD and SIAC implemented a wide range of security controls to protect their systems and the systems were not designed with features that would propagate a virus;

(3) NASD had insufficient internal controls to protect its system against security intrusions and such interrelated weaknesses as computer staff performing tasks in excess of their normal responsibilities or inadequately performing their responsibilities; (4) both NASD and SIAC had inadequate quality assurance, physical security, contingency planning, and internal auditing; (5) SEC did not use rule reviews or inspection and surveillance activities to oversee financial market operations; (6) SEC relied on the exchanges and NASD to ensure information security over their

systems, since it did not have sufficient technical expertise to conduct such reviews; and (7) NASD and SIAC did not establish formal information security programs, since they believed that a number of controls protected their information integrity.

Open Recommendations to Agencies

Recommendation: The Chairman, SEC, should periodically conduct or oversee independent assessments of the exchanges' and NASD information security programs to ensure that they provide reasonable assurance that the networks and systems are adequately secured.

Status: Action in process. At the exchanges and NASD, independent assessments are being conducted as to the vulnerability of their systems to external and internal threats. Some assessments will be done by the end of calendar year 1991. The rest will be done by the end of calendar year 1992. SEC will review these assessments.

Securities Trading: SEC Action Needed to Address National Market System Issues

GGD-90-52, 03/12/90 GAO Contact: Craig A. Simmons, (202)275-8678

Background

GAO reviewed the Securities and Exchange Commission's (SEC) actions to establish a national market system for U.S. market securities, focusing on: (1) exchange-imposed trading restrictions; (2) the Intermarket Trading System (ITS); and (3) a multiple stock-options listing.

Findings

GAO found that: (1) SEC has not determined whether trading restrictions that limit exchanges to the exchange floor restrict competition and hinder market efficiency, or whether those restrictions should be modified or eliminated; (2) since the 1987 stock market crash, SEC has not evaluated

overall ITS effectiveness, despite a 10-fold increase in the system's share volume and competition-limiting operational weaknesses identified by users; (3) recent SEC approval of multiple options listing and trading appeared to be consistent with national market system goals to increase competition and ensure better prices for investors; and (4) the development of a trading linkage system to enhance the benefits of multiple options listing will likely require SEC guidance and monitoring, since options exchanges differed widely on the type of system to be used.

Open Recommendations to Agencies

Recommendation: SEC should closely monitor the exchanges' progress in developing a market linkage system for options trading. If SEC determines that the exchanges are not making sufficient progress, SEC should direct construction of a linkage system.

Status: Action in process. In December 1990, the options exchanges submitted a plan for a market linkage system to SEC. SEC also requested the exchanges to jointly develop a "trade-through" rule that would define a member's liability for executing an order at a price inferior to what is available at the same time on another exchange. Action on the market linkage system plan will be delayed until the rule is developed.

Clearance and Settlement Reform: The Stock, Options, and Futures Markets Are Still at Risk

GGD-90-33, 04/11/90 GAO Contact: Craig A. Simmons, (202)275-8678

Background

GAO evaluated the progress made in response to the President's Working Group on Financial Markets' recommendations for clearance and settlement reforms after the October 1987 stock market crash, focusing on: (1) the processing of information about trades; (2) procedures used by clearing organizations to manage financial risks; and (3) payments to and from clearing organizations.

Findings

GAO found that: (1) the exchanges' and clearing organizations' upgrades enabled the trade processing system to handle larger volumes and made it less vulnerable to delays; (2) clearing organizations made less progress in improving financial risk management, since there was not an intermarket sharing system to evaluate intermarket risks when clearing members participated in multiple markets; and (3) despite some progress in reducing cash flows and ensuring prompt payments, federal and self-regulatory organizations

failed to implement all of the intermarket Working Group recommendations designed to reduce cash demands.

Open Recommendations to Agencies

Recommendation: The Secretary of the Treasury, as Chairman of the Working Group, should ensure that a routine intermarket information sharing system is developed and used to assess the intermarket risks posed by joint members. The Secretary, working with other members of the Group as well as the exchanges and their clearing organizations, should identify responsibilities, assign tasks, and set time frames for accomplishing this recommendation.

Status: Action in process. Treasury's June 7, 1991, report on intermarket coordination to the President of the Senate stated that considerable progress has been made to: (1) develop a routine intermarket information sharing system; and (2) ensure that studies exploring ways to lessen intermarket cash flow pressures and to simplify intermarket

clearing are completed, but the report notes that the task is not complete.

Recommendation: The Secretary of the Treasury, as Chairman of the Working Group, should ensure that studies exploring ways to lessen intermarket cash flow pressures and to simplify intermarket clearing without diminishing safeguards against financial risk are completed and acted on appropriately. The Secretary, working with other members of the Group as well as the exchanges and their clearing organizations, should identify responsibilities, assign tasks, and set time frames for accomplishing this recommendation.

Status: Action in process. Treasury's June 7, 1991, report on intermarket coordination to the President of the Senate stated that considerable progress has been made to: (1) develop a routine intermarket information sharing system; and (2) ensure that studies exploring ways to lessen intermarket cash flow pressures and to simplify intermarket clearing are completed, but the report notes that the task is not complete.

Failed Thrifts: Better Controls Needed Over Furniture, Fixtures, and Equipment

GGD-90-87, 05/25/90 GAO Contact: J. William Gadsby, (202)275-8387

Background

Pursuant to a congressional request, GAO determined whether the Federal Savings and Loan Insurance Corporation (FSLIC): (1) efficiently and effectively disposed of furniture, fixtures, and equipment (FF&E) for thrift receiverships under its Southwest Plan; and (2) appropriately took various receiverships' FF&E to furnish a regional FSLIC office.

Findings

GAO found that: (1) after deducting expenses, FSLIC received about \$57,000 for the sale of FF&E appraised at about \$3.3 million, suggesting that FSLIC did not take appropriate steps to minimize costs or maximize revenue; (2) FSLIC did not expeditiously plan FF&E disposal; (3) FSLIC inappropriately procured disposal services totalling \$2,054,177 on a noncompetitive basis; (4) FSLIC did not fulfill its responsibility for the management and liquidation of FF&E; (5) FSLIC did not have adequate internal controls over its FF&E inventory and did not pay receiverships for FF&E taken to furnish its regional offices; and (6) the

Federal Deposit Insurance Corporation (FDIC) has almost completed compensating the receiverships for FF&E that FSLIC took, but neither FDIC nor the Resolution Trust Corporation (RTC) have documented specific organizationwide guidance for disposing of FF&E.

Open Recommendations to Agencies

Recommendation: To ensure the most profitable and efficient disposition of FF&E from failed financial institutions, the Chairmen of FDIC and the RTC Oversight Board should document specific organizationwide policies and procedures on control and disposition of FF&E covering such areas as planning, contracting, and internal control.

Addressee: Federal Deposit Insurance Corporation

Status: Action in process. FDIC is making the necessary additions to written procedures. No date has been set for completion, but GAO will be provided a copy of the procedures.

Addressee: Resolution Trust Corporation: Oversight Board

Status: Action in process. RTC is selecting a contractor to develop nationwide policies and procedures for the control and disposition of FF&E. No completion date has been set.

Recommendation: To ensure the most profitable and efficient disposition of FF&E from failed financial institutions, the Chairmen of FDIC and the RTC Oversight Board should monitor the adherence to policies for control and disposition of FF&E.

Addressee: Federal Deposit Insurance Corporation

Status: Action in process. After the policies and procedures for the control and disposition of FF&E have been written, the FDIC ongoing oversight process will incorporate a compliance check to ensure that the written policies and procedures are being followed.

Addressee: Resolution Trust Corporation: Oversight Board

Status: Action in process. Monitoring adherence to the policies and procedures will be addressed during the development of the policies and procedures for the handling of FF&E.

Investment Advisers: Current Level of Oversight Puts Investors at Risk

GGD-90-83, 06/26/90 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a congressional request, GAO reviewed the Securities and Exchange Commission's (SEC) regulation of investment advisers.

Findings

GAO found that: (1) since 1980, the number of financial advisers has tripled from about 4,600 to about 14,000, and the assets they manage have increased from about \$440 billion to about \$4.6 trillion; (2) investment advisers provide investors little assurance that the information they receive from advisers is accurate or that advisers operate in accordance with SEC requirements and regulations; (3) the SEC registration program provides little protection for investors, since it does not verify information provided to clients until long after advisers are registered; (4) SEC has no program to identify people who provide advice but never register; (5) SEC has no comprehensive system to provide summary information on inspection results by region or in total; (6) an SEC staff shortage makes it

difficult to have a complete oversight program; and (7) SEC does not have the resources necessary to adequately regulate the advisory industry.

Open Recommendations to Congress

Recommendation: Given the limited protection provided by the existing federal oversight program, Congress should either take action to strengthen the program or consider repealing the requirements for federal regulation of investment advisers. Regardless of which approach is adopted, the enhancements to the registration and inspection programs recommended by GAO should be included.

Congressional Action: The Subcommittee on Telecommunications and Finance, Committee on Energy and Commerce, introduced legislation in the last Congress to provide better investor information and protection from fraudulent investment advisers. The bill did not pass; legislation is being reintroduced in this Congress.

Open Recommendations to Agencies

Recommendation: SEC should require that the oversight program for investment advisers inspect the business operations of each newly registered adviser within a reasonable time, such as within 1 year of registration, and periodically thereafter, according to risk.
Status: Action not yet initiated.

Recommendation: SEC should require that the oversight program for investment advisers reinspect within a reasonable time, such as 6 months, advisers found to have deficiencies that present high risks to their clients.
Status: Action not yet initiated.

Recommendation: SEC should require that the oversight program for investment advisers develop summary information on inspection results to help target for reinspection those advisers found to present the highest risks to investors.
Status: Action not yet initiated.

Financial Markets: Oversight of Automation Used to Clear and Settle Trades Is Uneven

IMTEC-90-47, 07/12/90 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

GAO assessed the role played by the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), and the Federal Reserve System in developing and maintaining a strong foundation of automated systems oversight.

Findings

GAO found that: (1) during the 1987 and 1989 market declines, the clearinghouses processed trades reasonably well; (2) federal regulators and clearinghouses lacked the strong systems oversight needed to ensure that automated clearances and settlement systems were consistently able to timely and accurately process trades; (3) the Federal Reserve established and followed

oversight procedures for automated clearinghouse systems, but SEC and CFTC had not established strong oversight practices and had not performed technological assessments of clearinghouse computers; (4) SEC established detailed registration standards, but did not enforce one of its standards requiring clearinghouses to perform system and facility risk assessments; (5) CFTC had not issued system oversight standards; (6) SEC and CFTC attributed inadequate systems oversight to insufficient and incapable staff, but the inadequate level of oversight hampered their ability to effectively oversee clearances and settlements in financial markets; (7) SEC and CFTC officials believed that insufficient systems oversight was mitigated by the clearinghouses' oversight of their own systems; and (8)

five clearinghouses performed fully documented or complete assessments of system and facility risks, although SEC only required three clearinghouses to do so.

Open Recommendations to Agencies

Recommendation: To strengthen systems oversight, the Chairman, CFTC, should follow up on the weaknesses identified at the futures clearinghouses to ensure that they are satisfactorily resolved.

Status: Action in process. CFTC followed up with the futures clearinghouses to discuss the weaknesses and intends to conduct a site visit in 1991 to assess what corrective actions have been taken. GAO is obtaining the site-visit results.

Futures Markets: Use of Automation to Detect Trade Abuses

IMTEC-90-81, 08/24/90 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO reviewed information on: (1) automation initiatives at 14 U.S. futures exchanges that recorded accurate trade times; (2) risk assessments of two automated trading systems that were being developed by the Chicago Board of Trade and the Chicago Mercantile Exchange (CME); and (3) steps taken by

the Commodity Futures Trading Commission (CFTC) to assess automation initiatives.

Findings

GAO held that: (1) the six automation initiatives were intended to provide accurately timed records, although effectively detecting trade practice

abuses would depend on how exchanges used such records; (2) the successful implementation of the six systems could benefit other exchanges; and (3) the exchanges need to ensure that internal controls are strengthened before they implement after-hours trading systems. GAO also found that CFTC implemented several actions to strengthen its oversight of automated systems,

including: (1) technical assessments of planned systems; (2) evaluations of operating systems; (3) an interagency task force; (4) a formal policy for system assessments; (5) increased automation oversight; and (6) seeking additional technical resources.

Open Recommendations to Agencies

Recommendation: The Chairman, CFTC, should ensure that the Chicago Board of Trade and CME strengthen the security and other internal controls GAO identified in its limited risk assessments before their systems become operational.

Status: Action in process. CFTC staff have reviewed CME internal controls over its Globex system and will undertake similar oversight activities for CBT. Also, an interagency task force formed by CFTC has been addressing the need for internal controls at the exchanges.

U.S. Government Securities: More Transaction Information and Investor Protection Measures Are Needed

GGD-90-114, 09/14/90 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a legislative requirement, GAO evaluated the implementation and effectiveness of the Government Securities Act of 1986.

Findings

GAO found that: (1) the Securities and Exchange Commission (SEC) found that the National Association of Securities Dealers (NASD) was ensuring that specialist firms complied with Treasury requirements and regulations; (2) gaps in investor protection could result in investor losses due to abusive dealer practices and lack of SEC-required insurance coverage; (3) the rules imposed the most major costs on dealer operations by requiring dealers to have signed repurchase agreements with all hold-in-custody repurchase counterparties and to issue confirmation to customers of securities held in custody whenever a new transaction occurred or the identity of the securities changed; (4) dealers and brokers believe that the market has been safer for investors since the act's implementation, although the act would not entirely prevent fraud; (5) there has been no adverse effect on the

market for government-sponsored enterprise securities caused by the act's implementation or Treasury's rules; (6) screen brokers believe that the NASD annual assessment results in excessive examination charges; (7) the SEC data base was not completely reliable for determining the number and identity of active broker participants in the government securities market; (8) several organizations examined their institutions less frequently than other organizations and were also slower to issue guidance to examiners; (9) under the act, government securities specialist dealers' customers have no federal protection for their funds; (10) it could not determine whether expanded access would safely be enforced by regulation; and (11) information access would benefit market efficiency, investor protection, and equity without damaging government debt management or monetary policy activities or interdealer brokers' blind trading systems.

Open Recommendations to Congress

Recommendation: Congress should amend Section 15 of the Exchange Act,

and any other statutes as may be necessary, to authorize a federal agency to adopt general rules of fair practice applicable to all government securities brokers and dealers. Self-regulatory organizations and bank regulators should also be authorized to develop and enforce specific requirements within the context of general rules. The rules, at a minimum, should cover dealer pricing practices and investor suitability requirements.

Status: Action in process.

Recommendation: Congress should amend the Exchange Act to require that all non-bank government securities specialist dealers provide Securities Investor Protection Corporation (SIPC) coverage if their business with customers is similar to that for which SIPC coverage normally applies in SEC-registered securities markets. Furthermore, the SIPC assessment structure should be modified so that specialist firms covered by SIPC pay their fair share of the assessment burden.

Status: Action in process.

Recommendation: Congress should amend the Exchange Act to require that government securities transaction information from screen brokers and any trading systems that serve a similar function be made available on a real-time basis to those willing to pay appropriate fees. Regulatory authority should be provided at the federal level to prescribe regulations as needed to ensure that transaction information is available.

Status: Action in process.

Recommendation: Congress should continue Treasury's current regulatory authority over the activities of government securities brokers and dealers.

Status: Action in process.

Recommendation: Congress should assign Treasury new authority to adopt sales practice rules governing government securities brokers and dealers and to adopt any rules needed to ensure public access to government securities screen brokers' information.

Status: Action in process.

Recommendation: Congress should provide for a sunset on Treasury's authority so that the continued need for Treasury's rulemaking role can be reevaluated.

Status: Action in process.

Congressional Action: Bills incorporating most of the recommendations have been introduced in both houses and have been adopted by the Senate as S. 1247. Both committees cited GAO extensively in their actions.

Open Recommendations to Agencies

Recommendation: The Secretary of the Treasury, SEC, and the Federal Reserve System, as part of their required study of the act's effectiveness, should develop recommendations to ensure that bank dealers' government securities activities, including advertising, are provided oversight comparable to the activities of NASD-regulated firms.

Addressee: Securities and Exchange Commission

Status: Action in process. Advertising would be covered by pending sales practice rules changes. Although Treasury now gets semi-annual reports on bank regulator examinations of securities activities, no effort appears to have been made to achieve examination frequency comparable to that provided by NASD in the securities industry.

Addressee: Department of the Treasury

Status: Action in process. Advertising would be covered by pending sales practice rules changes. Although Treasury now gets semi-annual reports on bank regulator examinations of securities activities, no effort appears to

have been made to achieve examination frequency comparable to that provided by NASD in the securities industry.

Addressee: Federal Reserve System

Status: Action in process. Advertising would be covered by pending sales practice rules changes. Although Treasury now gets semi-annual reports on bank regulator examinations of securities activities, no effort appears to have been made to achieve examination frequency comparable to that provided by NASD in the securities industry.

Recommendation: Unless the Department of the Treasury can demonstrate that a common approach results in capital requirements that are inappropriate for specialist firms, the Secretary of the Treasury and SEC should work together in developing a plan to phase out Treasury's unique capital requirements for specialist dealers.

Addressee: Securities and Exchange Commission

Status: Action in process. A working group of Treasury, SEC, and the New York Federal Reserve Bank is addressing the subject. The next meeting of the group is scheduled for late 1991.

Addressee: Department of the Treasury

Status: Action in process. A working group of Treasury, SEC, and the New York Federal Reserve Bank is addressing the subject. The next meeting of the group is scheduled for late 1991.

Bank Powers: Issues Relating to Banks Selling Insurance

GGD-90-113, 09/25/90 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a congressional request, GAO evaluated the potential effects of banks selling insurance on consumers,

other insurance sellers, and bank safety and soundness.

Findings

GAO found that: (1) banks could reduce consumers' insurance costs by lowering the costs of marketing and selling

policies through joint marketing of bank and insurance products to customers; (2) since sales represented only a fraction of insurance costs, reductions in sales costs may not significantly affect premiums; (3) state regulatory oversight of insurance premiums may limit any seller's ability to affect premium rates; (4) there was limited evidence that banks coerced credit customers to buy insurance; (5) competition, banking internal controls, and regulatory oversight limited the occurrence of such abuses; (6) additional controls and

oversight may hamper banking operations and diminish potential benefits for consumers; (7) expanded bank sales of insurance would increase competition among banks, other depository institutions, and lenders that sell insurance; (8) regulatory measures eliminating joint marketing of bank and insurance products would reduce banks' competitive advantage over other insurance sellers; and (9) bank sales of insurance underwritten by unaffiliated insurance companies would not endanger bank safety and soundness.

Open Recommendations to Congress

Recommendation: If more banks gain powers to sell insurance, Congress may wish to consider the need for additional regulatory measures, including increased disclosure and separation of insurance marketing from the credit process, to protect consumers from possible coercive tie-in problems.

Congressional Action: Congress has taken no action on this recommendation.

Insurance Regulation: The Insurance Regulatory Information System Needs Improvement

GGD-91-20, 11/21/90 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a congressional request, GAO reviewed the effectiveness and reliability of the National Association of Insurance Commissioners' (NAIC) Insurance Regulatory Information System (IRIS) for early detection and warning of financially troubled property and casualty insurers.

Findings

GAO found that: (1) state insurance regulators and industry officials had varying opinions about IRIS effectiveness and usefulness; (2) states used IRIS results differently; and (3) state regulators used IRIS as an additional source of information to confirm the status of insurance companies. GAO also found that IRIS deficiencies included: (1) inability to independently verify insurer-prepared

financial statements and time lags of up to 15 to 18 months; (2) limited indicators of solvency problems; (3) difficulty in assessing the many different categories of companies; (4) failure to consider some readily available sources of solvency information; and (5) identification of companies that might not require regulatory attention. In addition, GAO noted that lack of access to requested information limited the extent of its analysis.

Open Recommendations to Agencies

Recommendation: NAIC should evaluate, on a test basis, the feasibility, effectiveness, and costs of expanding IRIS to incorporate other information on the condition, operations, and management of insurance companies,

with the goal of improving IRIS usefulness.

Status: Action in process. In 1990, NAIC developed a new computer-based financial analysis system to identify potentially troubled companies that require state action. The Solvency Surveillance Analysis System appears to address a number of weaknesses GAO identified with IRIS, including the use of additional sources of information on the condition, operations, and management of insurance companies.

Recommendation: NAIC should take the lead in working with state regulators, the insurance industry, and professional actuarial organizations to explore options and identify the most appropriate way to obtain annual independent certification of loss reserves.

Status: Action not yet initiated.

Deposit Insurance: A Strategy for Reform

GGD-91-26, 03/04/91 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a legislative requirement, GAO reviewed issues associated with reforming the federal deposit insurance system, focusing on whether such reforms will result in a more safe, sound, and stable banking industry.

Findings

GAO presented a comprehensive three-part reform program that could change the way banks are regulated and supervised, as well as the way the deposit insurance system functions, focusing on: (1) strengthening supervision, bank internal controls, and financial reporting requirements so that regulators can more effectively protect the Bank Insurance Fund (BIF) from losses; (2) changing economic incentives through strengthened capital requirements, risk-based premiums, and other means to ensure that owners, managers, and creditors bear most of the bank failure costs; and (3) updating the bank holding company structure and regulation to reduce risks to the banking system and to modernize the financial system if Congress wishes to expand the powers of banks and other financial institutions.

Open Recommendations to Congress

Recommendation: To improve the bank regulatory system, Congress should ensure that the regulators take timely and effective enforcement actions by mandating a tripwire intervention approach.

Status: Action in process.

Recommendation: To improve the bank regulatory system, Congress should emphasize closer regulatory scrutiny of large complex banking organizations, including more stringent financial reporting requirements and the enhancement of the expertise necessary to understand and quickly react to problems as they develop.

Status: Action in process.

Recommendation: To improve the bank regulatory system, Congress should exercise congressional oversight to ensure that BIF is adequately refinanced.

Status: Action in process.

Recommendation: To improve the bank regulatory system, Congress should establish a panel appointed by the President and Congress to conduct a thorough analysis of regulatory systems and resource requirements.

Status: Action in process.

Recommendation: To improve the bank regulatory system, Congress should give the Federal Deposit Insurance Corporation (FDIC) the explicit authority to prevent state-chartered banks from engaging in activities that pose significant risks to BIF.

Status: Action in process.

Recommendation: Congress should require bank regulators to phase in and strengthen risk-based capital requirements after the Basle capital accord has been implemented fully in 1992. The definition of the capital requirements should be left to the discretion of the regulators and, to the extent feasible, developed in accordance

with negotiated international agreements.

Status: Action in process.

Recommendation: Congress should require bank regulators to phase in a requirement for large banks to meet a portion of their capital requirement with subordinated debt.

Status: Action not yet initiated.

Recommendation: Congress should require bank regulators to implement a system of risk-based deposit insurance premiums.

Status: Action in process.

Recommendation: Congress should direct federal regulators to develop alternatives for depositors to protect deposits over \$100,000. Such options could include allowing depositors to collateralize deposits over \$100,000 with low-risk bank assets or to purchase additional FDIC deposit insurance through their banks.

Status: Action in process.

Recommendation: Congress should direct federal regulators to develop the means for improved public disclosure of bank condition to enhance the ability of depositors to judge the soundness of their banks.

Status: Action in process.

Recommendation: Congress should consider, over the long term, requiring that banks be closed in the least costly manner, and give the Federal Reserve, in conjunction with FDIC, the ability to determine when the failure of a large bank would be detrimental to the stability of the U.S. financial system.

Status: Action in process.

Recommendation: Congress should eliminate, over the long term, deposit insurance coverage on brokered deposits and perhaps other deposits placed by professional money or pension fund managers.

Status: Action in process.

Recommendation: Congress should direct FDIC to develop a plan for changing the assessment base against which insurance premiums are levied. Options that should be considered include broadening the base to include all bank liabilities or switching to a system in which insurance premiums are assessed on assets rather than liabilities.

Status: Action in process.

Recommendation: To make the tripwire system's early warning features effective, Congress should revise accounting principles for identifying and measuring loss contingencies to obtain prompt recognition of the value of banks' problem assets on the basis of existing market conditions.

Status: Action in process.

Recommendation: To make the tripwire system's early warning features effective, Congress should develop special accounting rules and audit procedures to further clarify that affiliate transactions are required to be accounted for and reported on the basis of their economic substance.

Status: Action not yet initiated.

Recommendation: To make the tripwire system's early warning features effective, Congress should ensure the annual audit of all banks by independent public accountants and receive full-scope examinations by the regulators.

Status: Action in process.

Recommendation: To make the tripwire system's early warning features effective, Congress should ensure the audit of key information used by regulators in implementing the tripwire system.

Status: Action in process.

Recommendation: To strengthen the system of corporate governance so that it serves the regulatory need, Congress should appoint fully independent audit committees, and they should be charged with reviewing reports to regulators.

Status: Action in process.

Recommendation: To strengthen the system of corporate governance so that it serves the regulatory need, Congress should make all financial institutions subject to internal control requirements like those added to the Securities Exchange Act of 1934 by the Foreign Corrupt Practices Act, and Congress should require bank management to annually publicly report on compliance with those requirements.

Status: Action in process.

Recommendation: To strengthen the system of corporate governance so that it serves the regulatory need, Congress should require that independent public accountants audit the adequacy of internal accounting controls and compliance with safety and soundness laws.

Status: Action in process.

Recommendation: To deal with the extraordinary risks to BIF from large banks, Congress should require that independent public accountants review the quarterly call reports.

Status: Action in process.

Recommendation: To deal with the extraordinary risks to BIF from large banks, Congress should require that independent public accountants review

the annual financial forecasts prepared by bank management.

Status: Action in process.

Recommendation: To accomplish the expansion of auditing activities, Congress should ensure the use of resources of the public accounting profession if regulators are promptly informed of internal control weaknesses and noncompliance with laws and regulations.

Status: Action in process.

Recommendation: To accomplish the expansion of auditing activities, Congress should ensure the use of resources of the public accounting profession if only independent public accounting firms that are subject to the accounting profession's peer review program would be permitted to audit banks.

Status: Action in process.

Recommendation: To resolve the regulatory gaps that currently characterize the regulation and structure of bank holding companies in a way that will protect the safety and soundness of the U.S. banking system, Congress should, before expanding bank powers, phase out the McFadden Act and sections of the Douglas Amendment to the Bank Holding Company Act that restrict interstate banking, but only after controls are adapted to be certain that only well-capitalized, well-managed banking organizations can take advantage of the new opportunities for interstate expansion.

Status: Action in process.

Recommendation: To resolve the regulatory gaps that currently characterize the regulation and structure of bank holding companies in a way that will protect the safety and soundness of the U.S. banking system, Congress should, before expanding bank

powers, enact a source-of-strength doctrine that will require holding companies to take responsibility for the financial health of their bank subsidiaries and the potential losses incurred by FDIC in resolving bank failures.

Status: Action in process.

Recommendation: To resolve the regulatory gaps that currently characterize the regulation and structure of bank holding companies in a way that will protect the safety and soundness of the U.S. banking system, Congress should, before expanding bank powers, require that holding companies associated with banks be regulated in a consolidated manner, with functional regulation of regulated subsidiaries, and that they be subject to consolidated capital requirements.

Status: Action in process.

Recommendation: To resolve the regulatory gaps that currently characterize the regulation and structure of bank holding companies in a way that will protect the safety and soundness of the U.S. banking system, Congress should, before expanding bank powers, legislate improvements to sections 23A and 23B of the Federal Reserve Act that will enhance regulators' abilities to protect insured banks from risks undertaken by their nonbank affiliates.

Status: Action in process.

Recommendation: To resolve the regulatory gaps that currently characterize the regulation and

structure of bank holding companies in a way that will protect the safety and soundness of the U.S. banking system, Congress should, before expanding bank powers, require uniform disclosure of federally insured and uninsured products, comparable cost and yield information on similar types of financial products, and information regarding brokers' commissions and fees.

Status: Action in process.

Recommendation: If Congress decides to enact legislation to allow banks access to expanded powers, it should require that only well-capitalized, well-managed bank holding companies be given access to expanded bank powers on a case-by-case basis.

Status: Action in process.

Recommendation: If Congress decides to enact legislation to allow banks access to expanded powers, it should restrict expanded powers to nondepository subsidiaries of bank holding companies and restrict transactions between those subsidiaries and affiliated banks to ensure that insured deposits are not used to finance expanded powers.

Status: Action in process.

Recommendation: If Congress decides to enact legislation to allow banks access to expanded powers, it should allow nondepository financial institutions to acquire banks but require such institutions to act as sources of financial strength to their bank and other regulated subsidiaries. Congress should subject all financial institutions affiliated with commercial banks to

consolidated capital requirements and regulations.

Status: Action in process.

Recommendation: If Congress decides to enact legislation to allow banks access to expanded powers, it should require controls on the sharing of confidential customer information among holding company entities.

Status: Action in process.

Recommendation: If Congress decides to enact legislation to allow banks access to expanded powers, it should create an interindustry regulatory board to promulgate regulations that ensure consistent and safe financial services holding company regulation. The Board should consist of the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Securities Exchange Commission, and the Secretary of the Treasury.

Status: Action not yet initiated.

Recommendation: If Congress decides to enact legislation to allow banks access to expanded powers, it should restrict the ability of financial institutions to merge in ways that will allow the creation of a concentrated financial industry.

Status: Action not yet initiated.

Congressional Action: Congressional action is pending in several banking reform bills currently moving through the House and Senate. Legislative action is anticipated by the end of the current session.

Financial Markets: Active Oversight of Market Automation by SEC and CFTC Needed

IMTEC-91-21, 04/02/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

GAO assessed the Securities and Exchange Commission's (SEC) and the Commodity Futures Trading Commission's (CFTC) oversight of automated futures and securities trading and post-trading systems.

Findings

GAO found that: (1) in response to several GAO reports and recommendations regarding various security and internal control weaknesses, SEC and CFTC took preliminary steps to oversee the development and operation of automated systems, but lacked the technical capabilities needed to control automation risks; (2) SEC disagreed with recommendations to establish such a technical capability, citing that it was more cost-effective to rely on exchanges to self-monitor automation operations; and (3) CFTC agreed with the recommendations and took some steps to establish the technical capability, but noted that other priorities and limited resources could impede its efforts. GAO believes that: (1) until SEC and CFTC more aggressively establish the technical oversight capabilities to control automation risks, they cannot ensure that the nation's markets will continue

to provide efficient, fair, and equitable treatment to participants; and (2) both SEC and CFTC need to keep their congressional oversight committees apprised of their efforts.

Open Recommendations to Agencies

Recommendation: The Chairmen, SEC and CFTC, should move to more aggressively establish the technical oversight capabilities to control the risk associated with automation. Such capabilities should include the needed technical expertise to establish policies governing the development and operation of market systems and perform and oversee technical reviews of automated trading and post-trading systems.

Addressee: Commodity Futures Trading Commission

Status: Action in process. Agreeing with the need for technical oversight capabilities, CFTC has taken steps to utilize a task force of CFTC personnel and experts from other federal agencies to help establish technical policies. Additionally, CFTC intends to hire a technical expert to review exchanges' automated systems. Action is expected to be completed by the end of 1991. While these are constructive steps, GAO

believes CFTC has not gone far enough to monitor progress.

Addressee: Securities and Exchange Commission

Status: Action in process. SEC has recently hired a computer systems analyst to oversee automation at the exchanges. SEC believes that such a step is sufficient and has no plans to further increase its technical expertise. GAO does not agree with this position and will continue to encourage further progress.

Recommendation: The Chairmen, SEC and CFTC, should provide timetables for developing their technical capabilities to their agencies' congressional oversight committees.

Addressee: Commodity Futures Trading Commission

Status: Action in process. CFTC expects to hire a technical expert by year-end 1991 and, pending congressional approval of an increase in resources, expects to hire additional employees to expand the review of exchange automated systems. In addition, CFTC is contemplating whether to develop the suggested timetable.

Addressee: Securities and Exchange Commission

Status: Action in process. SEC is contemplating whether to develop the suggested timetable.

Futures Markets: Strengthening Sales Practice Oversight

GGD-91-41, 04/25/91 GAO Contact: Craig A. Simmons, (202)275-8678

Background

GAO evaluated the Commodity Futures Trading Commission's (CFTC): (1) oversight of self-regulatory organizations' (SRO) compliance with sales practice requirements; and (2) monitoring of SRO sales practice audits.

CFTC did not regularly collect data on SRO audit compliance and results; (5) CFTC did not enforce existing audit requirements, resulting in gaps in audit coverage; (6) SRO audit guidelines were incomplete; and (7) the futures industry required full disclosure of commissions and fees, but did not regulate them.

Recommendation: The Chairman, CFTC, should improve branch office audit selection criteria to ensure that at least some branch offices of all firms requiring coverage are audited.

Status: Action in process. CFTC plans to make appropriate changes to branch office audit selection criteria.

Findings

GAO found that: (1) CFTC oversight of futures industry sales practices needed to be strengthened to provide investors with additional protection against sales practice abuses; (2) rule enforcement reviews (RER) provided only limited coverage of sales practice requirements and could be better planned and documented; (3) CFTC recommendations made as a result of RER were not always implemented or resolved; (4)

Open Recommendations to Agencies

Recommendation: The Chairman, CFTC, should enforce requirements for sales practice audit coverage of all industry futures commission merchants, including coverage of both futures and options sales practices.

Status: Action in process. CFTC intends to clarify its requirements for sales practice audits.

Recommendation: The Chairman, CFTC, should ensure that SRO sales practice audit guidelines provide coverage of compliance with all sales practice audit requirements.

Status: Action in process. CFTC staff agrees that all SRO should be required to provide audit coverage of compliance with all sales practice requirements, but the final position of CFTC is not clear.

Securities Industry: Strengthening Sales Practice Oversight

GGD-91-52, 04/25/91 GAO Contact: Craig A. Simmons, (202)275-8678

Background

GAO reviewed the Securities and Exchange Commission's (SEC) oversight of four self-regulatory organizations' (SRO) monitoring and enforcement of sales practice compliance among securities industry firms.

needed to improve its SRO inspection coverage, evaluation methods, and collection and use of customer complaint and management information; (3) except for one SRO, SEC only sporadically reviewed aspects of SRO sales practice programs since 1986; (4) because SEC reexamined broker-dealers using different methods than SRO used, it generally could not determine why it found violations that SRO missed, and could lose opportunities to recommend actions to improve SRO examination methods; and (5) SEC information

systems did not provide adequate data to fully identify sales practice abuses or weaknesses.

Open Recommendations to Agencies

Recommendation: The Chairman, SEC, should develop a timetable for fully inspecting the sales practice programs of all SRO.

Status: Action in process. SEC will establish a formal inspection cycle for all SRO by the beginning of fiscal year 1992.

Findings

GAO found that: (1) the only SEC timetable for completely inspecting SRO sales practices applied only to the district offices of one SRO; (2) SEC

Recommendation: The Chairman, SEC, should include direct testing of each SRO examination methods and results in the SEC program for reviewing the adequacy of SRO oversight. To the extent that either SEC or SRO examination methods prove superior, SEC should ensure that both use the better methods.

Status: Action not yet initiated.

Recommendation: The Chairman, SEC, should continue to place a high priority on implementing a new customer complaint system but also improve the proposed system by including the ability to interface with SRO and state customer complaint systems.

Status: Action in process. The SEC new customer complaint system became operational on June 1, 1991. SEC is working with SRO and others to determine the feasibility of exchanging customer complaint information.

Thriffs and Housing Finance: Implications of a Stricter Qualified Thrift Lender Test

GGD-91-24, 04/30/91 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a legislative requirement, GAO evaluated the implications of a more stringent test for qualifying savings and loan associations to operate as insured thrifts, focusing on: (1) requirements changing the minimum thrift portfolio proportion of housing-related assets from 60 percent to 70 percent; and (2) better definition and restriction of acceptable thrift investments.

Findings

GAO found that: (1) the supply of housing finance has become substantially less dependent upon thrifts' mortgage investments since the development and growth of mortgage-backed securities; (2) well-capitalized thrifts following nontraditional strategies performed comparably to well-capitalized thrifts following the traditional mortgage lending strategy; (3) if thrifts want to be profitable in the long term, they will have to broaden their activities or transform themselves into different sorts of financial institutions; (4) a more stringent qualified thrift lender test may not be

necessary to ensure the availability of housing finance or to promote industry profitability and safety; (5) keeping the qualified thrift lender test at the current 60-percent level would help to ensure thrift industry safety and profitability and minimize the risks the industry presents to taxpayers; and (6) industry safety and soundness could be promoted by allowing safe and liquid assets, such as short-term U.S. Treasury securities, to be counted as qualified thrift investments.

Open Recommendations to Congress

Recommendation: In view of the possibility that raising the qualified thrift lender test to a higher level may increase risks, Congress may wish to consider amending the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) to leave the qualified thrift lender test unchanged at the current 60-percent level, while retaining the FIRREA prospective and more precise language regarding those assets that qualify as housing related. Congress should also consider allowing safe investments, such as U.S. Treasury

securities with less than 1 year to maturity, to qualify without limitation as qualified thrift investments. Such investments present little risk to the deposit insurance fund and can provide thrifts with liquidity to respond to marketplace changes and unstable environments.

Congressional Action: Proposals to amend the qualified thrift lender (QTL) test are pending in the banking reform bills being debated in Congress. H.R. 6 proposes to: (1) measure compliance by using monthly averages during 9 of 12 months rather than weekly or daily compliance; (2) increase the amount of liquid assets excludable from the portfolio when determining the QTL asset base; (3) expand investments that qualify; and (4) increase the allowable percentage of consumer loans from 5 to 10 percent. S. 543 includes similar provisions for thrifts with less than \$1 billion in assets and also includes a provision to increase the amount of liquid assets excludable from portfolios when determining the QTL asset base. The Senate bill increases the allowable percentage of consumer loans from 5 to 15 percent and changes the QTL percentage from 70 to 65 percent.

Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks

GGD-91-90, 05/22/91 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a legislative requirement, GAO reviewed the risks undertaken by government-sponsored enterprises (GSE) in order to propose: (1) appropriate regulatory authorities for GSE federal regulators; (2) a regulatory structure to administer GSE oversight; and (3) capital standards to adequately protect the government's interest in GSE.

Findings

GAO found that: (1) the Department of Housing and Urban Development (HUD) lacked the authority to set capital rules for the Federal National Mortgage Association and the Federal Home Loan Mortgage Association; (2) the Student Loan Marketing Association lacked federal oversight of its financial activities and a minimum capital requirement; (3) the Farm Credit Administration lacked specific authority to set capital standards for the Federal Agricultural Mortgage Corporation (Farmer Mac); and (4) the Federal Home Loan Bank System's statutory capital rules used a capital-to-outstanding debt ratio that did not consider risks of off-balance activities or the relative riskiness of various bank assets. GAO believes that, in order to overcome those shortcomings: (1) GSE regulators need authority to set rules, monitor financial performance and compliance with regulations, set minimum capital requirements, enforce regulations by imposing appropriate sanctions, and levy assessments to cover supervisory costs; (2) enterprise regulatory authorities should be similar to those for banks,

with federal oversight supplementing corporate guidance; (3) GSE should be regulated by a single independent regulatory body overseen by an independent board of directors that is prominent in government and has the organizational capacity to protect the government's interest in accomplishing GSE public purposes; (4) minimum capital standards should take into account the amount of capital needed to withstand stressful economic environments, and enterprise size so that reserves can cover management, operations, and business risks; and (5) Farm Credit Banks and Banks for Cooperatives should continue to follow bank-like, risk-based capital rules, since they compete directly with commercial banks.

Open Recommendations to Congress

Recommendation: To correct the inadequacies in the federal government's oversight of GSE, to promote safety and soundness, and to ensure fulfillment of statutory purposes, Congress should establish a Federal Enterprise Regulatory Board composed of three voting members and three nonvoting members. The voting members should include a full-time chairperson appointed by the President and confirmed by the Senate, the Secretary of the Treasury, and the Chairman of the Board of Governors of the Federal Reserve System. The nonvoting members should be the Secretaries of Agriculture, Education, and HUD.

Status: Action in process.

Recommendation: To correct the inadequacies in the federal government's oversight of GSE, to promote safety and soundness, and to ensure fulfillment of statutory purposes, Congress should designate the chairperson of the Federal Enterprise Regulatory Board as chief executive officer to administer the day-to-day operations of the regulator.

Status: Action in process.

Recommendation: To correct the inadequacies in the federal government's oversight of GSE, to promote safety and soundness, and to ensure fulfillment of statutory purposes, Congress should provide the GSE regulator with the authority and responsibility to: (1) establish rules governing GSE; (2) monitor GSE activities and condition; (3) set capital requirements for GSE based on the risks they undertake; (4) levy assessments on GSE to cover the costs of regulation; and (5) enforce all applicable statutes and regulations. Enforcement authorities should track those available to bank and thrift regulators and their use should be tied to certain prespecified conditions.

Status: Action in process.

Recommendation: Congress should direct the GSE regulator to establish minimum required capital standards for GSE that are based on the risks they undertake. The standards should include the sum of capital determined by: (1) empirically based tests of GSE capital adequacy to withstand credit and interest rate risk in stressful economic environments; and (2) a leverage ratio that provides capital for nonmeasurable

risks calculated on the basis of on- and off-balance-sheet at-risk assets.

Status: Action in process.

Congressional Action: GAO has testified eight times on its recommendations for GSE oversight. During this session, various bills designed to improve

oversight of GSE have been introduced. Among them are H.R. 2900, H.R. 3083, H.R. 3214, H.R. 2747, and S. 1621. In addition to these formally introduced bills, a draft bill to enhance the regulatory oversight of Farmer Mac was introduced by the House Agriculture Subcommittee on Conservation, Credit

and Rural Development. The Senate Labor and Human Resources Subcommittee has also drafted a bill on Sallie Mae oversight. Finally, the Senate Banking Committee plans to introduce a bill on the subject of GSE oversight.

Credit Unions: Reforms for Ensuring Future Soundness

GGD-91-85, 07/10/91 GAO Contact: Craig A. Simmons, (202)275-8678

Background

Pursuant to a legislative requirement, GAO examined: (1) the financial condition of credit unions; (2) the regulation and supervision of credit unions; (3) the structure of the credit union industry; (4) the evolving role of credit unions in the financial marketplace; and (5) a certified public accountant's audits of the National Credit Union Administration's (NCUA) Operating and Share Insurance Funds and its Central Liquidity Facility's financial statements for 1989 and 1990.

Findings

GAO found that: (1) federally insured credit unions are in better condition than banks and thrifts; (2) most credit unions are small and about half have assets of less than \$2 million, but the 375 credit unions with assets of \$100 million or more hold about 46 percent of the industry's assets; (3) as of December 30, 1990, the National Credit Union Share Insurance Fund's (NCUSIF) equity was \$1.25 for every \$100 in insured accounts; (4) audits of NCUSIF and other financial statements for the years ended September 30, 1988, 1989, and 1990 were fair and conformed with generally accepted accounting principles; (5) although NCUA took steps to strengthen

its supervision of credit unions, further improvements were needed in off-site monitoring; (6) NCUA established policy goals for the resolution of credit unions in weak and poor condition and made progress in meeting these goals; (7) NCUA criteria for granting assistance to failing credit unions were not always met, and decisions on resolution methods for failed credit unions were not adequately documented; (8) there was no assurance of consistency in forbearance decisions among the regions; (9) federally insured credit unions invested \$20.4 billion in 44 corporate credit unions; (10) NCUA lacked complete supervisory control over a central credit union and 13 of its member credit unions; (11) although there were no inherent problems in NCUA insurance functions, changes were needed to ensure that the insurance function would be given priority if conditions should deteriorate; and (12) expansions of common bonds helped in merging troubled credit unions, but made it more difficult for members to ascertain other members' creditworthiness.

Open Recommendations to Congress

Recommendation: Congress should hold annual oversight hearings at which the

NCUA Board testifies on the condition of credit unions and NCUSIF and assesses risk areas and reports on NCUA responses.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require NCUA to establish minimum capital levels for credit unions no less stringent than those applicable to other insured depository institutions, providing for an appropriate phase-in period.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require the amount that credit unions can loan or invest in a single obligor, other than investments in direct or guaranteed obligations of the U.S. government in the credit union's corporate, be limited to not more than 1 percent of the credit union's total assets. Presently permitted limits with respect to credit union service organizations should continue, and exposure of not more than 2 percent of assets should be provided for in repurchase agreements transactions. Congress should authorize NCUA to set a higher limit for secured consumer loans made by small credit unions and for overnight funds deposited with correspondent institutions.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require NCUA to tighten the commercial lending regulation and include an overall limit.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require the borrowing authority to specify that credit unions may not borrow for the purpose of growth, unless prior approval of NCUA is obtained.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require credit unions to adequately disclose that dividends on share and other accounts cannot be guaranteed in advance but are dependent on earnings.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require all credit unions to obtain NCUA permission before opening a new branch.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require credit unions above a minimum size to obtain annual independent certified public accountant audits and to make annual management reports on internal controls and compliance with laws and regulations.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require NCUA to compel a state credit union to follow the federal regulation in any area in which the powers go beyond those permitted federal credit unions and are considered to constitute a safety and soundness risk.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to authorize NCUA to provide assistance in resolving a failing credit union only when it is less costly than liquidation or essential to provide adequate depository service in the community.

Status: Action in process.

Recommendation: Congress should require NCUA to maintain documentation supporting its resolution decisions, including the statistical and economic assumptions made.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to confine insured credit union investments in corporates and U.S. Central to those that have obtained deposit insurance from NCUSIF.

Status: Action in process.

Recommendation: Congress should require NCUA to establish a program to promptly increase the capital of corporates and establish minimum capital standards.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to establish an available assets to ratios for NCUSIF.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to authorize NCUA to raise the basic NCUSIF equity ratio, available assets ratio, and premiums and delete its ability to set a normal operating level below the statutory minimum.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to provide for additional NCUA borrowing from Treasury on behalf of NCUSIF.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to place NCUSIF in a second position to general creditors but provide that this position rank ahead of uninsured shares.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require that NCUA, in consultation with Congress and the credit union industry, identify specific unsafe and unsound practices and conditions that merit enforcement actions as well as the appropriate action, and promulgate these requirements by regulation.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to require NCUA to take appropriate enforcement action when unsafe and unsound conditions or practices, as specified in law or NCUA regulations, are identified.

Status: Action in process.

Recommendation: Congress should amend the Federal Credit Union Act to: (1) provide for a five-member NCUA Board, with two members ex officio, the Chairman of the Federal Reserve Board and the Secretary of the Treasury; and (2) authorize the two ex officio members to delegate their authority to another member of the Federal Reserve Board or to another official of the Department of the Treasury who is appointed by the President with the advice and consent of the Senate.

Status: Action in process.

Recommendation: If there is a broad reform of the depository institution regulatory structure and Congress legislates an approach that places all examination and supervision functions under a single federal regulator, Congress should consider credit unions for inclusion once such an entity is

operating effectively. The insurance function could then be placed under the Federal Deposit Insurance Corporation or under a separate entity.
Status: Action in process.

Recommendation: If the Central Liquidity Facility (CLF) is to continue to operate, Congress should sharply reduce CLF borrowing authority from the current level of 12 times subscribed capital and surplus.
Status: Action in process.

Recommendation: If CLF is to continue to operate, Congress should require the terms and conditions of CLF loans to be no more liberal than those made by the Federal Reserve.
Status: Action in process.

Recommendation: If CLF is to continue to operate, Congress should prohibit CLF loans or guarantees of any kind to NCUSIF, and, in the event NCUA Board certifies that CLF does not have sufficient funds to meet liquidity needs of credit unions, authorize the Department of the Treasury to lend to NCUSIF, rather than to CLF, in order to meet such needs. The power of federal credit unions to borrow from the Farm Credit Banks, as provided for in the Federal Credit Union Act, should be removed.
Status: Action in process.

Recommendation: Congress should amend the Community Development Credit Union Revolving Fund Transfer Act to designate an entity other than NCUA as administrator of the fund.
Status: Action in process.

Recommendation: If credit unions are to remain distinct from other depository institutions because, in part, of their common bond membership requirement, and if this requirement is intended to further the safe and sound operation of credit unions, Congress should consider

stating this general intent in legislation and setting forth guidelines on the limits of occupational, associational, and community common bonds, as well as the purpose and limits of multiple group charters.
Status: Action in process.

Recommendation: Congress should require that credit unions expense the 1-percent deposit over a reasonable period of time, to be determined by NCUA. Congress should at the same time emphasize that the assets represented by a failed credit union's insurance deposit should be available first to NCUSIF. This should be coordinated with and consistent with any legislation to recapitalize the Bank Insurance Fund, so as to avoid placing credit unions at a competitive advantage.
Status: Action in process.

Recommendation: If Congress does not require that the 1-percent deposit be expensed, NCUA should require credit unions to exclude the amount from both sides of their balance sheet when assessing capital adequacy. This would have the effect of not counting that amount as credit union capital.
Status: Action not yet initiated.

Congressional Action: Action may be taken on some of the recommendations as part of the comprehensive banking reforms being considered by Congress.

Open Recommendations to Agencies

Recommendation: NCUA should require that credit unions with assets greater than \$50 million file financial and statistical reports quarterly.
Status: Action in process. Estimated completion date: 12/94. Quarterly reports for all insured credit unions are to be required in fiscal year (FY) 1994.

Recommendation: NCUA should restrict the exclusions from its commercial lending limit set forth in 1987 to help ensure that credit unions are not used as vehicles underwriting large commercial ventures.

Status: Action in process. According to NCUA, a final rule addressing all of GAO concerns and recommendations is scheduled for NCUA Board adoption in late 1991.

Recommendation: NCUA should clarify the purpose, unique values, and requirements for use of each of its off-site monitoring tools. It should determine the appropriate recipients of the tools and distribute them accordingly, within each region.
Status: Action in process. Estimated completion date: 12/92. The requirements for the use of off-site monitoring tools were added to the project list of the Office of Examination and Insurance. An early completion is expected.

Recommendation: NCUA should require documentation at the regional office level of examiners' reviews of all credit union call reports.
Status: Recommendation valid/action not intended. NCUA believes its current procedure, in place at the time of the review, is adequate.

Recommendation: NCUA should establish a policy goal for examination frequency of state credit unions.
Status: Action in process. NCUA will try to establish a clear policy with National Association of State Credit Union supervisors.

Recommendation: The NCUA Inspector General should conduct a review focusing on NCUA handling of problem credit unions since mid-1990, specifically its use of enforcement powers, and submit a report to the NCUA Board.

Status: Action in process. Inspector General review is planned beginning in FY 1992.

Recommendation: NCUA should establish minimum capital requirements for corporates and U.S. Central, taking all risks into account. In the interim, NCUA should establish a minimum level based on assets, and set a time frame for achieving this level. This could be achieved by increasing reserve requirements and using subordinated debt arrangements, such as the membership capital share deposits.

Status: Action in process. The new system is to be presented to the NCUA Board for approval in late 1991.

Recommendation: NCUA should restrict the investment powers of state-chartered corporates to the limits imposed on federal corporates.

Status: Action in process. New corporate regulations scheduled for NCUA Board approval in late 1991 should accomplish this recommendation.

Recommendation: NCUA should limit corporate credit union and U.S. Central investments in a single obligor to 1 percent of the investor's total assets. Exceptions should include obligations of the U.S. government, repurchase agreements that equal up to 2 percent of assets, and all investments by corporates in U.S. Central.

Status: Action taken not fully responsive. NCUA disagrees with the recommendation.

Recommendation: NCUA should limit corporate credit union and U.S. Central loans to one borrower to 1 percent of the lender's assets. NCUA should be authorized to make exceptions on a loan-by-loan basis.

Status: Action taken not fully responsive. NCUA disagrees with the recommendation and has proposed a less restrictive limit.

Recommendation: NCUA should obtain more complete and timely information about corporate financial operations.

Status: Action taken not fully responsive. NCUA claims it is making improvements.

Recommendation: NCUA should establish a unit at NCUA headquarters that would be responsible for corporate oversight, examination, and enforcement actions.

Status: Recommendation valid/action not intended. NCUA disagrees with the recommendation.

Recommendation: NCUA should review the capital, assets, management, earnings, and liquidity rating system for corporate credit unions to reduce the inconsistencies and focus more clearly on the component being rated.

Status: Action in process. Estimated completion date: 12/92. NCUA will

eliminate management factors in CAE components and establish quantitative parameters for each of them. The new system is to be completed in FY 1993.

Recommendation: NCUA should reduce the time lag in adjusting the Bank Insurance Fund's financing.

Status: Action not yet initiated.

Recommendation: NCUA should place NCUSIF on a calendar fiscal year.

Status: Action in process. A committee was formed to review this recommendation, and is to report to the NCUA Board by late 1991. The NCUA Board agrees in principle.

Recommendation: NCUA should immediately establish separate supervision and insurance offices that report directly to the Board.

Status: Recommendation valid/action not intended. NCUA disagrees with this recommendation.

Recommendation: NCUA should expand the information required on the financial and statistical reports in the areas of asset quality, interest rate sensitivity, management, and common bond.

Status: Action in process. Estimated completion date: 12/94. By June 1992, more detailed reports are to be required for credit unions with assets of \$100 million.

FDIC: Loan Sales Jeopardized by Systems and Other Internal Control Problems

IMTEC-91-61, 08/21/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

GAO provided information on loans purchased from the Federal Deposit Insurance Corporation (FDIC), focusing on whether: (1) the automated system used to account for the loans and provide information to investors accurately reflected information stored in the manual loan files; and (2) such manual loan files were accurate.

did not accurately track loan amounts and the failure of FDIC managers to ensure that procedures for maintaining manual and automated loan records were followed; (4) FDIC attributed such weaknesses to staff not following FDIC loan records maintenance procedures, the large number of assets in the sale, and inexperienced staff; and (5) FDIC noted similar weaknesses at six other offices.

automated loan records are corrected to provide accurate and current information.

Status: Action not yet initiated.

Recommendation: Given the importance of accurate asset information, the Chairman, FDIC, should take immediate action at the Denver Consolidated Office to ensure that procedures are strengthened to continually maintain accurate and current loan records.

Status: Action not yet initiated.

Findings

GAO found that: (1) 23 of the 25 loans reviewed had serious errors in the manual loan files or the automated records; (2) 5 loans valued at \$183,000 were worthless, and the remaining 18 loans, valued at about \$1.8 million, were worth less than represented because either they were not totally owned by FDIC, they were not backed by collateral as claimed by FDIC, or they were subject to borrowers' judgment or bankruptcy proceedings not disclosed by FDIC; (3) weaknesses in loan information maintenance and review included the use of asset management systems that

Open Recommendations to Agencies

Recommendation: Given the importance of accurate asset information, the Chairman, FDIC, should take immediate action at the Denver Consolidated Office to ensure that cash receipts are properly accounted for in the manual and automated loan records.

Status: Action not yet initiated.

Recommendation: Given the importance of accurate asset information, the Chairman, FDIC, should take immediate action at the Denver Consolidated Office to ensure that the manual and

Recommendation: Given the importance of accurate asset information, the Chairman, FDIC, should take immediate action at the Denver Consolidated Office to ensure that loan records are periodically reviewed to verify the status of the loans.

Status: Action not yet initiated.

Recommendation: The Chairman, FDIC, should take steps to ensure that the internal control weaknesses discussed in this report do not exist at other FDIC offices.

Status: Action not yet initiated.

Financial Markets: Computer Security Controls at Five Stock Exchanges Need Strengthening

IMTEC-91-56, 08/28/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

GAO reviewed the automated order routing and execution systems and

operations at the American Stock Exchange, National Association of Securities Dealers (NASD), New York

Stock Exchange, Midwest Stock Exchange, Pacific Stock Exchange, and Philadelphia Stock Exchange to

determine whether internal control weaknesses existed.

Findings

GAO found that: (1) although the exchanges had controls in place to mitigate many of the risks associated with automation, inadequate system security and internal control weaknesses existed in all of the exchanges except NASD; (2) the lack of adequate controls at the five stock exchanges could impede their ability to maintain continuous service, protect critical computer equipment and operations, and process correct information; (3) at the exchanges where weaknesses existed, officials said that they had taken and planned to take

additional steps to improve systemic and operational controls; and (4) stock market officials were concerned that the costs of eliminating certain weaknesses could be prohibitive.

Open Recommendations to Agencies

Recommendation: The Chairman of the Securities and Exchange Commission (SEC) should ensure, as part of the Commission's oversight responsibilities, that the American, New York, Midwest, Pacific, and Philadelphia stock exchanges take corrective action to control the weaknesses found during the GAO review.

Status: Action not yet initiated.

Recommendation: The Chairman, SEC, should ensure, as part of the Commission's oversight responsibilities, that the Midwest Stock Exchange has an independent risk assessment performed to evaluate the areas where GAO was denied access, and that appropriate corrective action is taken to control any weaknesses found.

Status: Action not yet initiated.

Recommendation: The Chairman, SEC, should ensure, as part of the Commission's oversight responsibilities, that the stock markets keep the Commission apprised of the market risks associated with any outstanding weaknesses that are not corrected.

Status: Action not yet initiated.

Government and Business Operations

Issue Area Summary: Government and Business Operations

Impact of GAO's Work

There are increasing concerns about the government's ability to operate in a more businesslike manner. Our work in this area seeks answers to three broad questions: How can the federal government more efficiently acquire facilities, goods, and services? How can the federal government improve its management, use, and disposal of property? What is the most appropriate mix of public and private resources to meet government needs?

Because of the multifaceted dimensions of government activities and programs, we address a myriad of functions, including the real and personal property acquisition, management, and disposal activities of most civilian agencies; the leadership, policymaking, and oversight role of the General Services Administration (GSA); and the operations of the federal government's two largest commercial-type activities—the U.S. Postal Service and the Government Printing Office (GPO).

Our work identified numerous opportunities as well as challenges for the federal government to more efficiently acquire facilities, goods, and services; improve its management, use, and disposal of valuable real and personal property; and achieve a more appropriate mix of public and private resources to meet government needs. Over the last several years, we reported or testified on a wide, diverse range of acquisition, property management, and public-private mix issues.

Over the last 2-1/2 years, we issued a series of reports and testimonies on public buildings policy. We made recommendations aimed at increasing federal ownership of office space and thus reducing the dependence on costly building leases. This work led the administration to propose and support the first major federal buildings construction program in 20 years and has prompted the Office of Management and Budget (OMB) and GSA to take the first steps toward capital budgeting. While several obstacles remain and this proposed construction program has not yet been fully approved or funded, the Congress (1) allowed the Federal Buildings Fund to borrow \$1.9 billion from the Federal Financing Bank and (2) provided \$1.6 billion in appropriated funds to allow GSA to begin constructing several new buildings.

In addition, we identified programmatic weaknesses and evaluated a number of management as well as policy issues that the administration, and in some cases the Congress, needs to address. These include the need to eliminate obstacles to achieving needed capital investment in new as well as existing federal buildings; develop a consistent facilities location policy and apply it to major location decisions, such as those involving the National Air and Space Museum Annex and the Naval Systems Command; strengthen GSA's leadership, policymaking, and oversight of various governmentwide activities and programs, including delegation of day-to-day building operations' authority to certain tenant agencies; improve GSA's management and oversight of repair and alteration requirements to prevent further deterioration and functional obsolescence of federal buildings; improve agencies' contracting and contract administration practices; consider changes in the Treasury Department's production of postage stamps and coins; correct long-standing deficiencies in governmentwide aircraft ownership, management, and use practices; enhance the Postal Service's productivity and business performance; improve OMB's Circular A-76 contracting program to achieve governmentwide operational efficiencies and increase the reliability of claimed cost savings; and amend the Competition in Contracting Act to require full disclosure of and better accountability for automatic data processing bid protest settlements and awards.

Key Open Recommendations

Public Buildings Policy

Our December 1989 report and subsequent testimony emphasized that billions of dollars in monetary benefits could be obtained by increasing the proportion of federally owned space and avoiding renewals of costly leased space. Initial steps have been taken as described above, but special attention needs to be directed to overcoming the several obstacles that remain and obtaining the approval and the funding for the proposed construction program. (GAO/GGD-90-11, see p. 714.)

In May 1991, we reported on GSA's efforts to complete needed repairs and alterations in federally owned buildings. We recommended a series of actions aimed at improving GSA's management and oversight of such repairs and alternatives; targeting the most seriously deteriorated, functionally obsolete, or unsafe buildings; and promoting more informed decisionmaking regarding needed funding levels and the particular projects to fund. GSA agreed that many federal buildings needed improvements and modernization. But its action plan to address our recommendations does not address some of the recommendations or go far enough on others. Even if fully executed, GSA's planned actions would not correct the conditions we reported. (GAO/GGD-91-57, see p. 720.)

GSA and GPO Management

There are several key open recommendations from our general management reviews of GSA and GPO.

Our November 1989 report on GSA contained 33 recommendations aimed at improving GSA's performance in managing and overseeing the federal government's multibillion-dollar real estate portfolio and providing facilities and various goods and services to the federal agency community. As our April 1991 report indicated, GSA is making progress toward implementing many of these recommendations, but much more needs to be done. (GAO/GGD-90-14, see p. 712, and GAO/GGD-91-59, see p. 719.)

Similarly, our September 1990 report on GPO made a number of recommendations designed to improve the efficiency and the effectiveness of GPO's printing production, procurement, customer service, accountability, and strategic planning activities. Although GPO agreed with our recommendations and adopted a comprehensive action plan designed to implement them, its progress to date in accomplishing needed management reforms generally has been slow. GPO has begun developing a strategic planning process but has not yet produced a strategic plan. Congressional interest in GPO's activities and corrective actions remains high, but collaboration needed to define GPO's future role has not yet resulted. The Joint Committee on Printing should take the lead in bringing together GPO leaders, customers, unions, and experts to identify the future role for GPO and a strategy to implement that role. (GAO/GGD-90-107, see p. 716.)

Products With Open Recommendations: Government and Business Operations

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	Government Civilian Aircraft: Central Management Reforms Are Encouraging but Require Extensive Oversight (GGD-89-86)	710
	General Services Administration: Sustained Attention Required to Improve Performance (GGD-90-14)	712
	Wastepaper Recycling: Programs of Civil Agencies Waned During the 1980s (GGD-90-3)	714
	Federal Office Space: Increased Ownership Would Result in Significant Savings (GGD-90-11)	714
	Federal Communications Commission: Strategic Focus Needed to Improve Information Resources Management (IMTEC-90-52)	715
	Government Printing Office: Monopoly-Like Status Contributes to Inefficiency and Ineffectiveness (GGD-90-107)	716
	General Services Administration: Status of Management Improvement Efforts (GGD-91-59)	719

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GGD-91-57)	720
Telecommunications: GSA Should Improve Oversight of Small Business Contracting (IMTEC-91-57)	721
Procurement Reform: New Concepts Being Cautiously Applied at the Postal Service (GGD-91-103)	722
FTS 2000: GSA Must Resolve Critical Pricing Issues (IMTEC-91-79)	722

Related Products With Open Recommendations Under Other Issue Areas

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State Department: Management of Overseas Real Property Needs Improvement (NSIAD-89-116)		180
State Department: Need to Improve Maintenance Management of Overseas Property (NSIAD-90-216)		186
FAA Procurement: Major Data-Processing Contract Should Not Be Awarded (IMTEC-90-38)		449
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Failed Thrifts: Better Controls Needed Over Furniture, Fixtures, and Equipment (GGD-90-87)		686

Savings Opportunity for the United States Mint's Promotional Mailings (T-GGD-90-34)	729
Mail Management: GSA Needs to Improve Support of Agency Programs (GGD-90-49)	729
Mail Management: Labor Programs Run by States Could Reduce Postage Costs (GGD-91-43)	732
Managing IRS: Important Strides Forward Since 1988 but More Needs to Be Done (GGD-91-74)	766
ADP Procurement: Better Capacity Planning Needed at Agriculture's National Finance Center (IMTEC-91-14)	883

Laboratory Accreditation: Requirements Vary Throughout the Federal Government

RCED-89-102, 03/28/89 GAO Contact: John M. Ols, Jr., (202)275-5525

Background

Pursuant to a congressional request, GAO examined federal government programs' laboratory accreditation requirements to determine whether any had overlapping requirements which could be streamlined.

Findings

GAO found that: (1) a National Institute for Standards and Technology (NIST) study identified 13 federal agencies with 33 laboratory accreditation programs; (2) accreditation typically involved evaluation of organizational information, quality control, personnel, facilities and equipment, testing methods, recordkeeping, test reports, and proficiency testing, although programs required differing degrees of specificity; (3) the programs, which typically involved different fields of laboratory testing, generally did not overlap, although there was some overlap

between the NIST National Voluntary Laboratory Accreditation Program and the Federal Communications Commission (FCC) Description of Measurement Facilities Program; (4) programs differed in their accreditation application requirements, with 70 percent requiring both paperwork and on-site reviews; (5) laboratory officials believed that some of the programs' requirements were burdensome; (6) most programs did not separate accreditation costs from other expenses, since they believed that accreditation was only a small part of the complete program; (7) only two programs charged fees for participation in their programs; (8) laboratory officials believed that accreditation at the national level provided greater credibility for their services and was of growing importance to international trade and U.S. competitiveness; and (9) one accreditation program had bilateral agreements with several countries to

recognize each country's accredited laboratories.

Open Recommendations to Agencies

Recommendation: The Director, Office of Management and Budget (OMB), should examine federal accreditation programs to determine whether user fees can and should be appropriately charged.

Status: Action in process. Estimated completion date: 02/92. OMB is currently soliciting information from various agencies on the potential for charging user fees. OMB would like to incorporate any potential savings into the fiscal year 1993 budget. As of September 1991, this process had not been completed and OMB officials could not provide an estimate of the additional revenues that would be realized through these changes.

Government Civilian Aircraft: Central Management Reforms Are Encouraging but Require Extensive Oversight

GGD-89-86, 09/29/89 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO followed up on earlier reviews of civilian agencies' management of their aircraft, focusing on: (1) Office of Management and Budget (OMB) and

General Services Administration (GSA) oversight of civilian agency aircraft ownership and use; and (2) the continuing need for reform of agencies' aircraft management and use practices.

Findings

GAO found that: (1) some agencies were still not justifying the cost-effectiveness of government ownership or administrative use of aircraft, as OMB policy required; (2) some usage practices

did not appear justified by either cost or special mission requirements; (3) some agencies continued to permit spouses and other nonofficial passengers to accompany top officials aboard government aircraft, which could expose the government to liability; (4) OMB clarified guidance on ownership and use of aircraft and established a leadership, technical assistance, and supporting oversight role for GSA; (5) OMB directed agencies to make special cost analyses to determine whether their aircraft were cost-effective compared to commercially available aircraft; (6) OMB and GSA actions provided a centralized management framework for reforming agencies' aircraft management; and (7) OMB and GSA need to continue their efforts to ensure that agencies comply with their guidance concerning ownership and use of aircraft.

Open Recommendations to Agencies

Recommendation: The Director, OMB, should sustain efforts begun during the last administration to: (1) provide overall management leadership aimed at getting executive agencies to improve their management and use of aircraft; and (2) rely on GSA to provide technical leadership, assistance to agencies, and supporting oversight of agencies' aircraft operations and ensure that OMB, as well as GSA, devotes the necessary staff to effectively oversee agencies' actual aircraft practices so that the ongoing reform efforts do not dissipate from lack of sustained attention as did those in 1983.

Status: Action taken not fully responsive. OMB continues to work with GSA and operating agencies to improve executive branch aircraft management. OMB has actively supported the GSA role and encouraged the formulation and activities of the newly established Interagency Committee for Aviation Policy. However, OMB still has not

provided the required central management leadership.

Recommendation: The Director, OMB, should integrate the executive branch's aircraft oversight and enforcement efforts with the budget process and use the budget, the President's Council on Integrity and Efficiency (PCIE), and individual inspectors general to oversee and enforce agencies' compliance with the aircraft ownership, operation, and administrative use requirements of Circulars A-76 and A-126.

Status: Action taken not fully responsive. To date, OMB has not been successful in implementing this recommendation through its budget examination process and PCIE. In 1990, OMB approved the Federal Aviation Administration (FAA) acquisition of a new \$25 million aircraft though the need was questionable and FAA had not made the required cost analysis. OMB considered revisions to its Circular A-111.

Recommendation: The Director, OMB, should establish a new deadline for completing the special A-76 aircraft justification cost studies and, in the meanwhile, issue the additional executive branch guidance for making such studies that had already been planned for later this year, to ensure that agencies have sufficient criteria and time to do the special studies properly. Agencies should be held accountable for meeting the new deadline, and the budget process should be used as leverage to ensure that the required studies are made and that agencies justify that their aircraft are needed and cost-effective. Once agencies have completed the special A-76 cost studies, OMB should reevaluate the adequacy of the governmentwide guidance and agencies' data for making the studies, as well as the adequacy of the existing management controls in Circular A-126

over the use of government aircraft for routine administrative travel.

Status: Action taken not fully responsive. OMB still has not issued the guidance agencies need to make the required cost studies or implemented the other aspects of this recommendation. OMB has been considering several other proposed changes to A-76, but has taken no definitive actions. Consequently, most agencies are not using the required cost studies to justify their aircraft management.

Recommendation: The Director, OMB, should complete the planned transfer of the A-76 function from the Office of Federal Procurement Policy to the Management Directorate as soon as possible and consolidate all aircraft ownership, management, and use policies and guidance into Circular A-126.

Status: Action taken not fully responsive. OMB has transferred A-76 to the Management Directorate, but has not yet decided whether it will consolidate all aircraft policies into its Circular A-126 or cancel A-126 and revise its Circular A-76 to include a separate chapter or section on government aircraft. OMB expects the Interagency Committee for Aviation Policy to make this decision and propose the guidance to be issued.

Recommendation: The Director, OMB, should establish an executive branch policy on the transportation of spouses and other nonofficial passengers that: (1) specifies when it is in the government's best interest for them to accompany officials aboard government aircraft, which government officials are authorized to take spouses and other nonofficial passengers with them on domestic and overseas trips and under what circumstances, and who pays the costs of that transportation; and (2) limits the government's liability.

Status: Recommendation valid/action not intended. OMB believes that incompatible agency statutes make a governmentwide policy impractical. However, OMB is encouraging executive agencies to formulate their own policies. The Interagency Committee for Aviation Policy has established a subcommittee to study this issue and expects to propose new governmentwide safety, usage, and training standards for government aircraft.

Recommendation: The Acting Administrator of General Services should provide the aviation management group the staff and other resources, as well as the top-level management support and organizational placement within GSA, that it needs to effectively fulfill its intended governmentwide leadership, technical assistance, and supporting oversight role in the aircraft area. This role should include: (1) implementing, overseeing, and fine-tuning the guiding aircraft ownership, management, and use policies; and (2)

improving the completeness, reliability, and usefulness of the governmentwide aircraft management information system.

Status: Action taken not fully responsive. GSA continues to make limited progress. GSA has established an Interagency Committee for Aviation Policy to advise it on further changes in aircraft policies, and this Interagency Committee appears to be working well. However, GSA still has not fulfilled its envisioned governmentwide leadership and technical support role.

General Services Administration: Sustained Attention Required to Improve Performance

GGD-90-14, 11/06/89 GAO Contact: L. Nye Stevens, (202)275-8676

Background

GAO assessed the General Services Administration's (GSA) ability to: (1) effectively manage changes; (2) improve its human resources management to ensure a quality work force; and (3) establish an effective information management structure to support managerial decisions and to ensure effective financial control and oversight.

Findings

GAO found that: (1) although GSA should set governmentwide policy and operate activities only where there are advantages to having a central agency involved, continuing management problems prevent it from successfully carrying out this role; (2) GSA delegated certain operational responsibilities to other agencies to try to shift the Public Buildings Service's (PBS) role toward leadership and oversight, but PBS executives did not support shifting building management responsibilities to

tenant agencies, since they believed that GSA could provide the services more economically; (3) PBS did not emphasize customer service and lacked procedural uniformity and consistency among its regional offices, and its regional officials did not account for their actions or performance to PBS policymaking officials; (4) human resources issues resulted in a serious decline in PBS ability to timely provide space to agencies; and (5) outdated information systems did not provide PBS officials with the information available to determine facility operating costs or to reliably project future leasing requirements. GAO also found that: (1) the Federal Supply Service (FSS) had difficulties competing with the private sector to supply federal agencies and trying to operate within a congressional authorization to recover all its costs; (2) GSA lacked effective leadership because of frequent turnovers in political leadership, lack of career executives' involvement in the planning process,

and problems in developing senior executives; (3) inconsistent human resources management contributed to low morale, high turnover, and insufficient staff training and development; and (4) GSA lacked effective information management leadership to properly measure performance and establish accountability for improved service.

Open Recommendations to Agencies

Recommendation: The Administrator of General Services should direct the Commissioner, PBS, to focus efforts primarily on strategic management issues, such as the size and location of government facilities, when and how new facilities are to be acquired, and when it is in the government's best interests to modernize and renovate a building or to sell it.

Status: Action taken not fully responsive. GSA does not agree with this

recommendation. GSA still lacks a strategic concept of its public buildings role and continues to operate with a regionally based, project-by-project philosophy.

Recommendation: To ensure a smooth transition, the Administrator of General Services should direct the Commissioner, PBS, to develop a comprehensive plan and timetable for implementing this role change. This plan, developed in consultation with the agencies, should include the elements outlined in this report and should be shared with the Office of Management and Budget (OMB) and Congress to ensure their commitment and support for the change.

Status: Action taken not fully responsive. GSA stated no dramatic "role change" is necessary or advisable. The future role of PBS has been described in the Strategic Plan. GSA also stated that PBS will continue to perform both policy and operational rates based on good management sense.

Recommendation: To help develop a customer-oriented focus to PBS operations, the Administrator of General Services should direct the Commissioner, PBS, to develop effective partnerships with customer agencies.

Status: Action in process. GSA cited a number of activities for developing effective partnerships with customer agencies: The annual Partnership Administration Conference; regular meetings of the PBS Real Property Executive Advisory Committee; establishing the GSA Client Relations Advisory Committee; and meetings GSA has with client agencies at the Assistant Secretary level. These efforts will be ongoing for several years.

Recommendation: The Administrator of General Services should direct the Commissioner, PBS, to develop a new facilities management information

structure and redefine the relevant management information needed to manage facilities' assets strategically, evaluate facilities' costs and performance, and oversee delegated functions.

Status: Action in process. Estimated completion date: 12/95. GSA has plans for the development of a new management information system. GSA expects that this system, when complete, will provide the relevant, accurate, and timely information GSA needs to effectively manage government facilities.

Recommendation: The Administrator of General Services should direct the Commissioner, PBS, to acquire and implement a new facilities management information system capable of: (1) collecting, analyzing, and disseminating this information; and (2) exchanging information with other GSA information systems as needed.

Status: Action in process. Estimated completion date: 12/95. GSA estimates the new management information system will be completed in 1995. In the interim, system requirements will be identified and software installed.

Recommendation: The Administrator of General Services should establish and maintain an active human resources planning system that is integrated with other planning processes to identify future staff resources requirements and stipulate how these resources will be acquired.

Status: Action in process. GSA developed a human resources planning system in September 1990. However, the system is not yet fully integrated with other planning processes.

Recommendation: The Administrator of General Services should develop stronger employee development and training programs that are based on requirements identified in the human

resources plan and input received from across the organization.

Status: Action taken not fully responsive. GSA has not made efforts to determine, on the terms of the human resources planning system, future training and development needs. According to GSA officials, they believe that many of the current training and development programs will address the needs identified in the human resources planning system.

Recommendation: To improve the GSA internal information resources management environment and establish a framework for meeting its financial and program management information needs, the Administrator of General Services should develop an agencywide information architecture that identifies and links all information needs, both financial and nonfinancial, with appropriate systems applications and related hardware to carry out GSA mission and program objectives.

Status: Action in process. Estimated completion date: 03/92. GSA has developed plans to improve its overall information management needs. A project has been designed to improve GSA strategic use of information and to address its growing information needs. The plan is expected in March 1992.

Recommendation: To improve GSA financial management systems and provide a sound basis for guiding system development efforts, the Administrator of General Services should complete an agencywide financial systems plan as part of the development of the agency's information architecture.

Status: Action in process. Estimated completion date: 03/92. GSA merged its financial system plan with its overall architecture development in order to avoid duplication. The plan is expected in March 1992.

Wastepaper Recycling: Programs of Civil Agencies Waned During the 1980s

GGD-90-3, 12/15/89 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO examined various aspects of federal agencies' wastepaper recycling activities, focusing on: (1) the extent to which agencies implemented a legislative mandate to encourage wastepaper recovery and establish recycling programs; (2) the causes of agencies' shortcomings in implementing those responsibilities; and (3) obstacles to expanding federal recycling efforts.

Findings

GAO found that: (1) most federal agencies did not have wastepaper recovery programs and had not conducted the required analyses to justify the absence of such programs; (2) most General Services Administration (GSA) regional offices were trashing wastepaper rather than selling it for

recycling purposes; (3) the governmentwide wastepaper recycling program that GSA and the Environmental Protection Agency (EPA) initiated in response to the legislative mandate was adversely affected by budget cuts, lack of aggressive management and monitoring, poor contract administration, and employee apathy; (4) EPA did not issue guidelines for the procurement of recycled paper until a lawsuit forced the issuance of the guidelines; (5) although the Office of Federal Procurement Policy (OFPP) was required to report biennially to Congress on agencies' progress in implementing guidelines, it had only submitted two such reports since 1981; and (6) obstacles to agencies' establishment, maintenance, and expansion of recycling programs included the widespread perception that such programs were not cost-effective, lack of adequate storage space to hold

accumulated wastepaper, and program costs.

Open Recommendations to Congress

Recommendation: Congress may contribute to an increase in recycling in federal facilities by alleviating the cost burden of those programs. An appropriate step Congress could take would be to ensure that agencies involved in recycling efforts are able to receive the income from the sale of their wastepaper for future use in their recycling programs.

Congressional Action: Congress is considering several bills which would allow agencies with wastepaper recycling programs to keep the proceeds from the sale of their wastepaper. The Senate has scheduled a hearing on this GAO report.

Federal Office Space: Increased Ownership Would Result in Significant Savings

GGD-90-11, 12/22/89 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO reviewed the General Services Administration's (GSA) efforts to reduce office space leasing costs by increasing government-owned office space.

Findings

GAO found that: (1) 43 proposed construction projects could save \$12 billion in leasing costs over a 30-year period; (2) mandated rent restrictions on government-owned property limit Federal Building Fund (FBF) revenues for capital investment and a budgetary

bias towards leasing will continue to restrict the availability of construction capital; (3) Congress directed GSA to finance office construction by borrowing capital funds, but financing costs were higher than those incurred from financing through rent revenues; (4) GSA did not develop a long-term plan for achieving government-ownership

goals; and (5) GSA budgeting did not separate capital components from operating expenses or identify the long-term benefits associated with capital investment.

Open Recommendations to Agencies

Recommendation: The Administrator of General Services should prepare and periodically update a long-range plan using individual economic analyses to show the facilities for which federal ownership would be the most economical way of meeting long-term federal office space needs.

Status: Action taken not fully responsive. GSA did prepare a 5-year

plan laying out its desired facility ownership goals in communities with a major federal presence; however, the plan was not based on an economic analysis of individual projects, nor did it provide any way to prioritize the importance of individual proposals. The Office of Management and Budget did not approve the plan, and it directed GSA to make changes before the plan is presented to Congress.

Recommendation: The Administrator of General Services should take a leadership role in demonstrating the benefits of capital budgeting for the federal government by preparing a capital budget which would: (1) match expenses and revenues for capital and

operating programs; and (2) include a charge for depreciation to represent the consumption of physical assets for each year.

Status: Action in process. Estimated completion date: 01/92. GSA stated major modifications to computer billing systems, computer accounting systems, and other ADP systems are necessary to separate revenues into categories of capital investment and operating expenses. GSA is trying to develop a pro forma capital budget presentation that considers the relationship between current procedures to record obligations and the requirements of capital budgeting.

Federal Communications Commission: Strategic Focus Needed to Improve Information Resources Management

IMTEC-90-52, 07/20/90 GAO Contact: JayEtta Z. Hecker, (202)275-9675

Background

Pursuant to a congressional request, GAO provided information on the Federal Communications Commission's (FCC) information resources management (IRM), focusing on how the agency plans and develops information technology to meet its mission.

Findings

GAO found that: (1) the FCC mission is becoming increasingly demanding; (2) FCC plans to spend about \$11 million on information technology to support mission and administrative functions between fiscal years (FY) 1990 and 1993; (3) FCC has not developed a strategic IRM plan that builds on its business strategy by identifying the goals, direction, and information needed to

meet its mission; (4) FCC recognized a decade ago that information technology could help it accomplish its mission, but did not introduce automation into its reference rooms; (5) FCC did not implement a proposal to use electronic filing for license applications because it did not periodically review progress on IRM proposals; (6) some FCC information systems development policies and practices are not consistent with federal guidelines for preparing thorough cost-benefit analyses of alternative systems; and (7) FCC has not prepared a continuity-of-operations plan, identified its critical information systems, or prepared detailed emergency procedures.

Open Recommendations to Agencies

Recommendation: To guide the increased level of FCC information technology expenditures, the Chairman, FCC, should ensure that the agency develops a strategic IRM plan.

Status: Action in process. In May 1990, FCC contracted with General Services Administration's (GSA) FEDSIM to provide support in developing a strategic IRM plan for FCC. FEDSIM developed a detailed work plan and also selected a contractor to perform the technical work. The contractor began work in November 1990, and the plan is to be presented for FCC evaluation in late 1991.

Recommendation: To help ensure a smooth, rapid recovery of automatic data processing (ADP) operations in an emergency, FCC should prepare and periodically test an ADP continuity-of-operations plan.

Status: Action in process. FCC is improving its entire computer security program, including development of a continuity-of-operations plan. As a first step in developing a plan, FCC formed an agencywide committee that is

identifying the agency's most critical information systems. In addition, FCC is working with GSA to have a vendor help develop a continuity plan.

Government Printing Office: Monopoly-Like Status Contributes to Inefficiency and Ineffectiveness

GGD-90-107, 09/26/90 GAO Contact: J. William Gadsby, (202)275-8387

Background

Pursuant to a congressional request, GAO assessed the effectiveness and efficiency of the management of Government Printing Office (GPO) production, procurement, customer service, accountability, and strategic planning activities.

Findings

GAO found that: (1) GPO insulation from competitive market forces created few real incentives to improve the efficiency and effectiveness of its operations; (2) GPO passed its high labor and administrative costs on to customers; (3) GPO Central Office printing costs in fiscal year (FY) 1989 totalled about \$150 million, as opposed to estimated commercial printer costs of \$75 million; (4) GPO scheduled work during high-cost time on weekends, while idle time existed during the regular work week; (5) in FY 1989, GPO wasted 22 to 34 percent of the paper used, approximately 12 percent higher than private industry, at a cost of \$7 million; (6) 6 out of 12 agency printers polled perceived GPO printing quality as lower than procured printing, and GPO sent an average of 26 jobs a month back to press, at a monthly cost of \$45,000; (7) aging equipment, 84 percent of which

was fully depreciated, adversely influenced production efficiency; (8) GPO production efficiency and quality management systems were weak, resulting in failure in meeting production efficiency goals; (9) GPO failed to validate contractor delivery performance; (10) quality-of-performance information necessary to operate a sound contracting system was not easily accessible; (11) GPO continued to award contracts to poor performers; (12) poor communication and a poor system for tracking and resolving complaints hampered customer service; and (13) the GPO Executive Information System (EIS) failed to provide useful information, easy access, and rapid response.

Open Recommendations to Congress

Recommendation: Within the framework of the strategic planning process, there needs to be a collaborative effort to define the GPO future role. The Joint Committee on Printing should take the lead in bringing together a collection of GPO leaders, customers, unions, and others to identify the GPO future role. This collaborative effort should answer the critical questions that will influence

and define the GPO future role in government printing.
Status: Action in process.

Recommendation: Within the framework of the strategic planning process, there needs to be a collaborative effort to define the GPO future role. The Joint Committee on Printing should take the lead in bringing together a collection of GPO leaders, customers, unions, and others to identify the GPO future role. This collaborative effort should design and implement a strategy to provide the people, plant, and equipment needed to carry out the newly defined role.
Status: Action in process.

Congressional Action: There is continued strong interest in GPO activities from the Joint Committee on Printing (JCP) and the potential for hearings, close scrutiny, and specific questions concerning its progress against its action plan is quite high. The Senate Appropriations Committee has also taken great interest in GPO progress against its plan. Public Printer Houk testified on GPO progress in light of the GAO recommendations during hearings held on April 25, 1991.

Open Recommendations to Agencies

Recommendation: To improve efficiency and production quality, the Public Printer should revise current central plant production scheduling practices to reduce weekend overtime, realigning the existing work flow to better utilize the Monday through Friday work week and reduce idle machine and labor time, and contracting out additional congressional or agency work to the extent necessary.

Status: Action in process. GPO has taken some steps to reduce the use of weekend and other overtime—for the period ending August 1991, GPO reduced these expenses by \$1.7 million compared to the same time period last year. GPO is reviewing current work loads in an effort to adjust future scheduling activities and evaluating potential reductions in idle machine time.

Recommendation: To improve efficiency and production quality, the Public Printer should establish a realistic agency goal and action to reduce waste and spoilage.

Status: Action in process. GPO is setting goals.

Recommendation: To improve efficiency and production quality, the Public Printer should adopt a comprehensive quality management strategy that includes production efficiency goals commensurate with industry goals to the extent possible.

Status: Action in process. GPO is developing new tolerances and evaluation methods in production. It is looking to have drafts of these new measures reviewed by customer and industry representatives before final issuance.

Recommendation: To improve efficiency and production quality, the Public Printer should adopt a comprehensive quality management strategy that

includes an approach that emphasizes the prevention of errors, rather than their detection after production.

Status: Action in process. GPO is investigating the possibility of incorporating a total quality management program into its operations. This would be particularly relevant in the production area of its central facility.

Recommendation: To improve efficiency and production quality, the Public Printer should adopt a comprehensive quality management strategy that includes a customer satisfaction orientation.

Status: Action in process. GPO recently developed a customer service satisfaction survey aimed at its agency customers. It has also worked to maintain positive relationships with the Interagency Council on Printing and Publications Services and the Publisher's Committee.

Recommendation: To improve the management of procurement and ensure that procurement personnel have access to comprehensive and reliable data on contractor performance prior to making award decisions, the Public Printer should establish internal control procedures to collect, validate, and maintain information on delivery performance. Such procedures should require periodic contact directly with customers to validate delivery information.

Status: Action in process. GPO plans to review procurement to ensure that contracting personnel have better access to contractor information. Also, it plans to: (1) improve procurement guidance; (2) enhance methods used to validate contractor-supplied shipping information; (3) improve the quality of information provided to customers on the status of their jobs; and (4) better train contract staff on using performance data.

Recommendation: To improve the management of procurement and ensure that procurement personnel have access to comprehensive and reliable data on contractor performance prior to making award decisions, the Public Printer should automate, to the extent possible, data on the quality and timeliness of products provided by contractors, or at least make the data more accessible.

Status: Action in process. GPO plans to review procurement to ensure that contracting personnel have better access to contractor information. Also, it plans to: (1) improve procurement guidance; (2) enhance methods used to validate contractor-supplied shipping information; (3) improve the quality of information provided to customers on the status of their jobs; and (4) better train contract staff on using performance data.

Recommendation: To improve the management of procurement and ensure that procurement personnel have access to comprehensive and reliable data on contractor performance prior to making award decisions, the Public Printer should issue guidance on the use of quality and timeliness data in awarding contracts.

Status: Action in process. GPO plans to review procurement to ensure that contracting personnel have better access to contractor information. Also, it plans to: (1) improve procurement guidance; (2) enhance methods used to validate contractor-supplied shipping information; (3) improve the quality of information provided to customers on the status of their jobs; and (4) better train contract staff on using performance data.

Recommendation: The Public Printer should improve the GPO Customer Service Program by providing all customers with more detailed information on their bills, including a

brief explanation when actual costs exceed estimates.

Status: Action in process. GPO established working groups with agency customers to look at customer billing problems and plans to revise its billing systems to provide more useful information to clients. In addition, it is looking at alternative methods for pricing jobs.

Recommendation: The Public Printer should improve the GPO Customer Service Program by providing agencies with advance notice when jobs will be produced in-house or when jobs will be delivered late.

Status: Action in process. GPO has instructed staff in the Customer Service Department to solicit and communicate specific information on possibly delinquent jobs. Additionally, it plans to make improvements in data provided on the Procurement Information Control system so that customers can more readily track the status of their work.

Recommendation: The Public Printer should improve the GPO Customer Service Program by developing a system to regularly solicit and analyze customer feedback to identify trends warranting corrective action.

Status: Action in process. GPO plans to develop a yearly survey to solicit input from agency and congressional customers. In addition, senior agency officials plan to make on-site visits to agency customers to demonstrate GPO commitment to customer service.

Recommendation: The Public Printer should improve the GPO Customer Service Programs by improving processes to resolve customer complaints, and using complaint information to be more proactive in meeting customers' needs.

Status: Action in process. Although GPO plans to look at automated systems for tracking and monitoring complaints, it

believes that the number of customer complaints is minimal and would rather focus efforts on resolving, rather than tracking, complaints.

Recommendation: The Public Printer should strengthen accountability by improving top managers' performance plans and using the plans to evaluate performance. Where appropriate, top managers' performance plans should include measurable objectives for improving production, procurement, and customer service operations.

Status: Action in process. In its action plan, GPO said that it is developing new and—where appropriate—quantifiable performance measures and standards for senior officials and improving training in this area. However, the agency has made little progress in this area.

Recommendation: The Public Printer should strengthen accountability by improving top managers' performance plans and using the plans to evaluate performance. Where appropriate, top managers' performance plans should include achievement of the Public Printer's specified goals and objectives pertaining to managers' functional areas.

Status: Action in process. In its action plan, GPO said that it is developing new and—where appropriate—quantifiable performance measures and standards for senior officials and improving training in this area. However, the agency has made little progress in this area.

Recommendation: The Public Printer should strengthen accountability by improving top managers' performance plans and using the plans to evaluate performance. Where appropriate, top managers' performance plans should include specific language that can be used to hold managers accountable for performance.

Status: Action in process. In its action plan, GPO said that it is developing new

and—where appropriate—quantifiable performance measures and standards for senior officials and improving training in this area. However, the agency has made little progress in this area.

Recommendation: The Public Printer should improve EIS and encourage its use by identifying the information that is needed to better manage GPO.

Status: Action in process. GPO plans to evaluate the usefulness of EIS and improve training. In addition, the Office of Information Resources Management has been reassigned to the Chief Financial Officer in an effort to better integrate financial and program information.

Recommendation: The Public Printer should improve EIS and encourage its use by redesigning the system to meet the information needs of GPO-top managers.

Status: Action in process. GPO plans to evaluate the usefulness of EIS and improve training. In addition, the Office of Information Resources Management has been reassigned to the Chief Financial Officer in an effort to better integrate financial and program information.

Recommendation: The Public Printer should improve EIS and encourage its use by improving the response time.

Status: Action in process. GPO plans to evaluate the usefulness of EIS and improve training. In addition, the Office of Information Resources Management has been reassigned to the Chief Financial Officer in an effort to better integrate financial and program information.

Recommendation: The Public Printer should strengthen the GPO planning process by providing more specific direction and ensuring that the current planning process becomes an intrinsic

part of GPO management practices for establishing consensus on agency goals and objectives.

Status: Action in process. The Public Printer has articulated three broad goals: (1) maintenance and improvement of satisfaction with GPO products and services; (2) modernization of GPO operations; and (3) determination of the future GPO role. Issues have been identified and the structure of the strategic plan has been outlined. GPO plans to involve JCP and agency unions in planning, although progress in this area seems slow.

Recommendation: The Public Printer should strengthen the GPO planning process by involving key external and internal players in the process.

Status: Action in process. The Public Printer has articulated three broad goals: (1) maintenance and improvement of satisfaction with GPO products and services; (2) modernization of GPO operations; and (3) determination of the future GPO role. Issues have been identified and the structure of the strategic plan has been outlined. GPO plans to involve JCP and agency unions in planning, although progress in this area seems slow.

Recommendation: The Public Printer should strengthen the GPO planning process by ensuring that strategic planning drives budget development and that work-force and other subordinate plans flow from the strategic plan.

Status: Action in process. The Public Printer has articulated three broad

goals: (1) maintenance and improvement of satisfaction with GPO products and services; (2) modernization of GPO operations; and (3) determination of the future GPO role. Issues have been identified and the structure of the strategic plan has been outlined. GPO plans to involve JCP and agency unions in planning, although progress in this area seems slow.

Recommendation: Regardless of the outcome of any future role discussions, GPO should correct its operational problems.

Status: Action in process. GPO has taken some steps in planning to address its operational problems, but much more needs to be done. GAO believes that GPO needs to move from planning to real action.

General Services Administration: Status of Management Improvement Efforts

GGD-91-59, 04/03/91 GAO Contact: L. Nye Stevens, (202)275-8676

Background

GAO assessed the General Services Administration's (GSA) progress in implementing 33 recommendations GAO made in its 1989 general management review report.

Findings

GAO found that: (1) overall, GSA made a good effort to implement most of the recommendations, but it needed to strengthen its planning and strategy processes to fully implement the recommendations; (2) GSA developed strategic plans defining its mission, vision, and values to improve its executive leadership and direction setting; (3) GSA addressed management

information-related recommendations by improving its oversight, management, and use of those activities; (4) GSA had not yet implemented the two most important facilities management recommendations to develop a much needed strategic approach to managing facilities and to assume a more policy oriented and oversight role; (5) GSA implemented only one of four recommendations in the human resources area and still needed to develop a human resources work plan with specific goals and priorities; (6) many of the recommendations would take several years to fully implement; and (7) the GSA action plan follow-up process did not ensure an adequate assessment of the actions planned and

taken to implement the recommendations before GSA closed them.

Open Recommendations to Agencies

Recommendation: To more effectively monitor and assess progress and better hold program officials accountable for full implementation of GAO recommendations, the Administrator of General Services should modify the action plan to include effective and fully documented strategies for all of the recommendations.

Status: Action in process. The GSA Audit Resolution Office directed the responsible officials to revise and update

their action plans. The revised action

plans will be reviewed and the

effectiveness assessed by Audit
Resolution staff members.

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence

GGD-91-57, 05/13/91 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO assessed the General Services Administration's (GSA) efforts to complete needed repairs and alterations in federally owned buildings.

Findings

GAO found that: (1) over half of the 1,600 federally owned buildings were at least 40 years old and needed major improvements; (2) deferred repairs and alterations at federal buildings resulted in further damage that could have been avoided; (3) buildings require greater capital investment, such as a major overhaul every 20 years; (4) older buildings generally lacked the electrical and telecommunication capabilities to accommodate personal computers and other modern data and word processing technologies; (5) persistent problems with building heating and cooling systems adversely affected employee morale and productivity; (6) funding limitations and ineffective GSA management were the primary reasons why needed repairs and alterations were not made; (7) the Federal Buildings Fund financed office space costs, including repairs and alterations, but rent restrictions reduced its revenue by about \$4 billion; (8) emphasis on budget deficit reduction, combined with the present federal budget structure, often limited the amount of funding available for capital projects; and (9) GSA operated on

a project-by-project basis, and lacked a comprehensive, long-term strategy for effectively meeting building repair and alteration needs.

Open Recommendations to Agencies

Recommendation: To promote more informed congressional decisionmaking and help prevent other federal buildings from becoming as deteriorated and functionally obsolete as the Pentagon, the Administrator of General Services should annually develop and communicate to the Office of Management and Budget (OMB) and Congress a comprehensive plan that: (1) identifies total repair and alteration requirements in federally owned buildings and their estimated costs; (2) assesses the short- and long-term economic and operational implications of the requirements for each building; and (3) proposes a strategy, action plan, and funding levels to repair or modernize the most seriously deteriorated, functionally obsolete, or unsafe buildings.

Status: Action taken not fully responsive. The GSA action plan is not fully responsive. Its three action plan items, two of which GSA stated are completed, do not go far enough to fully implement the recommendation. GSA has developed a 5-year capital investment plan, but it has not been approved by the Administration. Consequently, GSA has not yet

established a completion date for this action plan item.

Recommendation: GSA should identify, in consultation with tenant agencies, those federal buildings that: (1) have structural or mechanical deficiencies which, if not corrected, will likely result in further costly damage to building equipment or contents and higher eventual repair or replacement costs to the government; (2) do not meet applicable fire or other health and safety standards; and (3) have other deficiencies that compromise tenant agencies' operations or employees' health and safety.

Status: Action taken not fully responsive. The GSA action plan for this recommendation is not responsive and therefore unacceptable. It does not address all aspects of the recommendation. More importantly, however, the specific action plan items, even if fully executed, would not correct the conditions that prompted this recommendation.

Recommendation: GSA should establish appropriate management controls to ensure that: (1) all identified building repair and alteration needs are included in its computerized inventory, assigned priorities, and properly costed; and (2) needs that have already been deferred for 2 or more years are identified, tracked, and coordinated with the affected tenant agencies.

Status: Action taken not fully responsive. Similarly, the GSA action plan for this recommendation is not fully responsive. It is positive and a step in the right direction, but the specific action plan items, most involving only the development and issuance of new policies, do not go far enough. Even if

fully executed, the GSA action plan is unacceptable because it would not correct the conditions that prompted the recommendation.

Recommendation: Once it has developed and submitted a long-range strategic capital plan, GSA should explore with

Congress and OMB how to finance needed building repairs and alterations and whether the existing prospectus process for repair and alteration projects is still needed.

Status: Action not yet initiated.

Telecommunications: GSA Should Improve Oversight of Small Business Contracting

IMTEC-91-57, 07/09/91 GAO Contact: Jack L. Brock, (202)275-3195

Background

Pursuant to a congressional request, GAO reviewed small and small disadvantaged business subcontracting opportunities for major telecommunications contracts, focusing on whether the Federal Telecommunications System (FTS) 2000, Technical Assistance and Management Services (TAMS), and Washington Interagency Telecommunications System (WITS) contracts afforded such businesses maximum practicable opportunity for subcontracting, as the Small Business Act required.

Findings

GAO found that: (1) the prime contractors exceeded their subcontracting goals under the FTS 2000, TAMS, and WITS contracts, by subcontracting with small and small disadvantaged businesses for telecommunications and other services; (2) since five large subcontractors failed to develop required subcontracting plans valued at about \$109 million, subcontracting opportunities for small and small disadvantaged businesses may have been missed; and (3) the General Services Administration and prime contractors lack adequate oversight to ensure that large subcontractors comply with the Small Business Act.

Open Recommendations to Agencies

Recommendation: To help ensure that small and small disadvantaged businesses are provided maximum practicable opportunity, the Administrator of General Services should strengthen oversight of contractor activities under the FTS 2000, WITS, and TAMS contracts, especially as related to development of subcontracting plans by large contractors, to ensure compliance with the Small Business Act.

Status: Action not yet initiated.

Procurement Reform: New Concepts Being Cautiously Applied at the Postal Service

GGD-91-103, 08/06/91 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO reviewed the U.S. Postal Service's (USPS) new procurement rules.

Findings

GAO found that: (1) USPS purchasing practices closely resembled federal agency practices; (2) the key difference between federal and USPS procurement policies is the new USPS policy that allows the contracting officer discretion in determining the measures taken to obtain competition; (3) the contracts examined showed that use of the increased discretionary judgment resulted in competitive procurements that satisfied the department that requested goods or services; (4) each of the three USPS purchasing organizations used the increased discretion provided by the procurement

manual differently, with the Procurement and Supply Department eliminating the use of sealed bids and using competitive negotiation to award its contracts, the Facilities Department restricting the bidders on less than 2 percent of its construction contracts to prequalified contractors, and the Office of Transportation not changing its contracting practices; (5) USPS has not collected data that show the extent to which procurement personnel have used the added discretion permitted by the new rules; (6) the new USPS procurement rules have had little effect on the volume of contracts awarded to small and minority firms; (7) procuring officers did not widely use the simplified procedures for large-dollar purchases due to their interpretation of the guidance; and (8) USPS protest resolution procedures offer a simplified, inexpensive, and expedient means to

respond to contractor complaints about USPS procurement practices.

Open Recommendations to Agencies

Recommendation: The Postmaster General should systematically develop data on the extent of use and the specific advantages and disadvantages that have resulted from using more flexible USPS procurement procedures, such as prequalification and large-dollar commercial item purchases.

Status: Action in process. Estimated completion date: 03/92. In April 1991, the Postal Service awarded a contract to study how the more flexible procurement rules have been used by the Procurement and Supply Department. This study is scheduled for completion in March 1992.

FTS 2000: GSA Must Resolve Critical Pricing Issues

IMTEC-91-79, 09/11/91 GAO Contact: Jack L. Brock, (202)275-3195

Background

Pursuant to a congressional request, GAO assessed the effectiveness of General Services Administration (GSA) efforts to obtain competitive rates for telecommunications services under the Federal Telecommunications System (FTS) 2000 contracts.

Findings

GAO found that: (1) the government will continue to pay more than commercial prices for FTS 2000 services until the next fiscal year, unless prices are reduced; (2) FTS 2000 prices will exceed commercial rates for switched-voice service by \$148 million over fiscal year (FY) 1991 and FY 1992; (3) prices for data services were significantly higher

than commercially available prices and will make up about 20 percent of the vendors' FTS 2000 revenue in FY 1992; (4) FTS 2000 requires the vendors to provide a number of unique services that are beyond typical commercial services, but GSA cannot presently quantify the incremental effect of these additional services on FTS 2000 prices; (5) GSA notified both vendors that they were

exceeding the mandated price caps and has had some success in getting FTS 2000 switched-voice prices reduced; (6) GSA has been negotiating with both vendors to obtain agreement on a price-cap index for non-switched-voice services and both vendors have either offered or agreed to provide discounts on certain data transmission services; and (7) GSA plans to issue a draft price redetermination and service reallocation solicitation to the two vendors for their review and comment, and expects the price redetermination process to be completed by December 1992.

Open Recommendations to Agencies

Recommendation: The Administrator of General Services should direct the FTS 2000 program staff to develop an accurate measure of comparable commercial rates that takes into account the value of any services provided under the FTS 2000 contracts that are not typically provided under commercial contracts. This measure should then be used during pricing redetermination to evaluate the vendors' bids. Further, GSA needs to make sure that it has an

effective process in place to keep prices at a favorable rate throughout the life of the contract.

Status: Action not yet initiated.

Recommendation: If price redetermination fails to yield prices that are favorable to the government in comparison to commercial prices, GSA should consider alternatives including reallocating all FTS 2000 traffic to one vendor if appropriate, or conducting a new full and open competition.

Status: Action not yet initiated.

Government Information and Statistics

Issue Area Summary: Government Information and Statistics

Impact of GAO's Work

There is a growing concern that years of relative neglect have left the federal government's statistical infrastructure ill-prepared to meet emerging economic and social challenges. In 1989, we began to focus specifically on helping the Congress and the agencies to ensure that federal data collection and dissemination efforts promote data quality and timeliness, cost and paperwork burdens are minimized, personal and proprietary information are protected, and needed information is effectively disseminated to the public.

Census Issues

Much of our work over the last year continued to be focused on the 1990 decennial census. The 1990 census was one of the most controversial in the nation's history. The net census undercount was larger than in 1980, and the black-white differential undercount was the greatest since the Census Bureau began measuring census undercounts in 1940. Using census data, we reported that the number of gross census errors—the combination of persons missed and those double-counted or otherwise wrongly counted—was at least 14.1 million persons, or about 5.7 percent of the 1990 census count of 248.7 million persons.

Congressional concerns over the progress, the cost, and the accuracy of the 1990 census led to our testimony at seven House and Senate oversight hearings. Most of our work focused on (1) the methods and procedures the Department of Commerce used to decide whether to adjust the 1990 census for overcounts and undercounts and (2) the need for a zero-based review of the current census methodology. For example, we described how contrary to public perceptions, the census is not a "headcount" but consists of various methodologies, including statistical applications. We also stressed that the success of census reform efforts depended on the Department's willingness to request funding early in the decade so that fundamental changes could be fully explored.

Mail Management

We identified opportunities for substantial savings through improved mail management practices at the Social Security Administration (SSA), the Department of Veterans Affairs (VA), and the Department of Labor. For example, at SSA and Labor, we identified potential annual monetary benefits of \$29.5 million by increasing the use of presorted and Zip + 4 mailings. We also identified a \$7 million overpayment by SSA to the Postal Service. At VA, we found that \$4 million in monetary benefits could be obtained annually through the enhanced use of fourth-class mailing of prescription drugs and other pharmacy items.

Key Open Recommendations

The Administrator of General Services agreed with our recommendations on the need for General Services Administration's (GSA) leadership role in mail management. GSA is developing a strategy for meeting its mail management responsibilities, including contracts for presorting mail and 2-day shipping. GSA also has transferred mail management oversight to its Federal Supply Service, where it will receive more attention. These actions are positive, but the Administrator should monitor progress to ensure that our recommendations are fully implemented. (GAO/GGD-90-49, see p. 729.)

The Bureau of the Mint initially disagreed with our recommendation to reduce its postage costs by mailing promotional materials at bulk rates. However, at the direction of the Office of Management and Budget (OMB), the Bureau is testing the impact of bulk mailings on its customer response rates and will report to OMB on the results in late 1991. If the test findings demonstrate monetary benefits, the Bureau should use bulk mailings for its promotional materials. (GAO/T-GGD-90-34, see p. 729.)

Voter Registration

In our November 1990 report on state, local, and private efforts to increase voter turnout, we stated that voter registration procedures continued to be a barrier to participation for many Americans. We recommended that the Congress enact legislation to make registration more nearly automatic. Such legislation has been introduced but not passed. (GAO/PEMD-91-1, see p. 731.)

Products With Open Recommendations: Government Information and Statistics

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Savings Opportunity for the United States Mint's Promotional Mailings

T-GGD-90-34, 04/18/90 GAO Contact: L. Nye Stevens, (202)275-8676

Background

GAO discussed the U.S. Mint's opportunities for reducing the costs of its numismatic sales promotional mailings. GAO noted that the Mint: (1) had about 2.8 million individuals on its numismatic sales promotions mailing list; (2) supplemented that mailing list with other lists targeted at audiences expected to be interested in the theme of a particular promotion; (3) spent \$6.7 million in postage costs for its fiscal year 1988 numismatic program promotions; (4) improved some of its postal operations and decreased some postal costs by installing computer software to standardize addresses and by presorting promotional mailings; (5) sent its

mailings by first-class mail, although it could save about \$2.4 million annually by using third-class mail for its routine mailings; and (6) expressed such concerns over third-class mail as nondelivery of mail, forwarding charges, image, and timeliness of delivery. GAO also noted that: (1) a U.S. Postal Service (USPS) study yielded a large body of evidence that countered the Mint's concerns about using third-class mail; (2) use of third-class mail could further reduce promotional costs by increasing the potential for combining mailings without incurring additional weight surcharges; and (3) USPS proposed rate increases for first-class mail for 1991.

Open Recommendations to Agencies

Recommendation: The Mint should budget for and use third class for its promotional mailings.

Status: Action in process. The Mint did not plan to use third class for its promotional mailings. However, in response to Office of Management and Budget (OMB) directions, the Mint will test the impact of third class on its customer response rates in an August 1991 catalog mailing. The Mint will then analyze the impact of bulk class and report the results to OMB. This action should take place late in 1991.

Mail Management: GSA Needs to Improve Support of Agency Programs

GGD-90-49, 08/07/90 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO evaluated the General Services Administration's (GSA) support to federal agencies in managing the cost of agencies' mail operations.

Findings

GAO found that: (1) while GSA has recently emphasized strategic planning to meet several of its other responsibilities, it lacks a comprehensive

plan for its mail leadership responsibilities; (2) GSA mail management resource levels have not been adequate to sustain efforts begun in earlier years to reduce mail costs or to carry out an effective leadership role; (3) GSA officials said that mail operations were not reviewed; (4) the GSA claim that it prompted changes to agency mail programs was questionable; (5) GSA has stopped providing on-site technical assistance to support changes to agencies' mail operations; (6) despite

statements that GSA would provide a mail management handbook to federal agencies in fiscal year 1981, it did not publish a book until April 1989; (7) GSA is not providing support that agencies believe would be of benefit; (8) GSA courses did not include adequate training on designing and implementing an effective mail management system; (9) there has been little planning, coordination, or interaction with major federal agencies by GSA to arrive at an integrated, focused approach to support

agency mail systems; and (10) GSA has successfully reduced agency mailing costs through the actions of its Federal Supply Service (FSS).

Open Recommendations to Agencies

Recommendation: The Administrator of General Services, working in close cooperation with federal agencies, should develop a plan clearly laying out a strategy, including an appropriate resource level, for meeting GSA statutory mail management responsibilities. At a minimum, the strategy should ensure that GSA obtains and expands competitive contracts related to agency mail operations, such as presort and overnight delivery.

Status: Action in process. Estimated completion date: 02/92. GSA is currently organizing contracts for presort mail and for 2-day shipping arrangements. GSA has also expanded its overnight delivery contract with Federal Express to include single packages up to 70 pounds. GSA hopes to finalize all contracts in about 6 months.

Recommendation: The Administrator of General Services, working in close cooperation with federal agencies, should develop a plan clearly laying out a strategy, including an appropriate resource level, for meeting GSA statutory mail management responsibilities. At a minimum, the strategy should ensure that GSA develops timely and comprehensive written guidance that focuses on

opportunities for agencies to reduce their mails costs.

Status: Action in process. Estimated completion date: 03/92. The GSA Information Resources Management Service division plans to issue a mail operations handbook by the end of fiscal year (FY) 1991. The newly established mail management office in FSS may consider offering guidance in the Federal Property Management Regulation. This should be decided within the next 6 months.

Recommendation: The Administrator of General Services, working in close cooperation with federal agencies, should develop a plan clearly laying out a strategy, including an appropriate resource level, for meeting GSA statutory mail management responsibilities. At a minimum, the strategy should ensure that GSA makes on-site technical assistance in mail management available to agencies, using GSA and other agencies' expertise, as appropriate.

Status: Action in process. Estimated completion date: 09/92. GSA plans to establish a steering committee on mail management issues made up of members from the Postal Service and various federal agencies. This steering committee will assist in making on-site technical assistance in mail management available to agencies. GSA hopes the committee will be operating by the end of FY 1992.

Recommendation: The Administrator of General Services, working in close

cooperation with federal agencies, should develop a plan clearly laying out a strategy, including an appropriate resource level, for meeting GSA statutory mail management responsibilities. At a minimum, the strategy should ensure that GSA develops training materials and a delivery system that better meet agencies' needs.

Status: Action in process. Estimated completion date: 09/92. GSA plans to establish a steering committee on mail management issues by the end of FY 1992. This committee will assist in developing training materials and a delivery system that better meets agencies' needs.

Recommendation: The Administrator of General Services, working in close cooperation with federal agencies, should develop a plan clearly laying out a strategy, including an appropriate resource level, for meeting GSA statutory mail management responsibilities. At a minimum, the strategy should ensure that GSA solicits and represents agencies' common mail concerns and disseminates important information to federal agencies.

Status: Action in process. Estimated completion date: 09/92. GSA plans to establish a steering committee on mail management issues by the end of FY 1992. This committee will assist in addressing agencies' common mail concerns and in disseminating information to federal agencies.

Voting: Some Procedural Changes and Informational Activities Could Increase Turnout

PEMD-91-1, 11/02/90 GAO Contact: Robert L. York, (202)275-5885

Background

Pursuant to a congressional request, GAO examined: (1) why voter turnout in the United States was low compared to other democracies; (2) why U.S. voter turnout has been declining since 1960; and (3) what election procedures and informational activities were associated with higher levels of voter participation.

Findings

GAO found that: (1) comparatively low American voter turnout was not the consequence of political alienation, but international differences in the characteristics of political parties and election procedures; (2) U.S. political parties were not closely linked with specific interest groups and social categories, as in other countries, and consequently election results did not make a difference in the lives of individual voters; (3) the absence of penalties for not voting and the fact that citizens must assume the responsibility of registering to vote were other explanations given for comparatively low U.S. voter turnout; (4) turnout differences between states resulted from demographic composition of the electorate and different electoral rules; (5) all-mail ballot elections led to a 20- to 40-percent point increase in turnout and cost 32 percent less than conventional elections; (6) voter information activities did not generally increase voter turnout and low-turnout states were more likely to run such campaigns than high-turnout states; (7) states that mailed

information to households, provided toll-free phone numbers for voters, and held mock elections in high schools experienced a substantially lower decline in voter turnout between 1980 and 1988; (8) making registration convenient and holding information campaigns stressing how to register and vote were especially effective in increasing turnout; and (9) voter information campaigns stressing civic duty, transporting voters to the polls, operating child care centers, and telephoning voters were not effective.

Open Recommendations to Congress

Recommendation: In the interest of increasing electoral participation, Congress may want to consider making voter registration more convenient. One way to do this would be to adopt a system of more nearly automatic registration such as that advanced by H.R. 2190 or S. 874, the National Voter Registration Act of 1989.

Status: Action in process.

Recommendation: In seeking to increase electoral participation, Congress may want to explore the feasibility of using toll-free phone numbers by means of which the voter could: (1) request that an official absentee or mail ballot be sent to his or her legal residence; and (2) obtain registration information, including the intent to purge the voter from the registration rolls.

Status: Action not yet initiated.

Recommendation: In seeking to increase electoral participation, Congress may want to consider the feasibility of a demonstration project to determine the appropriateness of all-mail balloting for federal elections. The project would determine differences in turnout and cost, the likelihood of fraud or abuse, and the comparative degree of public satisfaction with respect to mail-ballot elections versus conventional polling-place elections.

Status: Action not yet initiated.

Recommendation: To increase electoral participation, Congress may want to consider the feasibility of encouraging the states to mail pamphlets explaining propositions and referendums to households of registered voters.

Status: Action not yet initiated.

Recommendation: To increase electoral participation, Congress may want to consider the feasibility of placing polling booths and other election materials in high school civics or other appropriate classes to allow mock elections to be conducted.

Status: Action not yet initiated.

Recommendation: To increase electoral participation, Congress may want to consider the feasibility of setting up a toll-free phone number or numbers in each state and the District of Columbia from which the voter could obtain registration information, including information concerning the intent to purge individual voters from the registration rolls.

Status: Action not yet initiated.

registration for federal elections. To enhance voter turnout, the legislation would remove barriers and provide for

more convenient settings for citizens to register.

Congressional Action: Congress is considering legislation to increase voter

Mail Management: Labor Programs Run by States Could Reduce Postage Costs

GGD-91-43, 03/20/91 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO reviewed Department of Labor (DOL) opportunities to reduce postage costs through improved mail management operations at the State Employment Security Agencies (SESA).

to minimize postage costs because savings resulting from improved mail management did not benefit them directly; and (4) to achieve postal savings, DOL would have to provide SESA with funds for presort equipment and software, or get them to use contractors to presort their mail.

Status: Action in process. DOL agrees with the recommendation, but is waiting for the Postal Service to change procedures to require direct accountability. DOL has asked states for advice on an allocation formula.

Findings

GAO found that: (1) past DOL efforts to reduce SESA mailing costs achieved limited cost reductions due to inadequate presort equipment and software; (2) DOL could reduce its annual mailing costs by a total of \$6.7 million by successfully encouraging SESA to presort more and to include the nine-digit zone improvement program (ZIP) code on their mail; (3) SESA had little incentive

Open Recommendations to Agencies

Recommendation: The Secretary of Labor should encourage SESA to obtain postage discounts by revising the allocation formula for reimbursing SESA administrative costs so that SESA that do realize postage savings are rewarded directly, through increased funding of their administrative costs.

Recommendation: The Secretary of Labor should encourage SESA to presort mail and include the nine-digit ZIP code on their mail. If the funds needed to buy presorting equipment are not available, SESA should be encouraged to contract for presorting services as an alternative. **Status:** Action in process. DOL agrees with the recommendation. DOL has offered states about \$7 million to purchase mail presorting equipment. Pennsylvania is planning to pilot test a presort contract.

Peer Review: Compliance With the Privacy Act and Federal Advisory Committee Act

GGD-91-48, 04/17/91 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO reviewed six federal agencies' compliance with the Privacy Act of 1974 and the Federal Advisory Committee Act

(FACA) in their peer reviews of grant applications, focusing on: (1) how agencies kept their peer review records and whether applicants had access to them; (2) whether agencies misclassified peer review records as being subject to,

or exempt from, the Privacy Act; and (3) whether the agencies chartered peer review panels and operated as advisory committees in compliance with FACA.

Findings

GAO found that: (1) four agencies properly classified their peer review records as Privacy Act records, since the records included personal information and were retrieved through a personal identifier; (2) the other two agencies did not classify their records as Privacy Act records, since they did not access their records by a personal identifier; (3) one of those two agencies improperly retrieved records on three occasions using the applicant's name, failing to comply with the Privacy Act; (4) one agency installed a new computer system in October 1990 that was capable of retrieving records through applicant name; (5) all six agencies maintained similar files documenting the peer review process, and did not include irrelevant personal applicant information in their files; (6) only a few applicants asked to review their records under the Privacy Act; (7) all six agencies routinely provided feedback to applicants on the results of peer review;

(8) 215 files indicated no instances where agencies denied evaluation information feedback on the peer review process or had incomplete information; (9) four agencies chartered or were chartering their peer review panels as FACA advisory committees, while the other two believed that their panels did not meet FACA advisory committee criteria; and (10) 1 agency chartered 140 panels under FACA, but had about 30 unchartered panels during fiscal year 1990.

Open Recommendations to Agencies

Recommendation: The Secretary of Energy and the Secretary of Commerce should establish their peer review files and automated grant application tracking systems as Privacy Act systems of record.

Addressee: Department of Energy
Status: Action in process. Estimated completion date: 08/92. The departments are establishing their files/systems as Privacy Act systems of records.

Addressee: Department of Commerce
Status: Action in process. Commerce is in the process of drafting a Privacy Act Notice to establish a system of records.

Recommendation: The Secretary of Commerce and the Secretary of Health and Human Services should charter their respective departments' peer review panels.

Addressee: Department of Health and Human Services

Status: Action in process. The agencies are developing procedures to charter all one-time meetings, and ad hoc groups convened to conduct peer review.

Recommendation: The Secretary of Energy should seek an amendment to its authorizing legislation that would allow the Department of Energy (DOE) to charter its peer review panels but still protect the privacy of the grant applicants and peer reviewers. Following that change, the Secretary should charter DOE peer review panels.
Status: Action not yet initiated.

Federal Records: Document Removal by Agency Heads Needs Independent Oversight

GGD-91-117, 08/30/91 GAO Contact: L. Nye Stevens, (202)275-8676

Background

Pursuant to a congressional request, GAO reviewed whether current laws adequately protect federal records and the information they contain when senior federal officials remove documents upon leaving office.

Findings

GAO found that: (1) current procedures used to review document removal by

agency heads are not adequate to ensure that the government's interests are protected, since no independent review of documents is made before they are removed; (2) the National Archives and Records Administration (NARA) does not control or keep records of departing agency heads, as it does for departing presidents, and all eight of the former agency heads it reviewed removed documents when they left office; (3) agencies were unaware of classified

material in two removed collections and failed to ensure that required security restrictions were followed for a significant amount of classified material in a third collection; (4) at least half of the document collections reviewed contained original documents that agencies did not know had been removed; and (5) once documents are removed, government access to documents is not ensured.

Open Recommendations to Congress

Recommendation: Congress should amend the Federal Records Act of 1950

to prohibit agencies from relinquishing any federal documents to agency heads and agency heads from removing such documents until NARA has determined

that their relinquishment and removal are consistent with existing federal laws and regulations.
Status: Action not yet initiated.

Tax Policy and Administration

Issue Area Summary: Tax Policy and Administration

Impact of GAO's Work

Our work in this area has provided information and analyses directed at (1) improving the ability of the Internal Revenue Service (IRS) and the Bureau of Alcohol, Tobacco and Firearms (BATF) to effectively manage their tax administration activities; (2) assessing IRS's progress in modernizing its tax processing system; (3) enhancing efforts to ensure compliance with the country's tax laws; and (4) revising the tax laws to ease taxpayer burden and promote more effective and equitable tax subsidies.

Specifically, our work helped the Congress assess IRS's progress in making the many management changes we had recommended in our October 1988 report on general management at IRS and helped the Congress understand the issues facing BATF as it tried to balance its compliance and law enforcement missions; identified issues that needed to be addressed as IRS implemented its modernization effort; pointed to steps IRS could take to better deal with certain compliance issues, such as those posed by high-income nonfilers; and helped the Congress understand the policy implications of various tax law provisions, such as those relating to the accounting for intangible assets.

Our studies on IRS's accounts receivable prompted the Congress to extend the statute of limitations to give IRS 4 more years to collect on these accounts—a change that is expected to generate about \$1.7 billion in additional revenue over 10 years. Our work advocating a corporate document matching program, payroll deposit simplification, and reform of the tax treatment of intangible assets also prompted congressional hearings and draft legislation. In addition, IRS implemented our recommendations in a number of areas, including adoption of a process to prevent issuance of erroneous levies, changing implementation of civil penalties to improve taxpayer compliance, and targeting high-income nonfilers.

Key Open Recommendations

Management of IRS and BATF

In April 1991, we reported on IRS's progress in implementing the recommendations from our general management review reported on in 1988. While recognizing IRS's considerable progress in many areas, we cited the lack of appreciable progress in one important area—human resources. IRS was still years away from developing the human resource management plan we had recommended in 1988. Such a plan becomes increasingly critical as IRS continues to design and implement its multibillion-dollar Tax Systems Modernization (TSM) effort. (GAO/GGD-89-1, see p. 744, and GAO/GGD-91-74, see p. 766.)

BATF has significant compliance and law enforcement responsibilities related to the alcohol, tobacco, firearms, and explosives industries. During the past few years, BATF has assumed several new tax compliance responsibilities while experiencing a growth in its law enforcement efforts. The additional duties required BATF to make resource tradeoffs. One result was a reduction in tax compliance inspections of alcohol producers, the effects of which were exacerbated by the fact that compliance inspections were being done by inspectors who were not required to have any accounting expertise. We recommended that BATF increase the availability of accounting expertise for use on tax compliance inspections and that it consider requiring that inspectors have 12 hours of college-level accounting credits. BATF felt that its inspectors had sufficient accounting expertise. We also recommended other changes, including development of better management information, that we felt would help BATF more effectively manage its growing workload. (GAO/GGD-91-67, see p. 762.)

Tax Systems Modernization

In 1986, IRS initiated a major program, called TSM, to replace its antiquated and inefficient work processes. Expected to cost several billion dollars and take about a decade to complete, this program will be the biggest challenge facing IRS for the next several years. We have reported on the progress of TSM and pointed to several issues that need to be addressed if TSM is to be effectively implemented. One very important issue is whether IRS is adequately seizing the opportunity provided by TSM to significantly rethink the way it does business and to reassess its current organizational structure. In July 1991, we testified that IRS's modernization plans were premised largely on continuing current program operations and maintaining the existing organizational structure, and we advised IRS to consider alternative ways of doing business that modernized systems make possible. In other testimony, we emphasized the need for IRS to expand its design master plan to (1) articulate a clear vision for the modernization; (2) establish measurable goals for assessing progress; (3) address the issue of taxpayer privacy; and (4) contain a strategy to recruit, train, and retain staff with highly technical skills. (GAO/T-GGD-91-54, see p. 772.)

Compliance

Available indicators strongly suggest a growing tax compliance problem. For example, (1) IRS estimates that the tax gap, which is the difference between the amount of tax owed and the amount voluntarily paid, will reach about \$114 billion by 1992; (2) IRS audit results show a dramatic decline in voluntary compliance among small corporations, which represent about 80 percent of all corporations; and (3) IRS's inventory of accounts receivable continues to grow—reaching over \$100 billion in fiscal year 1991.

We recommended that IRS might narrow the tax gap if it did a better job of investigating high-income nonfilers—those whose annual incomes exceed \$100,000. We recommended that IRS modify certain procedures that resulted in high-income nonfilers receiving less attention than lower-income nonfilers. (GAO/GGD-91-36, see p. 760.)

We also determined that IRS might further narrow the tax gap if it improved its program to find taxpayers who underreport their income. IRS identifies underreporters primarily by computer-matching income reported on information returns with income reported on individual tax returns. We recommended steps, some of which have yet to be implemented, that IRS could take to reduce the number of unproductive cases identified through that matching process and thus allow IRS to spend more time pursuing taxpayers who owe additional taxes. (GAO/GGD-91-49, see p. 761.)

We concluded that information reporting should be extended to cover payments made to corporations, thereby providing IRS with a new tool to help arrest the decline in compliance in the small corporate sector. We estimated that such a program could yield \$1 billion in additional tax from small corporations alone. (GAO/GGD-91-118, see p. 775.)

We also concluded that as much as \$200 million in 1989 federal taxes may not have been paid because of noncompliance in reporting interest income and deductions related to seller-financed mortgages. We recommended that the Congress enact legislation to (1) require buyers who deduct seller-financed mortgage interest to report on their tax returns the names and social security numbers of the sellers and (2) authorize IRS to penalize buyers who fail to provide the sellers' social security numbers and cannot show that they made reasonable efforts to obtain them and penalize sellers who refuse to provide their social security numbers to buyers. (GAO/GGD-91-38, see p. 764.)

During fiscal year 1991, we finished our work on IRS's administration of civil penalties, an important compliance tool in our nation's tax system. Finding significant error rates in IRS's application of penalties for substantial understatement of taxes, we recommended that the Service undertake a quality improvement program to identify and correct the causes for systemic quality problems. (GAO/GGD-91-91, see p. 771.)

In a report on penalties applied to return preparers, we recommended stronger guidance to better ensure that IRS enforcement staff assert the penalty when warranted and better controls to ensure that disciplinary action is considered against penalized preparers. (GAO/GGD-91-12, see p. 759.)

We continued our work on IRS's accounts receivable inventory, which once again grew faster than the rate of collections to exceed \$100 billion in fiscal year 1991. In a September 1991 report, we projected that only 25 percent of the inventory would ever be collected and we recommended steps IRS could take to help increase collections. In other reports issued during the year, we recommended other changes, which could help to (1) improve the management information available to IRS on accounts owed by other federal agencies; (2) enhance programs to reduce employment tax delinquencies, which constitute \$30 billion of the receivables inventory; and (3) improve the operation of IRS's automated collection call sites. (GAO/GGD-91-45, see p. 765; GAO/GGD-91-94, see p. 773; and GAO/IMTEC-91-39, see p. 769.)

Tax Simplification

IRS assesses one-third of the nation's employers at least one federal tax deposit penalty annually. This occurs, in part, because the deposit requirements are complicated by variable deposit dates and numerous exceptions to deposit rules. In July 1990, we recommended that the requirements be simplified to promote better understanding by all employers of their liability. Two bills (H.R. 2775 and S. 1610) that are responsive to our recommendations to change the rules have since been introduced. We believe that the proposed legislation would result in a decrease in the large number of penalties for this program. (GAO/GGD-90-102, see p. 755.)

One of the oldest controversies between taxpayers and IRS is the extent to which taxpayers can deduct the price they pay for intangible assets, such as customer or subscription lists. The general rule is that the cost of an intangible asset may be amortized over its useful life and that purchased goodwill and other intangible assets without determinable useful lives are not amortizable. But IRS and taxpayers engage in protracted conflicts over the application of these rules in specific cases. We concluded that the current treatment of goodwill and similar intangible assets failed to recognize the economic benefits that wasting intangible assets contribute over time and that the denial of amortization deductions did not result in accurate measurement of taxable income. We recommended that the Congress revise the law to provide for amortization of purchased intangible assets, including goodwill, over specific statutory cost recovery periods. (GAO/GGD-91-88, see p. 773.)

We also have made recommendations for improving the effectiveness of various tax incentives and rules. For example, the federal government loses over \$5 billion a year in potential tax revenue due to the failure to tax both the interest earned, or inside buildup, on life insurance and deferred annuities and the borrowings against life insurance policies. We suggested that because it is not clear that the increased insurance protection spurred by this incentive justifies the revenue loss, the Congress periodically reconsider this tax preference. In addition, we recommended that life insurance borrowing be taxed since insurance protection is actually reduced by borrowing. (GAO/GGD-90-31, see p. 750.)

**Products With Open
Recommendations: Tax Policy
and Administration**

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IRS and SSA Can Improve the Verification and Recording of Data Provided by Self-Employed Taxpayers

GGD-85-21, 05/28/85 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO reviewed processing of self-employment earnings information to determine whether the Internal Revenue Service (IRS) and the Social Security Administration (SSA) are properly processing such information and crediting it to taxpayers' accounts.

security accounts by ensuring that, whenever it corrects social security numbers (SSN) on tax returns, corrected numbers are provided to SSA; and (4) SSA and IRS need to establish better control over SE schedules to help ensure that all self-employed persons are receiving credit for self-employment earnings.

earnings accounts credited erroneously and those not previously credited. **Status:** Action in process. SSA stated that it provided IRS with a format in March 1987 so identified corrections can be processed. SSA is awaiting data from IRS to complete its actions, anticipated in 1992.

Findings

Workers are required to report self-employment earnings on a form known as schedule SE. IRS processes the schedule, collects any social security taxes that are due, and reports the information to SSA, which credits earnings information to individuals' social security accounts. GAO found that, while the system is functioning well, IRS and SSA could: (1) increase the amount of self-employment earnings that get properly credited; and (2) more accurately account for due taxes. GAO also found that: (1) IRS does not always detect errors in computing self-employment earnings on SE schedules; (2) IRS does not verify wage amounts reported by self-employed persons who report other earned income, which causes underpayments of social security taxes; (3) IRS could help SSA correctly credit earnings to individuals' social

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should identify and provide SSA, starting with the 1980 processing year, with self-employment records showing different SSN for the same person or self-employment earnings that were not previously provided.

Status: Action in process. Estimated completion date: 01/92. A request was made for an abstract of the Returns Transaction File for tax years 1979 through 1982 for use by SSA. The necessary major changes to the master file will not be completed until 1992.

Recommendation: The Commissioner of Social Security should use the self-employed persons' records with different SSN obtained from IRS to correct

Recommendation: The Commissioner of Social Security should credit the social security accounts of those self-employed individuals whose records were never processed and ensure that the trust funds are provided the correct tax amount from their earnings. **Status:** Action in process. SSA stated that it is awaiting final action by IRS, anticipated in 1992, before taking any action.

Recommendation: The Commissioner of Social Security should periodically conduct tests of the accuracy of self-employment earnings and identification data and work with IRS to resolve any problems that are identified. **Status:** Action in process. IRS and SSA agreed that some type of sampling could satisfy this recommendation. SSA stated that it developed specifications for a sample and provided the specifications to IRS. IRS anticipates completing its action in 1992.

IRS' Examination Selection System for Exempt Organizations' Unrelated Business Income

GGD-85-64, 07/08/85 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO analyzed the Internal Revenue Service's (IRS) examination selection system for tax-exempt organizations earning unrelated business income (UBI).

Findings

GAO found that, although IRS assessed over \$41 million in additional tax and penalties upon UBI examinations in fiscal years 1981 through 1983, a substantial number of UBI examinations resulted in little or no additional tax revenue. GAO also found that IRS does not have sufficient information on UBI tax noncompliance to understand the nature and magnitude of UBI noncompliance and develop profiles of

highly noncompliant tax-exempt organizations engaging in UBI activity. Without such information, the current IRS selection system cannot focus on the most noncompliant tax-exempt UBI organizations, which regularly fail to properly report UBI earnings or pay the UBI tax due. Because IRS data shows increasing UBI activity, high estimates of tax loss due to UBI nonreporting, and low yield from most current UBI examinations, IRS may want to focus on the UBI organizations with the highest potential for noncompliance. More targeting of highly noncompliant UBI organizations could aid in generating more revenue and increased compliance and result in more effective use of resources.

Open Recommendations to Agencies

Recommendation: The Assistant Commissioner of Internal Revenue for Employee Plans and Exempt Organizations should further analyze existing data on UBI tax examinations to gain increased insight into the nature and magnitude of UBI noncompliance. **Status:** Action in process. Estimated completion date: 09/92. IRS is conducting a Taxpayer Compliance Measurement Program (TCMP), which would address this issue. No action is expected until the results of TCMP are back, which will not be until fiscal year 1992.

Tax Administration: Difficulties in Accurately Estimating Tax Examination Yield

GGD-88-119, 08/08/88 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

In response to a congressional request, GAO examined the Internal Revenue Service's (IRS): (1) computation of the revenue it actually realized as a result of its implementation of a revenue initiative, which added 2,500 to the examination staff; and (2) assumptions in estimating the yield derived from the increased staff.

Findings

GAO found that: (1) since 1978, IRS has consistently underestimated the amount of additional taxes that its examination staff would recommend each year; (2) the annual underestimate averaged 28 percent over the period and ranged from about \$100 million in 1978 to about \$3.8 billion in 1986; (3) it was difficult for IRS to estimate the exact amount of revenue that it would generate by adding a

specific number of auditors in 1987, since it did not use all of the staff years Congress authorized; and (4) IRS used data from audits it closed in 1972 instead of current information in developing its estimates. GAO also found that: (1) to support its request for additional staff years, IRS expected to audit 120,000 more returns and assess \$829 million in additional taxes, penalties, and interest; (2) IRS calculated that it would generate \$847.5 million in assessed taxes,

penalties, and interest in 1987 as a result of the additional audit staff; (3) IRS based its calculation on an increase in staff that was more than double what actually occurred; and (4) IRS did not take into account the amount of potential revenue lost because it used experienced staff to train the new staff.

Open Recommendations to Congress

Recommendation: Congress should consider requiring IRS to include in its annual budget submission information on the actual amount of revenues derived from its audits.

Congressional Action: The Senate Budget Committee has fully supported the recommendations. The Committee asked GAO to do additional work relating to examination yield and to expand inquiries into some other IRS revenue-producing functions.

Managing IRS: Actions Needed to Assure Quality Service in the Future

GGD-89-1, 10/14/88 GAO Contact: J. William Gadsby, (202)275-8387

Background

GAO evaluated the Internal Revenue Service's (IRS) management systems and administrative support functions to determine its effectiveness in: (1) preparing for the future; (2) providing quality service in an effective manner; (3) maintaining work-force quality during a period of rapid change; and (4) ensuring a strong system of clear management accountability for its actions.

Findings

GAO found that: (1) the most critical long-term challenge IRS had was to effectively modernize its computer-based tax processing system, since the system was outdated and not capable of meeting the growing IRS work load; (2) IRS modernization efforts were slow due to ineffective management and changes in leadership; (3) although IRS had pursued four different proposed modernization plans, none had progressed beyond the planning stage because of a lack of leadership in information resources management; (4) although IRS designated a senior executive as the information resources focal point, he had other responsibilities that precluded him

from devoting his full attention to this area; and (5) although IRS initiated a strategic management process to help set agencywide goals, establish mission priorities, and create a benchmark, it lacked effective methods to measure and monitor its progress toward achieving plan objectives, obtaining congressional concurrence, and ensuring consistency with its budget requests. GAO also found that: (1) IRS was concerned about its capacity to effectively deal with the public and attract and retain quality employees; (2) IRS could not offer salaries sufficiently competitive with the private sector to attract quality employees; (3) over half of the surveyed IRS senior executives would be eligible to retire before 1993, and 60 percent indicated that they would leave within a year of eligibility; (4) IRS spent considerable time and effort correcting tax return errors instead of preventing problems from reaching the public; and (5) although IRS initiated processes to improve its quality, it lacked the sustained management commitment to maintain quality at a daily operating level. In addition, GAO found that: (1) IRS revenue and administrative accounting operations had internal control weaknesses that produced

inaccurate and untimely information; and (2) although IRS has reinstituted the National Office Review Program (NORP), the program's lack of independence and performance measures could hinder its effectiveness.

Open Recommendations to Agencies

Recommendation: To enhance IRS efforts to effectively prepare for the future, the Commissioner of Internal Revenue should institutionalize the link between the Strategic Business Plan (SBP) and budget development. IRS needs to clearly establish priorities and make a concerted effort during the budget process to make decisions consistent with SBP strategies and priorities. Also, because IRS has not yet used SBP to formulate a budget, it should formalize its procedures connecting the two.

Status: Action in process. Although IRS considers this recommendation implemented, GAO assessments of the IRS budget request for fiscal years 1991 and 1992 provided little evidence of a substantial link between the SBP and the budget. The Assistant Commissioner for Planning told GAO that the intent

was to provide a stronger, more direct link in preparing the fiscal year 1993 budget.

Recommendation: The Commissioner of Internal Revenue should develop and implement, as a high-priority initiative, a strategy for providing additional technical training and expertise to the Deputy Commissioners and their senior management teams. In addition, the succession planning system should establish a career path to create a pool of technically qualified executives to meet future needs in critical senior-level technical positions.

Status: Action in process. IRS has hired some managers with technical expertise from outside the agency and has expanded its training. GAO found in its recent review of IRS progress that a strategy for identifying and meeting technical needs was lacking.

Recommendation: The Commissioner of Internal Revenue should monitor implementation of actions to build and maintain the competence of contract administration staff in price evaluation and to develop new management information software.

Status: Action in process. Automatic data processing acquisition and contract administration guidelines were included in the Project Management Guide completed in May 1989. A GAO update of the general management review indicated that IRS has made some improvements in contract administration, but contract management software has not yet been developed. IRS is engaging a contractor to help develop software.

Recommendation: In order to help correct the IRS accounting and financial systems problems and provide a sound basis for guiding its systems development efforts, the Commissioner of Internal Revenue should require, in

the long term, that a comprehensive cost accounting system be developed to account for all IRS costs and identify them with the organizational components and functions to which they relate.

Status: Action in process. Estimated completion date: 01/94. The IRS Controller stated, in August 1991, that he expected IRS to have a cost accounting system in place by the end of 1993 or early 1994.

Recommendation: To ensure that the quality improvement process is maintained and adopted as a means of doing business, the Commissioner of Internal Revenue should build quality into IRS services using preventive and quality assurance approaches.

Status: Action in process. Estimated completion date: 09/96. IRS does not expect this recommendation to be fully implemented until September 1996. It is by then that IRS is to become a "total quality organization" according to one of the strategies in its Strategic Business Plan.

Recommendation: To ensure that the quality improvement process is maintained and adopted as a means of doing business, the Commissioner of Internal Revenue should develop an agencywide performance measurement system containing measures of quality, timeliness, and efficiency that are consistently used throughout the organization.

Status: Action in process. IRS has made much progress in developing performance measures. There is still a lot to be done. One significant new development is the IRS attempt to break away from a functional orientation and proceed in terms of organizational product lines. It identified four such lines and is now developing measures for each.

Recommendation: The Commissioner of Internal Revenue should coordinate human resource planning efforts through establishing an agencywide human resources plan. This plan should be an integral part of SBP.

Status: Action in process. Estimated completion date: 09/94. The IRS most recent SBP calls for redefining by September 30, 1994 the required occupations and skills necessary to accomplish the most critical IRS work. Until that is done and a strategy has been developed for meeting those needs, IRS will not have the human resources plan envisioned by the recommendation.

Recommendation: The Commissioner of Internal Revenue should establish an agencywide strategy to develop, accumulate, and use information on employee quality throughout the IRS human resource management processes.

Status: Action in process. Estimated completion date: 09/94. This will be part of the Human Resources Management Plan that IRS expects to have by September 1994.

Recommendation: To improve the usefulness of the IRS internal audit activities, the Commissioner of Internal Revenue should independently evaluate strategic management and NORP efforts. This should include reviewing the effectiveness of business plan strategies and their supporting action plans, the implementation of strategic initiatives, and the extent to which SBP is driving IRS budget decisions.

Status: Action in process. Internal Audit has incorporated SBP into the universe of activities, functions, and programs subject to audit coverage. According to Internal Audit, however, no specific jobs have yet been undertaken. One job on performance measures was considered but was dropped because GAO is also conducting a study of performance measures.

Tax Policy: Status of IRS' Studies of the Refund Offset Program

GGD-89-60, 04/25/89 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a legislative requirement, GAO studied the effects of the Internal Revenue Service's (IRS) Refund Offset Program on voluntary tax compliance, focusing on: (1) IRS improvements to its methodology; and (2) ways to make future studies more precise.

Findings

GAO found that: (1) IRS improved its studies of the effects of offsetting refunds on taxpayer compliance by incorporating previous filing behavior into its analysis to establish patterns to compare with post-offset filing patterns; (2) the IRS methodology was limited because it did not consider whether the offset and control groups exhibited similar taxpayer compliance

characteristics before the offsets; (3) although IRS improved the quality of its study data and its documentation of study programming requirements, some limitations remained; (4) although IRS matched its offset and control groups on some tax characteristics, there was a risk of bias in its findings because it did not account for all relevant preexisting differences; and (5) IRS did not use updated information to measure the level of IRS enforcement action required to make taxpayers compliant and to assess whether noncompliance was temporary or permanent.

Open Recommendations to Agencies

Recommendation: To improve future IRS studies of the effect of the Refund

Offset Program on compliance with tax laws, the Acting Commissioner of Internal Revenue should make the offset and control groups as comparable as possible. The studies should statistically control for prior tax-delinquent behavior and nontax characteristics, such as age and geographic location.

Status: Action in process. Estimated completion date: 08/92. The IRS April 1989 report was controlled for prior tax-delinquent behavior. IRS has incorporated characteristics such as age and geographic location in follow-on studies. IRS is analyzing data for a preliminary report to be issued in August 1992.

Tax Administration: State and Local Compliance With IRS' Information Reporting Requirements

GGD-89-63, 05/04/89 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

In response to a congressional request, GAO reviewed state and local governments' compliance with Internal Revenue Service (IRS) reporting requirements for payments made to independent contractors.

Findings

GAO found that: (1) most state and local governments' policies and procedures were not in full compliance with IRS requirements because they did not fully understand the requirements; (2) although the governments usually reported payments for such professional services as attorneys and consultants, they did not report payments for such

services as construction, auto repairs, and janitorial services because they did not consider those services professional; (3) state and local governments only reported about 10 percent of the \$9 million in payments that they should have during 1985 and 1986; (4) IRS examined businesses' income tax returns, but did not monitor state and local governments' compliance with the reporting requirements; (5) IRS

contracted with the National Association of State Auditors, Comptrollers and Treasurers (NASACT) in 1988 to review information return procedures and compliance levels in six states; (6) the review showed that states' accounting systems that were not tailored to information reporting hampered compliance; (7) IRS reviewed local governments in California as part of a special project; and (8) IRS planned to provide all 50 states with a consolidated

report on the NASACT reviews, along with a model review plan, and encourage them to do compliance reviews.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should use the NASACT study of six states and the IRS reviews of California local governments to aid in the development of an IRS

program for monitoring and enforcing state and local governments' information returns compliance.

Status: Action in process. Estimated completion date: 12/92. IRS plans to visit and coordinate with state officers responsible for information return compliance and to selectively examine certain states to assess and improve compliance.

Tax Policy: Insufficient Information to Assess Effect of Tax Free Education Assistance

GGD-89-76, 06/23/89 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO: (1) evaluated data that the Department of the Treasury used to assess the effect of section 127 of the Internal Revenue Code; and (2) assessed the availability and reliability of 11 data elements relating to section 127.

Findings

GAO found that: (1) in June 1988, Treasury concluded that section 127 should not be extended; (2) in reaching its conclusion, Treasury relied on information that, although the best available, was insufficient to support its conclusion, since the data came from surveys that were not specifically focused on gathering data to evaluate

the success of section 127, had low response rates, or were not representative of the population being surveyed; (3) in 1984, Congress enacted a reporting requirement to provide a basis for assessing the section, but the required information was not sufficiently specific; and (4) the 11 data elements would be useful in assessing the section, but none of them were available from reliable sources.

Open Recommendations to Congress

Recommendation: Congress can decide to not reinstate the expired section 127 or to reinstate it permanently or temporarily. If the decision is to reinstate it, Congress may want to revise

the reporting requirement to better assess the provision's effects. This could be done by requiring information on the salary level of participants and the average benefit at each salary level. To help make any further assessment of the section, Congress could also specify that the data be reported for a sufficient length of time to adequately measure any effects.

Congressional Action: On November 5, 1990, the President signed the Omnibus Budget Reconciliation Act of 1990 which, among other things, retroactively extended section 127 through December 31, 1991.

Tax Administration: IRS Can Improve the Process for Collecting 100-Percent Penalties

GGD-89-94, 08/21/89 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) collection of 100-percent penalties, assessed as 100 percent of the amount of withheld taxes which businesses failed to pay.

Findings

GAO found that IRS: (1) sent 100-percent penalty cases directly to revenue agents for collection, bypassing its Automated Collection System (ACS), which provided more efficient case management and more timely and effective collection of other delinquent taxes and penalties; (2) in March 1989, successfully tested ACS for processing 100-percent penalty cases in two districts, finding that the improved computerized recordkeeping, telephone technology, and management control made for more efficient use of

resources and revenue agents; (3) spent an average of \$247 to close, via revenue agents, 100-percent penalty cases, while it spent only \$57 on cases processed through ACS; (4) did not maintain financial information investigating agents obtained from businesses for collection agents' subsequent use for levying purposes; (5) did not enter such information into ACS; (6) in about 9 percent of 793 cases, collected an incorrect amount of money to satisfy the delinquencies, due to inadequate accounting and internal controls; (7) lacked adequate documentation to determine whether it had under- or over-collected some of the penalties; and (8) was in the initial stage of developing procedures to monitor accounts receivable for 100-percent penalty cases.

Open Recommendations to Agencies

Recommendation: To improve accounting and internal controls, the Commissioner of Internal Revenue should establish milestones for: (1) completing the development of procedures to systematically provide collection employees with the information needed to accurately determine the status of delinquencies; and (2) developing a way to more accurately report the accounts receivable balance as it relates to 100-percent penalties.

Status: Action in process. Recommended steps are being taken to improve accounting and internal controls systems. Returns Processing has completed its portion of work and is transferring the project to Collection for completion. Collection has not established a formal completion date.

Tax Policy: Allocation of Taxes Within the Life Insurance Industry

GGD-90-19, 10/19/89 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed: (1) how section 809 of the Internal Revenue Code affected the income tax split between stock and mutual life insurance companies and within the mutual segment itself; and (2)

alternative methods of taxing mutual life insurance companies.

Findings

GAO found that section 809 imposed taxes that: (1) were higher for the mutual companies as a whole in years

when their earnings were low, and vice versa; (2) were regressive on the basis of company income because segment-wide averages dictated each firm's taxes; and (3) depended disproportionately on the behavior and performance of the larger mutual companies. GAO also found that, through 1987, the mutual-stock split in

taxes produced by the section 809 approach was consistent with the mutual-stock split in income. GAO examined such alternatives to section 809 as: (1) including all policyholder dividends in taxable income; (2) excluding all dividends from taxable income; (3) excluding all policyholder dividends from taxable income; (4) imputing under alternative methods; and (5) designating a part of policyholder dividends as distributed earnings. GAO believes that the most equitable alternative would be to delete section 809 and allow mutual life insurance companies to deduct all policyholder

dividends in determining corporate taxable income.

Open Recommendations to Congress

Recommendation: Congress should delete section 809 from the tax code, accept the prepayment approach at the company level, and legislate a tax on the earnings part of dividends attributed to the individual policyholder. Congress should impose the tax on these earnings at the company level as a proxy for the tax on individual policyholders.
Status: Action in process.

Recommendation: To calculate the earnings part of policyholder dividends, Congress should specify a proportion of policyholder dividends to be included in the taxable income of mutual and stock life insurance companies. This proportion should be based on the dividend payout behavior of stockholder-owned corporations but could be adjusted upward to allow for capital gains. The proportion should be reexamined periodically.
Status: Action in process.

Congressional Action: Congress is deliberating changes to section 809 of the Internal Revenue Code.

Tax Administration: Need for More Management Attention to IRS' College Recruitment Program

GGD-90-32, 12/22/89 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) efforts to recruit college graduates for its enforcement staff, focusing on: (1) the quality of IRS enforcement recruits; (2) IRS management of its college recruitment program; and (3) IRS relationships with colleges and universities.

Findings

GAO found that: (1) the main obstacle that impeded IRS recruitment of quality enforcement staff was noncompetitive starting salaries; (2) although IRS increased its starting salaries in some high-cost geographical areas, they were still below its competitors' salaries; (3) IRS had no quantitative data to support its managers' generally positive views on the quality of enforcement recruits; (4)

many managers cited the same evaluation factors, but used different standards to interpret them; (5) inadequate funding, insufficient staffing, and field office resistance impeded IRS progress in implementing its recruitment improvement projects; (6) IRS relied on duplicative, uncoordinated efforts at the local level, rather than addressing IRS-wide problems on a national scale; (7) the IRS Human Resources Division provided little recruitment guidance to the field offices, did not require reporting of field activities, and did not conduct recruitment program reviews; and (8) although IRS established a Campus Executive Program that targeted certain schools for special attention, many schools were not aware of the program or their status under it.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should direct the Human Resources Division to assess the Campus Executive Program to: (1) determine what each district office is doing to establish effective working relationships with target schools; and (2) identify any needed changes to the program.

Status: Action in process. A Campus Executive Brochure was distributed to campus executives in February 1990. It is a primer on establishing relationships with colleges through introductory letters and an overview of the program. IRS has established a business review process that provides a mechanism for annually evaluating field office activities including the Campus Executive Program.

Recommendation: The Commissioner of Internal Revenue should direct the Human Resources Division to take a more active role in directing and overseeing the college recruitment program.

Status: Action in process. IRS has initiated a business review process that provides a vehicle for better oversight. IRS has indicated that it will be reviewing each region, as part of that process, to assess how well it is recruiting, training, and retaining a quality work force. GAO is currently assessing the business review process as it relates to the Human Resource function. Action is expected to be completed by the end of 1991.

Recommendation: The IRS Human Resources Division should develop a set of performance measures that can be used to assess the quality of new enforcement staff (academic performance is an example of such a measure).

Status: Action in process. The IRS Strategic Business Plan included a

requirement that the results of various recruitment initiatives completed in the mid-1980s be revalidated by late 1991, and that vital recommendations be identified and implemented. Until that process is completed, final resolution of this recommendation will be unknown.

Recommendation: The IRS Human Resources Division should establish standards for each of those measures (in top 10 percent of graduating class might be one standard of academic performance).

Status: Action in process. The IRS Strategic Business Plan included a requirement that the results of various recruitment initiatives completed in the mid-1980s be revalidated by late 1991, and that vital recommendations be identified and implemented. Until that process is completed, final resolution of this recommendation will be unknown.

Recommendation: The IRS Human Resources Division should develop a measurement system that will allow

comparisons of data on new enforcement staff to the standards.

Status: Action in process. The IRS Strategic Business Plan included a requirement that the results of various recruitment initiatives completed in the mid-1980s be revalidated by late 1991, and that vital recommendations be identified and implemented. Until that process is completed, final resolution of this recommendation will be unknown.

Recommendation: The IRS Human Resources Division should use this information to periodically evaluate the effectiveness of the college recruitment program at the district, regional, and national levels.

Status: Action in process. As part of its annual business review process, IRS has indicated that it will be assessing how regions recruit, train, and retain a quality work force. GAO is currently assessing the business review process as it relates to Human Resources and accordingly will determine whether it meets the intent of this and other recommendations.

Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest

GGD-90-31, 01/29/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a legislative requirement, GAO assessed the Technical and Miscellaneous Revenue Act of 1988, focusing on the: (1) effectiveness of the revised tax treatment of life insurance products in preventing the sale of life insurance primarily for investment purposes; and (2) policy justification for, and the practical implications of, the present treatment of earnings on the

cash surrender value of life insurance and annuity contracts.

Findings

GAO found that: (1) taxing interest on life insurance contracts could reduce the amount of insurance coverage purchased and the amount of income available to retirees and beneficiaries and could be less costly than direct government provision of consumer protection; (2) tax

preferences create incentives to construct products that take advantage of them; (3) since repayment of amounts borrowed against insurance benefits restores the death benefit, any amount taxed as income when borrowed should be deductible when repaid; and (4) the effect of recent tax law changes has been to reduce the number of single-premium policies sold, but other changes are more difficult to evaluate.

Open Recommendations to Congress

Recommendation: Because the pattern of policy usage as well as the type of products offered can change, Congress may wish to periodically reconsider its policy decision to grant preferential tax treatment to inside buildup, weighing the social benefits against the revenue foregone.

Status: Action not yet initiated.

Recommendation: If Congress decides not to tax inside buildup, it should eliminate tax-free borrowing of life insurance proceeds. Any borrowing of those proceeds should be considered a distribution of interest income. To offset the advantages of accruing interest income without tax, a penalty provision needs to be added to the regular tax.

Since repayment of the amount borrowed restores the death benefits, any amount that is taxed when it is borrowed should be tax deductible if subsequently repaid.

Status: Action not yet initiated.

Congressional Action: No action has been taken to date, and none is likely in 1991.

Tax Administration: Erroneous Penalties for Failure to File Returns or Pay Taxes Can Be Reduced

GGD-90-80, 04/13/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO reviewed Internal Revenue Service (IRS) tax penalty assessments, abatements, and statistics.

Findings

GAO found that: (1) IRS correctly granted 91 percent of abatements; (2) 29 percent of abatements were needed to correct IRS assessment errors; (3) erroneous assessments were primarily caused by IRS processing errors; (4) IRS needed better documentation on abatement decisions; (5) strengthened IRS internal controls would reduce the number of erroneous assessments; and (6) IRS could better explain and categorize penalty abatement statistics to differentiate between penalty

adjustments and reasonable-cause abatements.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should improve internal controls over the abatement of the failure-to-file-and-pay penalties by requiring quality review to assess whether or not the abatement decisions were adequately documented by the examiner.

Status: Action in process. The current IRS quality review selection process does not distinguish failure-to-file-and-pay penalty adjustments from other responses to taxpayer inquiry. Therefore, IRS is investigating whether Program Analysis System testing could assess

how well examiners are documenting abatement decisions.

Recommendation: In order for IRS statistics to more accurately reflect IRS forgiveness of taxpayer noncompliance, IRS should isolate computer adjustments from the numbers and dollar value of abatements prior to publication for either internal or external use.

Status: Action in process. IRS stated that isolating computer adjustments alone will still overstate abatement activity because many corrections are input manually, due to account restrictions. IRS is investigating ways to isolate manual abatements due to reasonable cause and providing multiple categories for reported statistics. IRS is working to develop a method of further sorting penalty abatement statistics.

Tax Policy: Taxation of Pension Income for Retired New Jersey Police and Firefighters

GGD-90-73BR, 04/13/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) use of actuarial tables, focusing on: (1) the fairness of those tables in computing taxable pension income; and (2) an alternative income computation method that takes into account occupations and other factors.

Findings

GAO found that: (1) the estimated life expectancies for New Jersey police and firefighters were equal to those of the general population but shorter than those in the IRS tables; (2) using estimates of New Jersey police and

firefighters' life expectancies instead of IRS tables reduced taxable pension income during initial retirement, followed by 1 or more years of increased taxable income; (3) the small tax savings did not warrant a separate table of life expectancies for police and firefighters; (4) using separate tables could complicate tax administration, set precedents for occupational and demographic groups, and confuse taxpayers; (5) taxes paid during initial retirement were the same despite the use of different tables; and (6) an IRS publication failed to clarify when the simplified general rule was to retirees' advantage.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should revise IRS Publication 575 to clarify when retirees can use the simplified general rule to their advantage. If retirees do know their contributions made before and after July 1986, they should be instructed that the use of the simplified general rule may or may not be to their advantage. The publication should also instruct retirees whose employers cannot separate the contributions they made, to use the simplified general rule because it is always to their advantage to do so.

Status: Action not yet initiated.

Information Returns: Correcting Taxpayer Identification Is Possible Without Disclosing Tax Data

GGD-90-90, 06/05/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a legislative requirement, GAO determined what options exist, without a legislative change, to help financial institutions provide correct names and taxpayer identification numbers (TIN) to the Internal Revenue Service (IRS).

Findings

GAO found that: (1) while payors were not required to obtain correct names, there were many incorrect identification

numbers listed due to name mismatches in IRS or social security files; (2) IRS should encourage payors to provide more information about payee name changes; (3) IRS could reduce the number of mismatches by expanding plans to correct names on income tax returns; and (4) IRS should tell payors when there is no current record of particular TIN in IRS or social security files.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should expand IRS plans to correct names of primary filers on income tax returns to include secondary filers.

Status: Action in process. Estimated completion date: 07/92. IRS scheduled the changes necessary to correct names of primary filers as part of its On-Line Entity Project and expects to implement the changes in July 1992. IRS states

that, if these changes are successful, it plans to enhance the system to include secondary filers.

Tax Administration: IRS Can Improve Its Process for Recognizing Tax-Exempt Organizations

GGD-90-55, 06/08/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO assessed several administrative steps the Internal Revenue Service (IRS) could take to better use its resources and improve its efficiency in recognizing tax-exempt status.

Findings

GAO found that: (1) IRS initiated the expedited determination process to make the tax-exempt determination process more efficient; (2) IRS may not be realizing the maximum benefit from the process, since districts varied in their process usage, and IRS had not evaluated districts' process usage; (3) during fiscal year 1989, all district offices used the expedited process to some extent, ranging from 17 percent of

determination requests in one district to 2 percent in another; (4) IRS did not provide guidance to districts using the process; (5) IRS did not effectively use its determination resources when doing advance ruling followups and could not assess the effectiveness of the followups, since it did not review expenditure data; and (6) IRS procedures to close cases due to a lack of information created inefficiencies because districts had to reopen cases after applicant organizations subsequently provided IRS the requested information.

Open Recommendations to Agencies

Recommendation: IRS presently considers only revenue data in following

up on its advance rulings for tax-exempt status. To better ensure compliance with tax-exempt status requirements, the Commissioner of Internal Revenue should direct the Assistant Commissioner EP/EO to obtain and analyze both expenditure and revenue data during the advance ruling follow-up process.

Status: Action in process. Estimated completion date: 12/92. IRS has sent out 100 questionnaires in 2 districts, and is starting to receive responses. Some of these responses will result in IRS conducting examinations and analyzing that information. Therefore, IRS does not anticipate completing action on this recommendation until December 31, 1992.

Tax Administration: IRS Needs More Reliable Information on Enforcement Revenues

GGD-90-85, 06/20/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) revenue estimates generated by its various enforcement programs, focusing on: (1) overall IRS

enforcement revenue estimates; (2) IRS budget estimates for collection and document matching programs; (3) the IRS Enforcement Resource Allocation Model (ERAM); and (4) IRS efforts to

develop more reliable data on the results of its enforcement actions.

Findings

GAO found that: (1) IRS has recognized the need for a better management information system on the costs and revenues associated with its enforcement programs, but has made little progress in developing one; (2) IRS does not know how much revenue its enforcement program actually generates; (3) large discrepancies in two major IRS enforcement programs were attributable to uncertainty about actual revenues and insufficient information on how IRS made revenue projections; (4) improved data on actual revenues and sufficient data linking staffing and results could enhance the estimation process; (5) there was inadequate documentation to assess the reasons for variances between estimated and actual underreporter revenues; (6) IRS was not using ERAM as intended, and the agencies involved did not use ERAM because of their concern over its reliability; and (7) IRS does not know whether the planned information system will provide the comprehensive data needed to meet its objectives.

Open Recommendations to Agencies

Recommendation: The Secretary of the Treasury should direct IRS to provide Congress with information on the actual revenues generated by IRS enforcement programs as soon as it becomes available.

Status: Action in process. IRS is in the process of implementing a management information system that should generate improved revenue data, including information on actual revenues. Once that system is implemented and starts generating data, GAO fully expects IRS to use it to upgrade the data it provides Congress.

Recommendation: The Secretary of the Treasury should direct IRS to explore

ways to link improved revenue data with proposed staffing increases to ultimately provide Congress with more reliable estimates of revenue expected from those increases.

Status: Action in process. IRS is implementing a management information system that should provide improved revenue data. GAO fully expects IRS to link those data—once they are available—to proposed staffing increases. That process could take several years.

Recommendation: The Commissioner of Internal Revenue should develop actual data on collection revenues by defining revenues to be attributed to collection activities.

Status: Action in process. IRS has made some modifications to its definition of collection revenues and is considering further refinements. An IRS study group reviewed and recommended changes to improve the accuracy of the revenue information in the report that Collection uses to determine the yield attributed to its activities.

Recommendation: To improve estimates of future revenues, the Commissioner of Internal Revenue should fully document the data used in applying the methodology, including the trend analyses performed and the assumptions underlying those estimates, and the results therefrom.

Status: Action in process. Recently, the IRS recommendation tracking system indicated that this recommendation would be fully implemented soon.

Recommendation: To improve estimates of future revenues, the Commissioner of Internal Revenue should monitor estimates against actual results over time, using the most reliable data on actual results available, to assess the causes of any significant discrepancies, and to identify any adjustments needed in assumptions or methodology.

Status: Action in process. IRS says that it has implemented an approach that involves using Collection research file data to validate assumptions, designing a model that will use more discrete data in developing estimates, hiring an analyst to focus on developing a statistically sound estimating technique, and exploring the use of statistical scores to improve estimates of marginal yield.

Recommendation: The Commissioner of Internal Revenue should monitor actual underreporter results against estimated amounts to identify the causes of discrepancies and any needed changes in the methodology or assumptions used to estimate revenues.

Status: Action in process. According to IRS, it is now receiving more timely monthly extracts of actual underreporter case results. It is not clear, however, how those results are actually being fed back into the estimating methodology.

Recommendation: The Commissioner of Internal Revenue should use actual information, once it is available, to monitor the reliability of IRP underreporter estimates.

Status: Action in process. According to IRS, it is now receiving more timely monthly extracts of actual underreporter case results. It is not clear, however, how those results are actually being fed back into the estimating methodology.

Recommendation: The Commissioner of Internal Revenue should develop a comprehensive strategy for identifying and coordinating the various enforcement revenue projects and integrating their results. As part of the strategy, IRS should ensure that revenue and cost data on all enforcement cases, including collection and IRP cases, are either incorporated into the Enforcement Management Information System (EMIS) data base or are linked

with EMIS data in a way that avoids double-counting.
Status: Action in process. Estimated completion date: 09/94. The IRS target date for fully implementing this recommendation coincides with the date it expects EMIS to be fully implemented. That would seem to fall short of the

recommendation that a strategy encompassing other projects besides EMIS be developed.

Recommendation: The Commissioner of Internal Revenue should use the results of its various projects to improve the enforcement revenue-estimating process.

Status: Action in process. IRS has various projects under way to improve its revenue data. It will take some time before those various projects are completed and the results can be used to improve the revenue estimating process.

Tax Policy: Federal Tax Deposit Requirements Should Be Simplified

GGD-90-102, 07/31/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO evaluated the federal tax deposit (FTD) requirements for withheld income and social security taxes, focusing on whether the Internal Revenue Service (IRS): (1) appropriately and accurately assesses and abates deposit penalties; and (2) guidance to employers on complying with the deposit requirements was adequate.

Findings

GAO found that: (1) one-third of the nation's employers are assessed at least one FTD penalty annually, due to either insufficient funds to make timely deposits or failure to understand the complexities of the deposit requirements; (2) variable deposit dates made it difficult for employers to predict with certainty when their deposits were due; (3) IRS cannot be assured that its penalty calculations are accurate; (4) placing all employers under the same deposit requirement would enhance employer compliance and IRS administration of the FTD system; (5) IRS could clarify its instructions on the deposit requirements so that employers could more readily determine when they

should make deposits; and (6) IRS could make it easier for taxpayers to understand the deposit requirements if publications included clear and comprehensive examples of each deposit rule.

Open Recommendations to Agencies

Recommendation: To make it easier for employers to understand and comply with the deposit requirements and for IRS to administer the requirements, the Secretary of the Treasury should change the deposit requirements so that all employers are required to make employment tax deposits within some specific time interval of each payday. Requiring all deposits within 3 banking days of a payday would be fairly consistent with current deposit requirements and familiar to most employers. This change should include the repeal of the safe haven provision and all other exceptions, but not affect the statutory deposit requirements included in the Omnibus Budget Reconciliation Act of 1989.

Status: Action in process. Either H.R. 2775 or S. 1610, if enacted, would effectively implement this

recommendation. Treasury supports these bills as long as revenue losses do not occur.

Recommendation: If an exception is granted to this standard deposit requirement to reduce the number of deposits made by small employers, the Secretary of the Treasury should provide for a single exception to minimize confusion and administrative burdens. A threshold of \$30,000 in tax deposits per quarter is one option to consider in that it covers 89 percent of the employers but only 12.2 percent of the employment tax revenues.

Status: Action in process. Either H.R. 2775 or S. 1610, if enacted, would effectively implement this recommendation. Treasury supports these bills as long as revenue losses do not occur.

Recommendation: The Secretary of the Treasury should include a look-back procedure, which will allow employers to know what their deposit requirement will be before the start of a quarter. This procedure, which should be adopted even if the deposit requirements are not changed, should also apply to employers required to deposit employment taxes

within 1 banking day of each payday under the 1989 Omnibus Budget Reconciliation Act.

Status: Action in process. Either H.R. 2775 or S. 1610, if enacted, would effectively implement this recommendation. Treasury supports these bills as long as revenue losses do not occur.

Recommendation: To improve employers' compliance with the current deposit requirements and IRS administration of the four-tier, time-sensitive deposit penalty, the Secretary

of the Treasury should direct the Commissioner of Internal Revenue to clarify IRS guidance to employers on FTD requirements and instructions for completing Form 941.

Status: Action in process. IRS stated that instructions for completing Form 941 were clarified as appropriate in the form's instructions for the fourth quarter (to be filed in January 1992) and in Publication 15, Employers Tax Guide.

Recommendation: To improve employers' compliance with the current deposit requirements and IRS

administration of the four-tier, time-sensitive deposit penalty, the Secretary of the Treasury should direct the Commissioner of Internal Revenue to require all service centers to use computer programs to calculate the FTD penalty.

Status: Recommendation valid/action not intended. According to IRS, a computer program was developed, but changes in methods for calculating the penalty have changed to the point of invalidating that program. No further action is intended, according to IRS.

Tax Administration: IRS Preparer Penalty Data Inaccurate and Misleading

GGD-90-92, 08/15/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) administration of the return preparer penalty program to determine whether IRS imposed preparer penalties appropriately and consistently.

Findings

GAO found that IRS preparer penalty statistics did not accurately reflect preparer noncompliance because IRS: (1) procedures allowed multiple penalties to be abated in one transaction; (2) excluded non-master file assessments from preparer penalty statistics and did not accurately account for preparer penalty activity; (3) could not differentiate between different types of penalties; and (4) entered miscoded or erroneous data into its master files.

Open Recommendations to Agencies

Recommendation: To ensure that master file statistics more accurately reflect preparer penalty activity, the Commissioner of Internal Revenue should create an indicator to identify the number of penalties included in each transaction.

Status: Action in process. Estimated completion date: 01/92. IRS plans to submit a request for data services to provide for input of the number of penalties contained in a transaction as reflected on the adjustment document. Data services changes are expected to become effective January 1, 1992.

Recommendation: To ensure that master file statistics more accurately reflect preparer penalty activity, the Commissioner of Internal Revenue should identify and establish means to include assessments made on the

manual system with the master file statistics.

Status: Action in process. IRS plans to expand the Master File data base which will allow input of an increased number of preparer penalty adjustments. For those assessments that are transferred to the non-Master File, IRS plans to determine the feasibility of developing a means for tracking and reporting these preparer penalty adjustments.

Recommendation: To ensure that master file statistics more accurately reflect preparer penalty activity, the Commissioner of Internal Revenue should evaluate the feasibility of developing methods to identify and correct miscoded or erroneously entered data, and exclude these assessments and abatements from IRS-reported statistics. **Status:** Action in process. IRS will issue a memorandum to the field recommending managerial review of adjustment documents after terminal

input of preparer penalty assessment or abatement actions. Internal Revenue Manual 48(13)2 will be revised to include

a review of the adjustment document file to ensure that the correct penalty number is used for

assessment/abatement of the preparer penalty.

Tax Administration: IRS Needs to Assess Options to Make Faster Deposits of Large Tax Payments

GGD-90-120, 08/31/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the timeliness of Internal Revenue Service (IRS) deposits of tax payments to determine the lost interest associated with delays in depositing individual income tax payments around April 15 each year.

Findings

GAO found that: (1) the Cincinnati and Philadelphia Service Centers received and deposited about 2.5 million remittances, worth a total of about \$6 billion, from April 15 to May 7, 1990; (2) IRS deposited remittances received

around mid-April in an average of 7 days, instead of the 24-hour deposit average it achieved when receipts were at normal levels; (3) IRS doubted that it would be cost-effective to purchase additional equipment and hire the additional staff necessary to meet an annual surge in receipts; (4) having a separate mailing address for large tax payments could help IRS reduce deposit times; and (5) expediting the deposit of large tax payments could increase government interest earnings.

Open Recommendations to Agencies

Recommendation: To reduce the time it takes to deposit large tax payments and increase the government's interest earnings, the Commissioner of Internal Revenue should assess various options, including the ones discussed in this report, and adopt one that strikes an appropriate balance between administrative costs, taxpayer impact, and potential benefits. That assessment should be completed in time to allow IRS to implement the adopted approach in time for the filing season beginning January 1, 1992.

Status: Action not yet initiated.

Tax Administration: IRS' Improved Estimates of Tax Examination Yield Need to Be Refined

GGD-90-119, 09/05/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO provided information on the Internal Revenue Service's (IRS): (1) methodology for estimating additional audit revenues obtained from hiring additional auditors; and (2) plans to track the results of the pending staffing increase.

Findings

GAO found that: (1) IRS used a revised methodology to compute the \$1.1-billion estimate associated with the proposed fiscal year (FY) 1991 staffing increase; (2) IRS assumed that all the new staff would be working by the beginning of FY 1991 and that a revised and less costly training program would be in

place at that time; (3) IRS assumed that the influx of new staff would allow experienced agents to work on higher-yield cases, thus further increasing audit revenues; (4) if Congress authorized the examination staffing increase, IRS planned to monitor its impact, but the reliability of that monitoring information would depend on the

validity of the baseline from which IRS began tracking results; and (5) it could not assess the IRS baseline because IRS had not computed it yet.

Open Recommendations to Agencies

Recommendation: To further improve its methodology for estimating the revenue to be derived from an increase in examination staff, the Commissioner of Internal Revenue should develop empirical data to show whether the

influx of new examination staff allows more experienced agents to work higher-yield cases and in what time frame.

Status: Action in process. Members from the IRS Examination and Research Division have formed a team to address this issue. As of late 1991, the team was gathering the data needed to make the assessment recommended by GAO.

Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency

GGD-90-123, 09/27/90 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO examined the economic inefficiencies and administrative problems associated with the current alcohol excise tax system.

Findings

GAO found that: (1) inflation has eroded the burden of alcohol excise taxes from generating 8.3 percent of all 1969 tax revenues to 3.6 percent of 1989 revenues; (2) the differential tax rates on alcohol products resulted in products with similar alcohol content being taxed differently; (3) a standardized tax on the alcohol content of final alcohol products would eliminate the current mix of different rates that depend on such factors as the type of product or the ingredients used; (4) tax credits could lower the effective tax rate for a distilled spirits product from the current rate of

\$12.50 per proof-gallon to as low as \$6.30 per proof-gallon; (5) tax credit incentives could distort the production process, since they encourage an inefficient allocation of resources to make those products; (6) tax credits resulted in a significantly higher loss of tax revenues than Congress originally intended; (7) the Bureau of Alcohol, Tobacco and Firearms (BATF) experienced problems in administering and ensuring full compliance with the tax credit; and (8) BATF estimated that it spent \$10.3 million to collect the \$129 million in occupational taxes, a cost of \$.08 for every dollar collected.

Open Recommendations to Congress

Recommendation: Congress should consider the role of special occupational taxes in relation to the broader excise

tax rate structure. Given the excessive administrative costs and compliance burdens involved in generating relatively small amounts of revenue, Congress should consider changing the special occupational tax by either: (1) eliminating it with a corresponding increase in excise tax rates; or (2) collecting the tax from only producers and importers and varying the tax on the basis of the size of the facility.

Congressional Action: Congress took action to increase alcohol and tobacco excise tax rates, effective January 1, 1991. However, Congress did not: (1) standardize the rates on the basis of the percentage alcohol in the beverage; (2) eliminate the section 5010 tax credit; or (3) adjust the rates to keep pace with inflation. Legislation has been introduced in 1991 (S. 1452) dealing with special occupational taxes, but it does not address the recommendations.

Tax Administration: Effectiveness of IRS' Return Preparer Penalty Program Is Questionable

GGD-91-12, 01/07/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) administration of its return preparer penalty program, focusing on whether IRS: (1) opened preparer penalty cases when warranted; (2) imposed return preparer penalties appropriately and consistently; and (3) followed requirements to refer penalized preparers to the Department of the Treasury's Director of Practice or local district directors for possible disciplinary action.

Findings

GAO found that: (1) IRS generally made correct penalty determinations but did not always open cases that warranted preparer penalties, which hindered exposure of problem preparers; (2) most examiners and group managers did not open more preparer penalty cases because the low penalties did not justify the time and effort required to assess them; (3) difficulty in distinguishing between penalties for intentional disregard of the rules and for willful understatement, differing IRS district policies, and differing interpretations of the Internal Revenue Code (IRC) caused inconsistent penalty assessment among district offices; (4) legislative changes enacted in 1989 revised penalty provisions, but still did not clearly distinguish among the penalties; and (5) IRS did not make required referrals of penalized preparers to Treasury's Director of Practice due to a lack of familiarity with the referral process,

unclear guidance, and poor internal controls.

Open Recommendations to Agencies

Recommendation: To emphasize the contribution of preparer penalties to future compliance and to help ensure that IRS opens warranted preparer penalty cases, the Commissioner of Internal Revenue should take actions to ensure that examiners consider the penalties and document their decisions regarding the opening of preparer penalty cases. Those actions could include a memorandum to examiners and group managers emphasizing existing penalty requirements as well as other communications.

Status: Action in process. Estimated completion date: 12/92. IRS plans that the Assistant Commissioner (Exam) will issue a memorandum to the assistant regional commissioners (Exam) emphasizing the existing penalty requirements. Preparer penalties will also be covered in a penalty handbook which should be in draft in January 1992. When this handbook is complete, IRS plans to include a training module in the 1992 Continuing Professional Education course.

Recommendation: To ensure that preparer penalties are assessed appropriately and consistently, the Commissioner of Internal Revenue should develop national office guidance that to the greatest extent possible clearly defines and differentiates between the preparer penalties as

defined in section 6694(a) for taking an unrealistic position and section 6694(b) for willful or reckless conduct.

Status: Action in process. Guidance was included in regulations to implement the 1989 Omnibus Budget Reconciliation Act. Interim guidance will be issued as part of the 1991 Continuing Professional Education course. Draft guidelines are out for comment.

Recommendation: To ensure that preparer penalties are assessed appropriately and consistently, the Commissioner of Internal Revenue should develop national office guidance that to the greatest extent possible differentiates between the section 6694(b) penalty for willful or reckless conduct and the section 6701 penalty for aiding and abetting an understatement of tax liability.

Status: Action in process. Guidance was contained in regulations to implement the 1989 Omnibus Budget Reconciliation Act. Interim guidance will be issued as part of the 1992 Continuing Professional Education course.

Recommendation: To ensure that preparer penalties are assessed appropriately and consistently, the Commissioner of Internal Revenue should review district office policies on return preparer penalties to ensure that those policies are consistent with national office guidance.

Status: Action in process. Estimated completion date: 01/92. Any local items issued after the penalty handbook is in place will have to conform with the nationally mandated policy directives

found in the handbook. A draft of the Penalty Handbook is expected in January 1992.

Recommendation: To ensure compliance with IRC, IRS should adopt procedures to ensure that no more than the maximum amount allowable under IRC is collected for those penalties. If IRS determines the problem cannot be eliminated administratively, IRS should request Congress to modify the statute to limit the total amount IRS can assess, rather than collect, for those penalties. **Status:** Action in process. The Assistant Commissioner (Exam) is requesting a computer change which will reject an assessment if it exceeds the maximum collectible under the statute. However, due to the current structure of IRS

computer programs, IRS may not be able to provide information to the collection officer. Thus, there may be no effective administrative correction available.

Recommendation: To ensure that referrals are made when required, the Commissioner of Internal Revenue should assign the district return preparers coordinators the responsibility for ensuring that required referrals are made to the proper authority when penalties are assessed.

Status: Action in process. A draft of the penalty handbook is expected in January 1992, and the 1992 Continuing Professional Education course will include all the new penalty rules, based on the handbook.

Recommendation: To further ensure that referrals are made when required, examiners need to become more familiar with the referral requirements. To increase examiners' familiarity, the Commissioner of Internal Revenue should ensure that examiners receive training that clearly communicates the referral requirements.

Status: Action in process. A draft of the penalty handbook is expected in January 1992. The Assistant Commissioner (Exam) will ensure that all of the new penalty rules, including preparer penalties and the referral procedures, are included in the 1992 Continuing Professional Education course.

Tax Administration: IRS Does Not Investigate Most High-Income Nonfilers

GGD-91-36, 03/13/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) program for detecting and pursuing individuals with income over \$100,000 who failed to file required tax returns.

Findings

GAO found that: (1) IRS did not fully investigate or assess taxes for high-income nonfilers who did not respond to its late filing notices; (2) even if high-income nonfilers eventually filed tax returns, their returns received less scrutiny from IRS than those who filed returns on time; (3) district revenue officers did not investigate or assess taxes for about half of the high-income

nonfilers at three service centers; (4) revenue officers did not pursue many high-income nonfilers because IRS understated the estimated yields that could result from investigations; (5) even if IRS correctly estimated those yields, it did not have sufficient revenue officers to investigate an increased amount of cases; (6) the Substitute for Returns Program (SFR) would enable IRS to investigate more high-income nonfilers; (7) SFR produced more yield at the lowest cost and created a tax assessment that was otherwise unlikely; (8) although IRS checked returns that were timely filed for noncompliance, it did not have a systematic way of checking for underreported income or overstated deductions on delinquent returns; (9) IRS did not computer match delinquent

returns with information returns, and did not refer many of those returns to the Examination Division to be checked for noncompliance; and (10) nearly half of the delinquent returns that GAO asked IRS to check had evidence of noncompliance.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should separately estimate net tax yields for high-income nonfiler cases in the formula for screening cases to be investigated by revenue officers.

Status: Action in process. Estimated completion date: 08/93. IRS plans to change its procedures so that all high-

income nonfiler cases that are unresolved after collection action will be referred to the Examination Division. IRS believes this process would be more effective in determining the correct amount of unreported income than estimating income based on wage and information returns.

Recommendation: The Commissioner of Internal Revenue should modify SFR to include high-income nonfiler cases that would otherwise escape IRS action. **Status:** Action in process. IRS plans to change its procedure so that all high-income nonfiler cases that are

unresolved after collection action will be referred to the Examination Division. IRS believes this process would be more effective in determining the correct amount of unreported income than SFR.

Recommendation: The Commissioner of Internal Revenue should develop a system to ensure that delinquent returns from high-income nonfilers are checked for unreported income and overstated deductions.

Status: Action in process. IRS will change its procedures to clearly state that all delinquent returns should be checked by Collection employees for both

unreported income and apparent overstated deductions; the appropriate returns would then be referred to the Examination Division.

Recommendation: To ensure that the Examination Division's limited resources are used efficiently, IRS should complete in-depth examinations only on those delinquent returns for which strong evidence of noncompliance was found during the check.

Status: Action in process. IRS has issued an instruction to refer all secured high-dollar nonfiler returns to the Examination Division.

Tax Administration: IRS Can Improve Its Program to Find Taxpayers Who Underreport Their Income

GGD-91-49, 03/13/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO provided information on the Internal Revenue Service's (IRS) program for detecting and pursuing individuals who underreported their income on required tax returns.

Findings

GAO found that: (1) IRS opened potential underreporter cases when tax returns failed to computer-match information returns and then determined which cases to refer to service centers, based on the projected taxes and collection costs; (2) the underreporter program was a cost-effective method for directing unreported income in spite of the increasing number of unproductive cases caused by computer matching problems; (3) IRS continued to send many unproductive cases to service centers for

manual screening; (4) over half of all underreporter cases for tax years 1982 to 1988 were unproductive; (5) about 32,000 of 61,000 unproductive underreporter cases for 1987 at the Fresno Service Center occurred because of computer matching problems; (6) the other cases were difficult to screen out by computer matching, and required manual reviews by service center staff; (7) after the 1987 match, IRS changed its computer matching to avoid some problems that had led to unproductive cases; (8) the IRS management information system did not show the specific reasons for unproductive cases, and IRS relied on periodic studies of the underreporter program to obtain this information; (9) IRS did not notify the Social Security Administration (SSA) after finding errors in wage data employers previously reported to SSA; and (10) such overstatements could result in SSA paying excessive benefits.

Open Recommendations to Agencies

Recommendation: To reduce the number of unproductive underreporter cases, the Commissioner of Internal Revenue should modify the computer match to use SSA corrected wage data to identify when employers submit multiple information returns for the same taxpayer.

Status: Action in process. Estimated completion date: 01/93. IRS will use all duplicate documents that are available—especially Forms W2—to eliminate unproductive cases. IRS will work closely with SSA to ensure that duplicate data are in a useable format.

Recommendation: The Commissioner of Internal Revenue should: (1) notify taxpayers who provide their social security numbers to payers of business income to begin providing their

business's tax identification numbers; and (2) modify the management information system for the underreporter program to provide specific reasons why cases were unproductive. This information, when available, should be used to monitor results and further improve the matching process.
Status: Action in process. Estimated completion date: 03/92. IRS will remind

taxpayers to submit a new W-9 informing the payer of the correct taxpayer identification number when income belongs to a corporation or partnership. IRS plans to expand the use of reason codes to specifically identify the forms and lines where income was reported on the selected tax return.
Recommendation: The Commissioner of Internal Revenue should provide SSA

with corrected wage data for taxpayers found to have wages that were incorrectly reported to the SSA.
Status: Action in process. Estimated completion date: 12/92. IRS will work closely with SSA to provide the information needed within the framework of the disclosure provisions of section 6103 of the Internal Revenue Code.

BATF: Management Improvements Needed to Handle Increasing Responsibilities

GGD-91-67, 03/19/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed various management improvements that would help the Bureau of Alcohol, Tobacco, and Firearms (BATF) handle its growing compliance and law enforcement responsibilities.

Findings

GAO found that: (1) BATF law enforcement activities significantly increased with its assumption of several new compliance duties from other federal agencies, including collecting special occupation, firearm, and excise taxes, and testing alcoholic beverages in response to consumer complaints; (2) those additional duties caused BATF to make trade-offs in deciding how to most effectively utilize its staff; (3) such trade-offs resulted in a reduced number of tax compliance inspections of alcohol producers and investigations into financial aspects of arson-for-profit cases; (4) BATF could increase the amount of accounting expertise within its inspector work force that would help minimize the

detrimental effects of such trade-offs on its tax compliance mission; and (5) other actions that BATF could take to efficiently utilize its resources included developing standardized work plans, analyzing more comprehensive data regarding its alcohol testing program, and developing better performance data.

Open Recommendations to Agencies

Recommendation: The Director, BATF, should ensure that BATF increases the availability of accounting expertise for use on tax compliance inspections. Options BATF might consider include requiring that inspectors have at least 12 hours of college-level accounting credits before being eligible for promotion to journeyman level or changing its inspector/auditor staffing mix by hiring auditors to fill vacated inspector positions.
Status: Recommendation valid/action not intended. BATF equates two internal training courses to six college-level credit hours. BATF believes this policy, in combination with the fact that 61

percent of its inspectors have at least six hours of accounting, is sufficient.

Recommendation: The Director, BATF, should ensure that BATF develops a series of standard work plans for the various types of compliance inspections.
Status: Action in process. Estimated completion date: 06/92. BATF has developed a standard work plan for brewery revenue inspections and plans to develop and issue standard work plans for all types of inspections by June 1992.

Recommendation: The Director, BATF, should ensure that BATF corrects the problems impeding the use of laboratory data in the market basket sampling program and, once this data base is available, develop a management information system to target products for inclusion in the test samples.
Status: Action in process. Automated data processing officials are examining ways compliance operations can structure and access the laboratory's data base.

Recommendation: The Director, BATF, should ensure that BATF develops a more comprehensive performance measurement system for the compliance operations that includes measures of quality, timeliness, and efficiency. **Status:** Action in process. The completion certificate is waiting for signature in compliance operations to accept completed development of a fully integrated Revenue Accounting System. Program reviews of compliance activities are in progress.

Recommendation: The Director, BATF, should ensure that BATF periodically measures the extent of compliance with the excise taxes for which it is responsible. **Status:** Action in process. The completion certificate is waiting for signature in compliance operations. The study has been done.

Recommendation: The Director, BATF, should ensure that BATF develops a more comprehensive performance measurement system for law

enforcement. This system should include measures of efficiency, timeliness, and quality.

Status: Recommendation valid/action not intended. BATF responded is that its Law Enforcement Management Information System was designed only to provide statistical information for use in budget formulation and trend analysis. However, use of these data could improve BATF performance measures, focusing on efficiency, timeliness, and quality.

Tax Administration: IRS Needs to Improve Certain Measures of Service Center Quality

GGD-91-66, 03/20/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed steps the Internal Revenue Service (IRS) took to monitor and improve the quality of its service center activities, focusing on the: (1) quality of correspondence with taxpayers regarding their accounts; (2) extent to which IRS erred in processing tax returns; and (3) accuracy of notices sent to taxpayers informing them about return changes.

Findings

GAO found that: (1) IRS improved its correspondence quality; (2) between February 1989 and August 1990, IRS statistics indicated that its percentage of letters with critical errors decreased from 38 percent to 14 percent; (3) IRS planned to expand its monitoring of other types of service center correspondence in 1991; (4) it could not determine IRS progress in improving tax return processing accuracy; (5) IRS data

indicated that the error rate in processing decreased from 23 percent in 1988 to 18 percent in 1990, but the percentage was not a valid indicator of IRS processing quality, since it included taxpayer errors and incorrect error counts; (6) service centers' recurring errors hindered IRS progress in improving the quality of its processing performance; (7) IRS began studying ways to reduce such recurring errors, and anticipated solutions for the 1991 filing season; (8) IRS lacked an effective measure for monitoring the accuracy of its notices; (9) while output review units reviewed notices having a high probability of an error and helped to target limited resources toward the most error-prone notices, such reviews did not provide IRS with a valid measure of accuracy; and (10) two centers' output review units did not follow IRS directions to report identified errors to the unit managers that originated the notices.

Open Recommendations to Agencies

Recommendation: To better assess its returns processing performance, IRS should measure the overall quality of returns processing notices rather than just those that are referred to output review. To help fund the development of such indicators, IRS should reconsider how it spends the money currently available for service center quality control efforts and assess how the quality data it now collects might be used to help build the needed indicators. **Status:** Action in process. Estimated completion date: 01/92. IRS has identified notices as one of its key returns processing product areas. It has stated that a quality standard would be developed for use during fiscal year 1992.

Recommendation: IRS should: (1) compile data on output review results in a way that enables management to

identify specific problems that need to be addressed; and (2) ensure that the results are so used.

Status: Action in process. IRS Internal Audit has just completed a detailed review of the notice review system. Returns Processing Management is

responding to Internal Audit findings. GAO expects several changes that tie in to the recommendation.

Tax Administration: Expanded Reporting on Seller-Financed Mortgages Can Spur Tax Compliance

GGD-91-38, 03/29/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed buyers' and sellers' reporting of interest payments made or received under seller-financed mortgages (SFM) to assist the Internal Revenue Service (IRS) in increasing taxpayer compliance.

Findings

GAO found that, according to an IRS study: (1) some taxpayers failed to correctly report SFM interest paid or received; (2) in one service area, IRS enforcement efforts were severely hampered because it could not locate 978 of the 1,495 corresponding seller returns, mainly because of illegible, incomplete, or missing sellers' names and addresses cited on SFM buyers' tax returns; and (3) the number of SFM would increase and, unless action was taken, noncompliance

would continue. GAO also found that: (1) SSN reporting helped improve voluntary compliance in such areas as dependent exemptions, alimony payment deductions, and child care tax credits; and (2) total SFM interest payments exceeded other payments for which IRS required SSN reporting. GAO believes that SSN reporting requirements for SFM could generate improved compliance and additional tax revenues.

Open Recommendations to Congress

Recommendation: Congress should enact legislation to require buyers who deduct SFM interest to report on their tax returns the name and SSN of the seller.
Status: Action not yet initiated.

Recommendation: Congress should enact legislation to authorize IRS to penalize: (1) buyers who fail to provide the sellers'

SSN and cannot show that they made reasonable efforts to obtain it; and (2) sellers who refuse to provide SSN to buyers.

Status: Action not yet initiated.

Congressional Action: At least two members of Congress have plans to introduce the recommended legislation.

Open Recommendations to Agencies

Recommendation: If Congress enacts legislation to require buyers to report sellers' SSN, the Commissioner of Internal Revenue should use the sellers' and buyers' SSN to study the extent of taxpayer noncompliance and, on the basis of the study's results, implement an enforcement program, such as computer matching, to pursue cases of potential noncompliance.

Status: Action not yet initiated.

Tax Administration: Changes Are Needed to Improve Federal Agency Tax Compliance

GGD-91-45, 04/16/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO reviewed the Internal Revenue Service's (IRS) accounts receivable from federal agencies for employment taxes to determine the: (1) extent and causes of delinquent tax payments; (2) options for improving the processing of federal agency employment tax payments; and (3) options for improving federal agencies' compliance with tax laws and regulations.

Findings

GAO found that: (1) IRS records inaccurately reported that 63 federal agency accounts owed \$178 million in accounts receivable that had already been paid; (2) most agencies actually paid their taxes on time, and most errors were the result of the outdated and poorly designed tax payment process for intragovernmental fund transfers; (3) two-thirds of the agency accounts reviewed had at least one quarterly employment tax return that was filed late, complicating IRS reconciliation of return information with tax payments; (4) federal managers placed insufficient priority on filing federal tax returns and responding to IRS notices and inquiries; and (5) IRS needs to send notices to agencies when tax data do not reconcile and when agencies do not file returns, inform agencies of adjustments to their accounts, and provide assistance to agencies through training programs.

Open Recommendations to Agencies

Recommendation: The Department of the Treasury, in close coordination with IRS and the Financial Management Service (FMS), should undertake a governmentwide program to improve federal agency tax processing. Such a program should include streamlining agency tax payment processing through electronic interagency funds transfer and requiring that the funds transfer information be provided to IRS.

Status: Action in process. Estimated completion date: 06/92. IRS, in coordination with FMS, is developing a program for federal agencies to make electronic federal tax deposits (FTD), in lieu of payment by check, and file 941 returns electronically.

Recommendation: The Department of the Treasury, in close coordination with IRS and FMS, should undertake a governmentwide program to improve federal agency tax processing. Such a program should include enhancing the clarity of IRS communications with agencies in such ways as developing notices tailored to the unique tax situation of federal agencies and informing agencies of adjustments to their accounts.

Status: Action in process. Estimated completion date: 06/92. As part of the electronic FTD program, IRS will be able to communicate to agencies via computer screens to inform them when a tax delinquency exists. Agencies in turn

can communicate electronically to IRS with a response. It is not clear at this time if IRS will notify agencies of adjustments. The current procedure of mailing delinquency notices will continue unchanged.

Recommendation: The Department of the Treasury, in close coordination with IRS and FMS, should undertake a governmentwide program to improve federal agency tax processing. Such a program should include providing for an IRS training program for agencies' staff involved in making tax payments and filing tax returns.

Status: Action taken not fully responsive. There has not been an agencywide, coordinated response to this recommendation. Individual service centers and district offices have sponsored federal agency training.

Recommendation: The Department of the Treasury should develop methods to promote greater accountability by top agency management for compliance with tax laws and regulations by working with the agencies and the Office of Management and Budget. Treasury should consider, among other methods, enhancing agency tax compliance by: (1) ensuring that agencies' Federal Managers' Financial Integrity Act reviews adequately cover tax compliance and include management followup; and (2) developing a process for top managers to certify their agencies' tax compliance. **Status:** Action not yet initiated.

Managing IRS: Important Strides Forward Since 1988 but More Needs to Be Done

GGD-91-74, 04/29/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) efforts to improve its efficiency and managerial accountability, and the quality of its services, focusing on steps IRS took after a 1988 GAO management review of IRS.

Findings

GAO found that: (1) IRS has taken steps to establish a leadership framework that will enable it to improve its management direction and oversight; (2) IRS established the positions of Chief Financial Officer (CFO), Controller, and Chief Information Officer (CIO), and established a business review process; (3) the establishment of the CFO and Controller positions provided IRS the leadership to meet long-standing financial management challenges; (4) the CIO position provided IRS the leadership to guide it through major information

systems modernization efforts; (5) business reviews will be effective in helping IRS measure personnel performance and in holding managers accountable for meeting IRS-wide goals; (6) IRS identified actions that it needed to take, such as holding financial leadership responsible for all IRS financial matters, enhancing its senior managers' and executives' technical expertise, and developing measurable performance goals; and (7) IRS did not expect to finish its redefinition of occupations and skills needed to carry out its mission until September 1994, which would postpone its implementation of recruiting, training, and retention initiatives.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should ensure that IRS develops and implements, as a

priority, a strategy for providing additional technical expertise at senior decisionmaking levels. This strategy should include an assessment of IRS needs for additional technical experience and a program to satisfy those needs as part of the human resource planning process.

Status: Action in process. IRS is establishing a strategy to improve the technical expertise and knowledge of managers and executives. Mid-level management is also included in a university-based training program.

Recommendation: The Commissioner of Internal Revenue should ensure that the Assistant Commissioner for Procurement Services adopts as one of his initial priorities the development of software to manage contract obligations.

Status: Action in process. According to IRS, software development is receiving priority attention. A contractor will assist in that development.

Tax Policy: Refund Offset Program Benefits Appear to Exceed Costs

GGD-91-64, 05/14/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO: (1) evaluated the effects of the Internal Revenue Service's (IRS) Refund Offset Program on the filing behavior of guaranteed student loan defaulters; and

(2) compared the program's estimated benefits resulting from increased debt collections with the program's estimated costs.

Findings

GAO found that: (1) offsetting refunds for the nonpayment of student loan debts increased the likelihood of taxpayers not filing a tax return in the year after the offset; (2) student loan

defaulters whose entire 1985 tax refund was offset failed to file a 1986 tax return 2.1 times more than student loan defaulters who were not offset and who received a refund; (3) offset had no statistically significant effect on the subsequent filing of balance-due returns; (4) other variables, such as income filing history, did affect balance-due return rates; (5) although offsetting federal tax refunds for nontax debts increased nonfiling the next year, the offset had virtually no effect over 2 years; (6) although the program could reduce tax revenues, IRS has not measured the program's net gain or loss; (7) in 1986,

the amount offset through the program in 1986 for a sample of student loan defaulters was \$4.6 million; (8) IRS lost \$1.1 million in tax revenue from defaulters offset in 1985 who did not file a 1986 tax return; and (9) the debt recovered from the offset was at least four times greater than the potential revenue loss.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should direct that IRS carry out its plans for future studies and

specifically ensure that those studies: (1) control for as many meaningful tax and nontax characteristics as possible; (2) include an estimate of the potential revenue loss due to any noncompliant filing behavior; and (3) include a comparison of this loss with the program's benefits.

Status: Action in process. IRS is changing its approach and methodology as part of an ongoing study that is due to be completed in August 1992.

Tax Administration: Better Training Needed for IRS' New Telephone Assistors

GGD-91-83, 06/12/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO reviewed the Internal Revenue Service's (IRS) training program for new telephone assistors, whose purpose is to assist taxpayers with questions regarding tax law, their accounts, and other issues relating to filing their tax returns.

Findings

GAO found that: (1) the IRS process for selecting task force members to revise its training material was unsatisfactory due to inadequate training, preparation, and clerical support for task force members; (2) despite substantial changes in its instructional materials over the years, IRS has not sufficiently evaluated the effectiveness of its course material; (3) IRS believed that budget and time constraints precluded comprehensive course material evaluation; (4) without adequate evaluation, IRS could not

ensure that it provided effective training to its new assistors; (5) IRS tests did not provide adequate assurance that trainees would perform well, since some tests were inconsistent with job performance expectations; (6) IRS relied heavily on on-the-job training (OJT) to ensure adequate training, but OJT training instructors had limited opportunity to identify and remedy all trainee weaknesses; (7) IRS lacked standard performance criteria or tests to evaluate overall training proficiency; and (8) training program problems may be further heightened by IRS instructor selection policy, which did not ensure that only capable instructors taught its courses.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should ensure that

IRS develops a corps of skilled and experienced people to provide the nucleus for each year's task force.

Status: Action in process. IRS agrees that this would benefit training development and is looking into how this can be accomplished.

Recommendation: The Commissioner of Internal Revenue should ensure that IRS provides the additional training in writing, course development, and task force expectations to ensure that all task force members are properly prepared.

Status: Action in process. IRS has developed a checklist that outlines the tasks and expectations needed to update training. A longer training session is planned to better prepare task force members.

Recommendation: The Commissioner of Internal Revenue should ensure that

IRS provides adequate clerical assistance for each task force.

Status: Action in process. IRS agrees and will take steps to provide adequate clerical assistance for the task forces.

Recommendation: To improve the Phase 1 course materials, the Commissioner of Internal Revenue should ensure that IRS assesses each year's course material revisions and conduct sufficient evaluation to ensure that the revisions are technically accurate and effectively convey the intended subject matter.

Status: Action in process. IRS has adopted the Training Development Quality Assurance System to assist in building the level and quality desired in course development projects.

Recommendation: To improve the Phase 1 course materials, the Commissioner of Internal Revenue should ensure that IRS tests a sample of trainees to determine their average reading grade levels and, if necessary, revise the training materials to be as consistent as possible with trainees' reading abilities.

Status: Recommendation valid/action not intended. IRS does not agree with this recommendation. IRS stated that its tests of student and instructor guides, which it considers course material, showed that these materials did not exceed the ninth grade reading level. IRS stated that, although Publication 17 is used extensively for reading assignments and on the job, it is not considered a part of the course materials.

Recommendation: The Commissioner of Internal Revenue should take steps to reduce the number of yes/no questions used on tax law tests and add questions that test probing skills.

Status: Action in process. IRS agreed to examine the current design of the tests to determine if yes/no questions should be reduced and more probing skills questions included.

Recommendation: The Commissioner of Internal Revenue should take steps to require trainees to pass all of the tax law objectives tested.

Status: Recommendation valid/action not intended. IRS stated that objectives not met in class are certified in OJT, and that slower learners may successfully master all objectives in this post-classroom phase.

Recommendation: The Commissioner of Internal Revenue should ensure that comprehensive and useful trainee classroom performance information is recorded in student development guides and communicated to OJT instructors for use in planning OJT remedial training.

Status: Action in process. IRS will reinforce existing guidance to ensure that trainee classroom performance information is recorded and communicated to OJT instructors.

Recommendation: The Commissioner of Internal Revenue should ensure that classroom instructors include sufficient exercises to provide them with adequate opportunity to observe and document trainee weaknesses.

Status: Action in process. IRS will reinforce existing guidance to ensure that classroom instructors include exercises that allow the opportunity to observe and document trainee weaknesses.

Recommendation: The Commissioner of Internal Revenue should ensure that IRS provides OJT interspersed with classroom activities whenever feasible.

Status: Action in process. IRS will study the Seattle district's initiative—providing OJT interspersed with classroom work—to determine the feasibility of using this technique in other locations.

Recommendation: The Commissioner of Internal Revenue should ensure that

IRS defines satisfactory and unsatisfactory performance on untested objectives so instructors can better identify, document, and remedy trainee weaknesses.

Status: Action in process. IRS will assess ways to provide instructors with a better basis to measure trainee performance on untested objectives.

Recommendation: The Commissioner of Internal Revenue should ensure that OJT instructors attend appropriate and adequate training to plan and administer OJT.

Status: Action in process. IRS will reinforce existing guidance to ensure that OJT instructors attend appropriate training to plan and administer OJT.

Recommendation: The Commissioner of Internal Revenue should ensure that IRS develops a comprehensive job simulating OJT test that is based on standard minimum performance criteria and measures job skills and performance before certification.

Status: Action in process. IRS will explore the feasibility of developing a job simulation test to measure trainee performance before certification.

Recommendation: The Commissioner of Internal Revenue should ensure that IRS eliminates teaching as a requirement of the taxpayer service specialist (TSS) position.

Status: Action in process. IRS is taking steps to eliminate teaching as a requirement for the TSS position.

Recommendation: The Commissioner of Internal Revenue should ensure that IRS competitively selects instructors on the basis of ability and interest.

Status: Action in process. IRS will fill instructor positions by competitive selection when it eliminates the teaching as a requirement to the TSS position.

Collecting Back Taxes: IRS Phone Operations Must Do Better

IMTEC-91-39, 06/18/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) Automated Collection System (ACS), focusing on ACS call sites' effectiveness in calling and providing assistance to persons who owed taxes.

Findings

GAO found that: (1) during fiscal year (FY) 1990, the call sites collected about \$2.6 billion in back taxes and assessed another \$1.6 billion to be collected later; (2) although ACS represented a great improvement over the manual collection system it replaced, ACS has not significantly improved since FY 1985; (3) call sites closed an average of 600 cases per staff year, although collection cases steadily increased from just under 575,000 in 1985 to about 950,000 in September 1990; (4) incoming callers to ACS sites frequently received busy signals or abandoned calls after waiting on hold; (5) only 10 of 23 call sites followed IRS policy for being open 64 hours a week to reach potential taxpayers during evenings and weekends; (6) state and private collection agencies used automated dialing

systems, located collection offices in areas with high unemployment rates, and used flexible work hours, part-time help, and incentive pay to ensure adequate staffing; (7) during FY 1990, call site employees charged 52 percent of their time to overhead; (8) although private collection agencies' operations differed from ACS sites, they typically had much lower overhead rates; (9) regional offices operated their call sites differently, making it difficult to improve operations; and (10) although IRS can not use private collection agencies to collect delinquent taxes, such agencies could help IRS to evaluate and improve its call sites' operations.

Open Recommendations to Agencies

Recommendation: Because of their potential for increasing the collection of back taxes, the Commissioner of Internal Revenue should implement at all call sites: (1) automation for making outgoing calls and for receiving and directing incoming calls; and (2) standard hours of operation.

Status: Action in process. IRS has been working on a new system to receive and direct incoming calls more efficiently. A

test will be completed by September 30, 1992. The design and procurement phases of this test are now being conducted. If the test is successful, a request for proposals will be prepared and the system will be implemented by March 31, 1994. All call sites will be in compliance by the end of FY 1992.

Recommendation: The Commissioner of Internal Revenue should expeditiously establish measurements, such as target overhead rate, to evaluate the performance of call sites. Private collection agencies should be used to help do this, and to look at call site operations and identify specific management, technological, operational, and organizational changes that would improve the collection of back taxes.

Status: Action in process. IRS is developing baselines to measure inventory turnover, percentage of productive hours, and time required to close a case. All telephone data are now current and U.S. Sprint has provided an initial report of overflows which can be used to provide accurate baselines for late 1991 and implementation by September 30, 1993. IRS will determine the feasibility of a joint study of ACS operations by late 1991.

Tax System Modernization: Further Testing of IRS' Automated Taxpayer Service Systems Is Needed

IMTEC-91-42, 06/20/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) Taxpayer Service Integrated System (TSIS) to determine whether tests to measure TSIS effectiveness provided the information necessary to justify installing TSIS at all call sites.

Findings

GAO found that: (1) tests of two of the three TSIS projects to automate its taxpayer inquiry program, the Taxpayer Service Expert Assistance System and the Automated Taxpayer Service System (ATSS), during the 1989 and 1990 tax filing seasons did not conclusively demonstrate whether the automated system could improve accuracy and productivity; (2) the Expert System could not answer about 62 percent of the questions taxpayers asked because it lacked adequate information and it took more time to answer simple questions than manual assistance; (3) the Integrated Test Call Survey System (ITCSS) could not adequately evaluate

the Expert System, since ITCSS measurements did not consider whether assistants used the system properly, or at all, in responding to taxpayers; (4) IRS found that assistants using ATSS correctly answered almost 94 percent of taxpayers' questions, while those not using ATSS answered questions correctly about 90 percent of the time, but according to ITCSS, those not using ATSS gave correct answers 10 percent more often than those who used ATSS; (5) less experienced personnel had higher rates of productivity when they used ATSS, but more experienced staff members' productivity suffered; (6) despite inconclusive test results, IRS planned to install the Expert System at four more locations for the 1991 tax season; (7) 1992 TSIS test results will lack sufficient information to decide whether IRS should install it at more call sites; (8) the Office of Management and Budget denied the IRS fiscal year (FY) 1992 budget request for \$41 million to expand TSIS, since IRS did not show the system to be cost-effective; and (9) IRS now plans to extend the development and installation of TSIS

through FY 1997, rather than FY 1994, as it had planned.

Open Recommendations to Agencies

Recommendation: To ensure that TSIS is not installed nationwide until all its benefits have been clearly demonstrated, the Commissioner of Internal Revenue should make sure that IRS develops a test methodology that will allow it to conclusively determine the impact of TSIS on call site operations. This methodology should: (1) identify specific, measurable benefits of TSIS; and (2) distinguish to what extent benefits are due to automation and to what extent they are due to other operational changes.

Status: Action not yet initiated.

Recommendation: If IRS decides to install TSIS nationwide, it should consider how TSIS can be most effectively combined with ongoing management improvement initiatives to enhance the accuracy and productivity of taxpayer service call sites.

Status: Action not yet initiated.

Tax Administration: IRS Experience Using Undercover Operations' Proceeds to Offset Operational Expenses

GGD-91-106, 07/03/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a legislative requirement, GAO evaluated the: (1) Internal Revenue Service's (IRS) use of proceeds from undercover investigative operations; (2) results of such operations; and (3) financial audits conducted by IRS.

Findings

GAO found that: (1) the undercover operation offset provision allows IRS to use income earned from an individual undercover operation to offset expenses and expand the range of activities for that particular operation; (2) the 19 undercover operations using the offset provision have produced about \$545,000 in income and, as of May 1, 1991, IRS applied about \$121,000 of it to operational expenses and returned \$155,000 to the General Fund; (3) as of May 1, 1991, undercover operations using the offset provision resulted in the seizure of over \$207 million in cash and significant amounts of drugs, and in 75 convictions; (4) none of the IRS

undercover operations met the criteria requiring a detailed financial audit; (5) IRS conducts internal audits only of those undercover operations involving offsetting in which proceeds exceed \$50,000 or expenditures exceed \$150,000, and conducts detailed audits on only about one-third of the undercover operations using the offset authority; and (6) requiring IRS to report on the results of its detailed financial audits when the undercover operation's covert phase is completed, instead of waiting until the criminal proceedings are over, could enhance Congress' ability to oversee the offset authority.

Open Recommendations to Congress

Recommendation: Should Congress decide to extend the offset authority, it may also wish to revise the current IRS reporting requirements. Expanding the information IRS is required to include in its annual reports to Congress and requiring IRS to report the results of its detailed financial audits after the covert

phase, instead of when the operation is closed, could provide Congress with more timely and complete information on undercover operations involving offsetting. Such reporting should not jeopardize undercover agents' safety or success of criminal proceedings.
Congressional Action: Congress has not enacted legislation to extend the offset authority.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should direct the Chief Inspector to ensure that Internal Audit expands its financial audits to include all undercover operations involving offsetting, regardless of the amount of expenditures or proceeds.

Status: Action in process. IRS agreed with the recommendation, but it is trying to resolve questions about auditing and reporting to Congress on these operations before initiating specific action.

Tax Administration: Negligence and Substantial Understatement Penalties Poorly Administered

GGD-91-91, 07/03/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed the Internal Revenue Service's (IRS) administration of the

negligence and substantial understatement penalties, focusing on whether IRS: (1) correctly assessed such penalties when warranted; and (2)

adequately explained to taxpayers the reasons for assessing those penalties.

Findings

GAO found that: (1) one-third of the cases reviewed included erroneous penalty determinations, and IRS reviewed over 60 percent of the cases at least once without correcting errors; (2) such IRS internal controls as supervisory and quality assurance reviews and district office penalty screening committees did not effectively detect or correct inadequate and incorrect penalty decisions; (3) 85 percent of the erroneous cases reviewed were in the taxpayers' favor; (4) there appeared to be little, if any, incentive for examiners, supervisors, and others accountable for penalty decisions to make correct decisions or to document the bases for decisions; (5) IRS cited such factors as heavy work load, emphasis on other areas of examination, employee turnover, quality, and inexperience, and the limited scope of penalty screening committee reviews to explain why employees did not always follow IRS guidelines on penalty administration; (6) in 76 percent of the cases assessed penalties, the penalty explanations in IRS examination reports provided to

taxpayers did not adequately explain why they were assessed penalties or how to avoid future penalties; and (7) standard paragraphs in examination reports were too general to effectively relate the negligence penalty to the circumstances of specific cases and omitted important information about the penalty's criteria and the adequate disclosure and substantial authority provisions.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should determine the effectiveness of the solutions through a subsequent review of selected exam cases, both with and without penalty assessments. These reviews should focus on the documentation and appropriateness of the penalty decisions so as to determine how well penalties are being administered by the district and the effectiveness of existing internal controls.

Status: Action in process. Estimated completion date: 09/92. Fiscal year 1992 business reviews created an organization

in Examination to handle cross-functional national penalty administration. It is looking at the full range of penalties.

Recommendation: The Commissioner of Internal Revenue should take actions to ensure that the negligence and substantial understatement penalty explanations in IRS examination reports provide taxpayers with the specific facts, circumstances, and criteria that warrant the assessment of the penalty. Standard paragraphs should be augmented with written comments that relate the specific conduct and circumstances of taxpayers to the assessment of the penalty. The substantial understatement penalty standard paragraph should be expanded to include information on the penalty's criteria and the substantial authority and adequate disclosure provisions.

Status: Action in process. This action is included as a part of writing the IRS Penalty Handbook. The first phase is due in January 1992, and these areas are covered in the part IRS is working on.

Identifying Options for Organizational and Business Changes at IRS

T-GGD-91-54, 07/09/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO discussed the Internal Revenue Service's (IRS) Tax Systems Modernization (TSM) program efforts to identify options for organizational and business changes at IRS. GAO noted that: (1) the IRS Design Master Plan did not provide a vision of how the new technology could enable IRS to transform its future organizational

structures and business operations; (2) although the automation of current business processes should provide clear benefits, its current organizational structure and business will constrain IRS from using new systems to provide the best quality service to taxpayers; (3) the design of the new systems could constrain the consideration of such business options as consolidating or

changing the functions of the 10 existing service centers before they have been adequately exposed and discussed; (4) a survey of 25 private companies showed that such modernization could result in major organizational change; and (5) IRS has made efforts to redefine several aspects of its business operations, but they were not linked to the new systems under the plan.

Open Recommendations to Agencies

Recommendation: IRS should begin a systematic effort to examine options for

major changes in business processes to fully realize the significant opportunities offered by the modernization effort.

Status: Action not yet initiated.

Tax Policy: Issues and Policy Proposals Regarding Tax Treatment of Intangible Assets

GGD-91-88, 08/09/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO provided information regarding the extent to which business taxpayers can deduct the price they pay for intangible assets, focusing on: (1) types of deductible intangible assets and their claimed values and useful lives; (2) industries claiming such deductions; and (3) various proposals for revising intangible asset tax rules.

Findings

GAO found that: (1) Internal Revenue Service (IRS) tax data on unresolved or open intangible asset cases showed that, between tax years 1979 and 1987, taxpayers in 9 industry groups claimed deductions for 175 types of purchased intangible assets valued at \$23.5 billion;

(2) intangible asset categories include customer- or market-based assets, contract-based assets, technology-based assets, statutory-based assets, work-force-based assets, corporate organizational or financial assets, and other unidentifiable assets; (3) IRS believed that 70 percent of the claimed intangible assets were actually goodwill and not amortizable; (4) IRS proposed about \$8 billion in adjustments to such claims, based on its evaluation of the assets' values, useful life, and classification; and (5) tax rules are much clearer for tangible than for intangible assets, and courts have issued conflicting and inconsistent decisions regarding the treatment and definition of intangible assets. GAO also found that proposals for changing tax rules for intangible assets involve: (1) expanding amortization of purchased intangible

assets through easier amortization qualification standards, a more restrictive definition of goodwill, and the use of predetermined cost-recovery periods for amortization; and (2) disallowing amortization for specific purchased intangible assets or categories of intangible assets by deeming them to have indeterminable useful lives.

Open Recommendations to Congress

Recommendation: Congress should consider revising current tax law to allow amortization of purchased intangible assets, including goodwill, over specific statutory cost recovery periods.

Status: Action not yet initiated.

Tax Administration: Efforts to Prevent, Identify, and Collect Employment Tax Delinquencies

GGD-91-94, 08/28/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO reviewed Internal Revenue Service (IRS) efforts to prevent, identify, and

collect employment tax delinquencies, focusing on whether problems exist in the overall IRS strategy for addressing employment tax delinquencies.

Findings

GAO found that: (1) IRS did not have a centralized effort for preventing,

identifying, or collecting delinquent employment taxes; (2) IRS could not ensure that its resources were effectively allocated to address employment tax delinquencies, since its efforts were scattered throughout various functional areas with no central focus or assigned responsibility; (3) IRS could not effectively target its prevention programs, since it had not developed the information necessary to determine the employers most likely to be delinquent or the effectiveness of its employment tax delinquency efforts; (4) one of two IRS primary prevention programs, the Federal Tax Deposit Alert Program, was not targeted at those most likely to be delinquent, produced numerous unproductive alerts, and did not have any significant effect on promoting employment tax compliance; (5) limited

staff resources prevented IRS from investigating many of the leads and cases brought to its attention; (6) the number of employment tax audits done by the IRS examination function fell from 109,000 in fiscal year (FY) 1979 to a low of about 24,000 in FY 1988 before rising to 42,000 in FY 1990; (7) most programs designed for collecting delinquent employment taxes were ineffective because they were generally untimely or used infrequently; and (8) IRS relied primarily on collection to ultimately resolve the delinquencies.

Open Recommendations to Agencies

Recommendation: The Commissioner of Internal Revenue should develop a comprehensive plan to prevent, identify,

and collect employment tax delinquencies. The plan should coordinate efforts among all IRS functions. The Commissioner should designate an official to oversee execution of the plan and the various programs involved. The plan should include development of the information necessary to: (1) define the characteristics of employers who are delinquent in paying employment taxes; and (2) measure the effectiveness of the IRS programs to prevent, identify, and collect employment tax delinquencies. The report contains a list of specific items which the plan should address. **Status:** Action not yet initiated.

The New Earned Income Credit Form is Complex and May Not Be Needed

T-GGD-91-68, 09/17/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

GAO discussed the Internal Revenue Service's (IRS) efforts to develop a new form for taxpayers to use in applying for the earned income tax credit. GAO noted that: (1) IRS set up a special task force to develop the new form, solicited comments outside of the usual channels, and tested the clarity and simplicity of the forms and instructions by using focus groups; (2) based on comments IRS received from the public and focus groups, it made a number of changes to the initial version of the form; (3) individuals experienced in filling out their own tax returns composed the focus groups, because taxpayers inexperienced with filling out their own

returns provided few useful comments; (4) IRS has increased its efforts to inform potential recipients about the credit, by distributing materials to interested groups and using these groups as integral parts of its information and outreach program; and (5) new IRS returns processing procedures are likely to limit the number of taxpayers who will receive the credit and could result in taxpayers who qualify for the basic credit either not receiving it or receiving it late. GAO believes that: (1) the complexity of the new tax form could dissuade some eligible taxpayers from completing the form and getting the credit; (2) the information currently on the tax return is sufficient for IRS to determine a taxpayer's eligibility for the

basic credit; and (3) a separate tax form is not really necessary.

Open Recommendations to Congress

Recommendation: Congress should reduce many potential complications by deciding to eliminate the interactions among the credits which appear to amount to a fraction of a percent of credit payments.

Status: Action not yet initiated.

Open Recommendations to Agencies

Recommendation: IRS should reconsider the requirement for a separate schedule.

Status: Action not yet initiated.

Recommendation: IRS should change its procedures to allow payment of the credit to eligible individuals who do not

submit the extra form, if it continues to be used.

Status: Action not yet initiated.

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs

GGD-91-118, 09/27/91 GAO Contact: Jennie S. Stathis, (202)275-6407

Background

Pursuant to a congressional request, GAO analyzed issues on the feasibility of an Internal Revenue Service (IRS) document matching program for payments to corporations, focusing on: (1) what legislative actions Congress needs to take; and (2) how IRS can reduce the program's burden on the business community.

Findings

GAO believes that Congress: (1) and IRS could reduce the burden of a corporate

matching system by phasing in the reporting requirement and document match over several years and slowly expanding the program as both IRS and the business community learn from their initial experiences; and (2) needs to pass legislation that would authorize IRS to require payors to report payment to corporations, appropriate funds to cover additional IRS costs, and earmark such appropriations specifically for the corporate information returns program.

Open Recommendations to Congress

Recommendation: Congress should pass legislation that would require that payments to corporations be reported in information returns and to appropriate the necessary funds for IRS to implement a computer matching program to identify noncompliance. The program could be phased in to reduce the burden on the business community.
Status: Action not yet initiated.

Workforce Quality

Issue Area Summary: Work Force Quality

Impact of GAO's Work

Two critical elements of effective governance are top-quality people to carry out the programs of the President and the Congress and mechanisms to hold them accountable for achieving results. Our work in recent years has found that government programs and services suffer because the state of the federal public service is not what it should be. If the American people are to get high-quality government services, more attention needs to be paid to human resource management in the federal government.

We are nearing completion of several basic research projects on the potential changes to federal employment policies for meeting future work force needs. Our efforts to demonstrate the need to modernize the government's employment practices are supported by professionals concerned with human resource management. Several significant actions were taken during fiscal year 1991 on our recommendations.

Pay Reform

Our work significantly contributed to the enactment of comprehensive pay reform legislation. Our reports consistently showed noncompetitive pay to be the most important reason for employee recruitment and retention difficulties. The new legislation established a framework for corrective action that, if properly followed, will help make the government a more attractive employer.

Poor Performers

On the basis of our recommendations on how the government identifies and deals with poor performers, the Director of the Office of Personnel Management (OPM) sent a memorandum to agency heads asking them to determine the effectiveness of their performance management programs and develop ideas for improvements. OPM also issued a new chapter in the Federal Personnel Manual (FPM), which includes extensive guidance on identifying and dealing with poor performers, revised and updated a managers' guide for dealing with employees with conduct and performance deficiencies, and added a course in its nationwide training program to improve supervisors' practical skills in dealing with poor performers.

Our work also prompted the Air Force to implement a system for tracking the progress made by poor performers who were given performance improvement plans.

Hiring and Training

Certain agency hiring practices have been improved as a result of our work on the use of direct-hire and outside-the-register temporary appointment authorities. For example, OPM developed a model recruitment program that agencies may use as a reference when designing their own recruitment programs. OPM has issued new instructions that include requirements for demonstrating compliance with merit system principles on direct-hire and related activities. It has also proposed, for comment, regulations specifying that agencies must retain documentation showing that vacancy announcements for temporary positions were sent to OPM and state job service offices. OPM has agreed to issue additional FPM guidance once regulations on temporary appointments outside the register are adopted.

We also reported that the Department of Energy (DOE) had made inappropriate use of its Schedule C appointment authority by appointing individuals to Schedule C positions and detailing them immediately to the White House. This, as well as earlier related work, convinced the Congress to pass legislation prohibiting the use of appropriated funds for salaries for such appointments.

As a result of our work showing problems with OPM's central personnel leadership role in the area of training and development, OPM has reorganized in the past year and has consolidated 23 separate OPM offices with training functions into 4 offices. OPM has focused its training efforts on policy setting; encouraging greater commitment to human resources; strengthening training, education, and development programs; and providing research and development efforts in anticipation of agencies' needs.

Labor-Management Relations

In September 1991, DOE agreed with our recommendation to reevaluate some provisions of a site-stabilization agreement used at the Idaho National Engineering Laboratory because the provisions tended to favor unionized companies. More importantly, the Congress is seriously considering our findings that the federal labor relations program, in general, is not working and needs complete reform.

Drug Testing

Our work on federal employee drug testing showed that employees were not being treated equitably, that program costs among federal agencies varied significantly, and that the program's administrative requirements were not being complied with. In response to our recommendation that a single agency be given responsibility for overseeing the implementation of federal employee drug testing, the Office of National Drug Control Policy became the lead agency in February 1991.

Federal Health Plans

On the basis of our review of the Federal Employees Health Benefits Program (FEHBP), the Congress enacted an exemption for participating health plans from premium taxes imposed by states and other nonfederal entities as part of the Omnibus Budget Reconciliation Act of 1990. The exemption was effective January 1, 1991, and will begin to affect agencies' premium payments into the Fund starting January 1992. Agency savings from lower premium payments in fiscal year 1992 will be partially offset by lower premium income received by the fund. For fiscal year 1992, we estimated that the government's net monetary benefit will be \$19 million and that the Postal Service, D.C. Government, and enrollees will save an additional \$42 million.

Performance Measures

In response to our recommendations that OPM have greater customer focus in its organizational performance measures, OPM established a customer survey that addresses services provided to civil service annuitants. The initial survey was reported on in March 1991. OPM intends to use the initial survey as a baseline for measuring the quality of its future service.

Key Open Recommendations

Poor Performers

Presently, supervisors' options for dealing with poor performers do not provide sufficient incentives for employees to improve. We recommended that the Congress consider ways to ease the difficulties supervisors encounter when dealing with employees who have performed at the minimally successful level. (GAO/GGD-91-7, see p. 792.)

Intergovernmental Assignments

The Intergovernmental Personnel Act of 1970 allows federal agencies to temporarily assign personnel to and appoint personnel from eligible nonfederal organizations. Several programs under the act have been discontinued, and the use of the program differs substantially from the basic purpose set forth in the 1970 act. In June 1989, we recommended that the OPM Director specify the circumstances in which nonfederal employees on detail to federal agencies should file financial disclosure reports. (GAO/GGD-89-95, see p. 786.)

Experts and Consultants

Under 5 U.S.C. 3109, agencies may appoint experts and consultants to obtain specialized opinions and advice unavailable in the agency or other agencies. These appointments are not subject to the usual civil service laws and regulations that require competitive examination, job classification, and the General Schedule pay grades. In a governmentwide review of experts and consultants, we found that about 35 percent of these appointments were inappropriate. We recommended that to achieve better control, the Congress amend 5 U.S.C. 3109 to explicitly provide OPM with regulatory and enforcement authority over these appointments. (GAO/GGD-91-99, see p. 799.)

Lobbying Reform

In 1991, we testified twice about the ineffectiveness of laws governing lobbying of the Congress and the executive branch. We made recommendations to the Congress and the Office of Management and Budget to improve the administration and the effectiveness of lobbying laws and regulations. The Congress should consider legislation to reform lobbying laws. (GAO/T-GGD-91-56, see p. 796.)

Labor-Management Relations Reform

In our reviews of federal labor-management relations programs, we found problems with title VII of the Civil Service Reform Act of 1978, including ineffective collective bargaining, dispute resolution, and management by the Federal Labor Relations Authority. We recommended that the Congress consider comprehensive reforms for the program rather than piecemeal technical revisions. (GAO/GGD-91-101, see p. 800.)

Agency Hiring Practices

The OPM Director has agreed to improve its FPM guidance but has not done so. For example, we recommended that OPM improve FPM guidance to help agencies (1) decide whether to grant higher-than-usual initial salaries to superior job candidates and (2) determine which duties could be considered operational and thus inappropriate for experts and consultants. We also recommended that OPM require agencies to review their appointments as part of their internal personnel management evaluation programs. (GAO/GGD-91-99, see p. 799.)

Affirmative Employment Programs

Because underrepresentation remains widespread in the federal government, we have made several recommendations to improve affirmative employment programs. For example, we recommended that the Department of Justice (DOJ) increase the accountability of appropriate Senior Executive Service (SES) members to accomplish affirmative employment plan goals. We further recommended that the Equal Employment Opportunity Commission (EEOC) strengthen the emphasis on improving minority and female representation in upper grade levels. (GAO/GGD-91-8, see p. 791, and GAO/GGD-91-86, see p. 793.)

DOJ agreed to review SES workplans to ensure that viable performance standards regarding equal employment opportunity effectiveness are included. A DOJ working group will be assembled to conduct these reviews. Also, the EEOC, in a revised management directive, plans to require more focused and specific data collection from agencies. These actions should be monitored until fully implemented.

Confidential Financial Disclosure Systems

Regulations on confidential disclosure were issued in 1968 and are generally recognized as seriously deficient. Therefore, we recommended that the Office of Government Ethics (OGE) promptly issue regulations establishing a confidential financial disclosure system for the executive branch and require that financial transactions be reported on confidential financial disclosure statements. OGE plans to issue regulations but has not yet done so. (GAO/T-GGD-90-48, see p. 789.)

FEHBP Fraud and Abuse Controls

In our July 1991 report on fraud and abuse controls in FEHBP, we recommended that OPM (1) assess participating plans' internal controls and hold them accountable for correcting weaknesses, (2) increase program oversight, (3) implement an aggressive fraud and abuse prevention program, and (4) use the authority to penalize health care providers who commit fraud or program-related offenses. OPM generally agrees and has identified actions planned or under way to strengthen controls. To effectively implement these actions, however, OPM will need to request and obtain administration and congressional approval of additional resources. (GAO/GGD-91-95, see p. 797.)

Further Actions Needed on Key Open Recommendations

In recent years, both the President and the Congress have acted to improve human resource management in the federal government. Because OPM has a special role in overseeing the management of the federal work force, we believe that the Congress needs to hold OPM more accountable for meeting legislative goals and for establishing a clear record of OPM's plans, programs, and results. The Congress could require that OPM provide an annual assessment of the state of the federal work force and a detailed discussion of OPM's activities in critical areas.

**Products With Open
Recommendations: Workforce
Quality**

Product Title		
Senior Executive Service: Reasons the Candidate Development Program Has Not Produced More SES Appointees (GGD-88-47)		784
Whistleblowers: Management of the Program to Protect Trucking Company Employees Against Reprisal (GGD-88-123)		784
Ethics: Office of Government Ethics' Policy Development Role (GGD-89-3)		785
Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GGD-89-19)		786
Intergovernmental Personnel Act of 1970: Intergovernmental Purpose No Longer Emphasized (GGD-89-95)		786
Federal Workforce: Federal Suggestion Programs Could Be Enhanced (GGD-89-71)		787
Office of Personnel Management: Better Performance Information Needed (GGD-90-44)		788
Retirement System: Concerns About OPM's FERS Automated Processing System Procurement (IMTEC-90-45)		788
Office of Government Ethics' Oversight Role (T-GGD-90-48)		789
Financial Disclosure: USDA's Systems Limited by Insufficient Top Management Support (GGD-90-100)		789
Federal Recruiting and Hiring: Making Government Jobs Attractive to Prospective Employees (GGD-90-105)		790
Federal Workforce: Selected Sites Cannot Show Fair and Open Competition for Temporary Jobs (GGD-90-106)		791
EEO at Justice: Progress Made but Underrepresentation Remains Widespread (GGD-91-8)		791
Performance Management: How Well Is the Government Dealing With Poor Performers? (GGD-91-7)		792
Employee Financial Disclosure: CFTC System Affords Reasonable Protection Against Conflicts of Interest (GGD-91-3)		793
Federal Affirmative Action: Better EEOC Guidance and Agency Analysis of Underrepresentation Needed (GGD-91-86)		793
Labor-Management Relations: Construction Agreement at DOE's Idaho Laboratory Needs Reassessing (GGD-91-80BR)		795

Government Shutdown: Permanent Funding Lapse Legislation Needed (GGD-91-76)	795
Federal Lobbying: Federal Regulation of Lobbying Act of 1946 Is Ineffective (T-GGD-91-56)	796
Fraud and Abuse: Stronger Controls Needed in Federal Employees Health Benefits Program (GGD-91-95)	797
Federal Workforce: Inappropriate Use of Experts and Consultants at Selected Civilian Agencies (GGD-91-99)	799
Federal Labor Relations: A Program in Need of Reform (GGD-91-101)	800
Merit Systems Protection Board: Time-And-Attendance and Personnel Practices Need Attention (GGD-91-104)	801
Resolution Trust Corporation: Progress Under Way in Minority and Women Outreach Program for Outside Counsel (GGD-91-121)	802

Related Products With Open Recommendations Under Other Issue Areas

Product Title		
Experts and Consultants: Weaknesses in Hiring Process at State's Office of Inspector General (GGD-91-60)	157	
State Department: Minorities and Women Are Underrepresented in the Foreign Service (NSIAD-89-146)	181	
U.S. Department of Agriculture: Need for Improved Workforce Planning (RCED-90-97)	374	
FAA Staffing: Improvements Needed in Estimating Air Traffic Controller Requirements (RCED-88-106)	436	
Drug Testing: Management Problems and Legal Challenges Facing DOT's Industry Programs (RCED-90-31)	442	
Coast Guard: Magnitude of Alcohol Problems and Related Maritime Accidents Unknown (RCED-90-150)	448	
Coast Guard Acquisitions: Formal Criteria Needed to Ensure Project Manager Qualifications (RCED-90-178)	453	
FAA Staffing: New Pay Act Offers Options to Bolster Maintenance Work Force (RCED-91-92)	470	
Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain Eligible Workers Vary (HRD-91-33)	507	

Workforce Quality

Failed Thrifts: Better Controls Needed Over Furniture, Fixtures, and Equipment (GGD-90-87)	686
Tax Administration: Need for More Management Attention to IRS' College Recruitment Program (GGD-90-32)	749
Tax Administration: Better Training Needed for IRS' New Telephone Assistors (GGD-91-83)	767
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Senior Executive Service: Reasons the Candidate Development Program Has Not Produced More SES Appointees

GGD-88-47, 04/20/88 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO examined why federal agencies did not more frequently use the Office of Personnel Management's (OPM) Candidate Development Program (CDP) when making Senior Executive Service (SES) appointments, focusing on the: (1) Environmental Protection Agency (EPA); (2) Department of Health and Human Services; (3) Department of Agriculture (USDA); (4) Department of the Interior; (5) Office of the Secretary of Defense; and (6) Veterans Administration.

Findings

GAO found that: (1) during fiscal years 1982 through 1986, certified CDP candidates received 141, or 15 percent, of the agencies' 956 career SES

appointments; (2) agency officials who selected CDP candidates emphasized general management background, while officials who made SES appointments typically selected non-CDP candidates who had technical proficiency and agency experience; and (3) the conflict between CDP candidate selection and SES appointment practices lowered the program's credibility to both potential candidates and management. GAO also found that a lack of OPM guidance and agency commitment prevented agencies from: (1) envisioning CDP as a major source for SES appointments; or (2) taking advantage of the expedited SES appointment process for certified CDP candidates. In addition, GAO found that USDA, Interior, and EPA plan to make greater use of CDP as a source for SES appointments through changing the candidate selection process and

justifying non-CDP-candidate SES appointments. GAO believes that agency management views significantly influenced use of and reliance on CDP for SES appointments.

Open Recommendations to Agencies

Recommendation: To better achieve OPM expectations for CDP, the Director, OPM, should determine what actions OPM could take to enhance the use of CDP. This could be done by OPM in conjunction with other federal agencies or by the SES advisory board as part of its examination of SES-related policies. **Status:** Action in process. Final recommendations on CDP were developed, but the OPM Director has not yet acted on the recommendations.

Whistleblowers: Management of the Program to Protect Trucking Company Employees Against Reprisal

GGD-88-123, 09/22/88 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed the Occupational Safety and Health Administration's (OSHA) management of the Whistleblower Protection Program for trucking company employees who allege safety violations by employers.

Findings

GAO found that OSHA: (1) has not devoted enough management attention to the Whistleblower Protection Program; (2) did not fully comply with the statutory requirement that it investigate and issue findings on whistleblower complaints within 60 days;

(3) inadequately publicized the program; and (4) plans to have a new management information system in operation by January 1989, which will provide direct access to data maintained in OSHA regional offices. GAO also found that the Department of Transportation's (DOT) Office of Motor Carriers (OMC) and

OSHA did not have procedures to provide OMC with information from complaints alleging motor carrier safety violations.

Open Recommendations to Agencies

Recommendation: The Secretary of Labor should direct the Assistant Secretary for Occupational Safety and Health to ensure that the management information system (MIS) being

developed will provide accurate and up-to-date information on the current status of Section 405 cases.

Status: Action in process. The redesign of MIS has been delayed. OSHA has been delegated additional whistleblower protection responsibility under two statutes and may be delegated more.

Ethics: Office of Government Ethics' Policy Development Role

GGD-89-3, 10/05/88 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

In response to a congressional request, GAO reviewed the Office of Government Ethics' (OGE) operations to determine whether OGE was carrying out its role and responsibilities under the Ethics in Government Act.

conflict-of-interest statutes to provide for a range of civil and criminal sanctions for statute violations; and (4) issued many informal opinions interpreting the conflict-of-interest laws, but had not issued final regulations or made its informal opinions more useful for agency ethics officials.

opinions may be sought from OGE and the extent to which they can be relied upon by the individual involved and others; and (3) work with the Department of Justice to complete a comprehensive evaluation of the conflict-of-interest laws and, as appropriate, recommend amendments.

Findings

GAO found that OGE: (1) made significant progress in implementing the act, especially in providing training and counseling services, assessing agency ethics programs, and reviewing financial disclosure reporting; (2) had not issued regulations prescribing a confidential financial reporting system for executive branch employees; (3) did not evaluate

Open Recommendations to Agencies

Recommendation: To provide agency ethics officials with needed policy guidance, OGE should: (1) issue final regulations establishing a confidential financial disclosure system; (2) provide informal opinions to agency ethics officials in a form to facilitate their use, including guidance on how informal

Status: Action in process. OGE expects to issue final regulations establishing a system of confidential financial disclosure for the executive branch. OGE has formalized its opinions interpreting ethics laws. The recommendation concerning conflict-of-interest laws and amendments is no longer applicable because the Ethics Reform Act of 1989 made significant changes that addressed the GAO recommendations.

Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges

GGD-89-19, 01/19/89 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

GAO conducted a general management review of the Office of Personnel Management (OPM), focusing on its leadership role in addressing governmentwide human resource problems.

Findings

GAO found that: (1) the federal government has difficulty hiring, managing, and retaining quality staff; (2) such factors as lack of comparable pay with the private sector, a widespread negative image of federal service, and short-term budget cuts have been cited as limiting the government's ability to hire and retain quality personnel; (3) OPM has not developed a systematic planning effort to identify and resolve current and future human resource problems governmentwide; (4) OPM has not established a data base to measure the quality of the federal work force and has approved only four research and

demonstration projects in 10 years; and (5) OPM has not provided agencies with work-force planning guidelines to properly identify governmentwide staffing needs. GAO believes that OPM needs to: (1) develop a program to continually assess its hiring efforts; (2) assist other agencies in their efforts to improve performance management and productivity; (3) reinforce its oversight and evaluation efforts; and (4) resolve internal management morale and communications problems.

Open Recommendations to Agencies

Recommendation: In order to improve agency internal evaluation programs, the Director, OPM, should assess the standards for evaluation systems and make changes where needed.

Status: Action in process. The OPM task force to study personnel management evaluation systems has completed its work and OPM formed an interagency

work group specifically to address standards of adequacy for agency personnel management evaluation programs and training for agency evaluators. Agency personnel management evaluation program guidelines will be issued soon.

Recommendation: In order to improve agency internal evaluation programs, the Director, OPM, should develop qualifications for evaluators and assess the training available to them.

Status: Action in process. OPM convened an interagency task force on agency internal evaluation programs to pursue the qualifications and training questions, among other issues. Pursuant to the task force recommendations, OPM formed an agency work group to focus specifically on standards of adequacy and training for evaluators. OPM is in the process of revising its program guidelines and assessing evaluator qualifications.

Intergovernmental Personnel Act of 1970: Intergovernmental Purpose No Longer Emphasized

GGD-89-95, 06/19/89 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed the Intergovernmental Personnel Act (IPA) mobility program, focusing on: (1) changes to the program;

(2) the extent and nature of the program's use; (3) program cost; (4) agreement purposes and benefits; and (5) Office of Personnel Management (OPM) guidance and oversight.

Findings

GAO found that: (1) 36 federal agencies made a total of 3,996 assignment agreements with nonfederal organizations from fiscal years 1984

through 1988; (2) although the program's original purpose was to improve federal-state-local government cooperation by strengthening state and local governments' personnel capabilities, federal agencies have made most of their mobility assignments with colleges and universities in order to bring personnel with higher education into the federal government; (3) 96 percent of the federal and nonfederal employees assigned to the program were on detail; (4) federal agencies were the principal beneficiaries of mobility assignments and paid most of the assignment costs; (5) OPM has exercised minimal guidance and

oversight over the program since 1982 and does not always obtain timely corrections of improper agreements; (6) OPM was not required to report to Congress on the program; and (7) agencies did not always require employees detailed to federal agencies to file financial disclosure reports for use in identifying and resolving any apparent conflicts of interest.

Open Recommendations to Agencies

Recommendation: To ensure effective use of the resources OPM has already

committed to the mobility program, the Director, OPM, should specify the circumstances in which nonfederal employees on detail to federal agencies should file financial disclosure reports. **Status:** Action in process. According to the OPM September 20, 1991 response, OPM has discussed with the Office of Government Ethics (OGE) the circumstances in which non-federal employees on detail to federal agencies should file financial disclosure reports. OGE plans to issue new disclosure regulations.

Federal Workforce: Federal Suggestion Programs Could Be Enhanced

GGD-89-71, 08/23/89 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO provided information on private firms' and federal agencies' employee suggestion programs, focusing on the program characteristics which contributed to high employee participation and savings.

Findings

GAO found that National Association of Suggestion Systems (NASS) data, input from federal program managers, and a Merit Systems Protection Board study revealed that: (1) successful employee suggestion programs included such key factors as management support, continuous publicity, adequate funding and staffing, monetary awards, and responsiveness to suggesters; (2) federal and private programs varied in the

extent to which they had those success factors; (3) slow processing of suggestions and unresponsive replies were the most significant disincentives to employee participation; (4) 11 of the 23 largest federal agencies with suggestion programs had automated suggestion systems; (5) in 1987 and 1988, the Office of Personnel Management (OPM) issued guidance to agencies on using computers to improve their suggestion programs, as well as guidance on program evaluation, planning, and administration; (6) during 1987, the private sector generated about 30 suggestions and realized savings of about \$50,000 per 100 eligible employees, while federal programs generated 3.9 suggestions and realized savings of about \$11,000 per 100 employees; (7) firms generally granted tangible awards as a fixed percentage of realized savings, at an average of \$5,000 per 100 employees

in 1987, while federal agencies used a sliding-scale formula to grant awards, at an average of \$235 per 100 employees; and (8) federal agencies and firms calculated intangible awards similarly.

Open Recommendations to Agencies

Recommendation: To motivate federal employees to participate more actively, the Director, OPM, should adopt a fixed-percentage formula for tangible benefit awards of not less than 10 percent, which as shown by NASS data is the typical industry practice. OPM and other agencies should be aware that the potential benefits of this change may not be realized unless the other key factors in a successful program are also emphasized.

Status: Action in process. OPM has drafted new Federal Personnel Manual guidelines for agencies' incentive awards

programs which are expected to be issued in the first quarter of fiscal year 1992. Last session, the House passed

legislation incorporating the recommendation.

Office of Personnel Management: Better Performance Information Needed

GGD-90-44, 02/07/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

GAO assessed the Office of Personnel Management's (OPM) use of performance measures and standards to manage its service delivery to individuals seeking federal employment and federal employees, retirees, and dependents.

standards for efficiency or customer satisfaction; (4) had no measure or standards for health benefits claims processing; (5) did not routinely and systematically track performance in key areas; (6) did not ensure that adequate performance information reached top management; and (7) did not hold Senior Executive Service managers accountable for meeting performance goals.

approach would require developing a flexible performance reporting system for the directorate level that will highlight areas needing attention. Such a reporting system should ensure that the director is routinely made aware of performance in all areas of importance to good management of operations and customer service. Further, the reporting system need not report all performance dimensions of all key services on a frequent basis, but should be tailored to the current needs of top management at any point in time.

Findings

GAO found that OPM: (1) used both qualitative and quantitative performance measures and standards; (2) had not identified all performance measures suggested by the Federal Productivity and Quality Improvement Program; (3) had not established a full range of performance measures and

Open Recommendations to Agencies

Recommendation: The Director, OPM, should establish a more comprehensive and strategic approach to the development and use of performance measures and standards. Such an

Status: Action in process. Estimated completion date: 03/92. A proposed reporting system has been designed. OPM hopes to have the system operational in early 1992.

Retirement System: Concerns About OPM's FERS Automated Processing System Procurement

IMTEC-90-45, 04/04/90 GAO Contact: Jack L. Brock, (202)275-3195

Background

Pursuant to a congressional request, GAO reviewed the Office of Personnel Management's (OPM) planned \$54-million procurement for an automated system and computer hardware, focusing on whether: (1) the request for proposals

was unnecessarily restrictive; and (2) OPM received outside assistance in developing its requirements.

Findings

GAO found that: (1) OPM did not unduly restrict the technical specifications; (2)

OPM did not act improperly in obtaining assistance from two outside sources in developing the solicitation; (3) OPM required vendors to meet six experience requirements on a strict basis, which may have restricted competition; and (4) OPM did not adequately evaluate the

effect of those requirements on potential competition.

Open Recommendations to Agencies

Recommendation: If OPM determines that the go/no go experience

requirements unnecessarily restricted competition, the Director, OPM, should ensure that the request for proposals is revised and that the procurement is reinitiated.

Status: Action in process. OPM reissued the Federal Employees Retirement System procurement, using revised

evaluation criteria, in May 1991. The final award is expected in late fiscal year 1992.

Office of Government Ethics' Oversight Role

T-GGD-90-48, 06/05/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

GAO discussed its review of the Office of Government Ethics' (OGE) oversight of agency ethics programs, focusing on recommendations OGE made to the Departments of Agriculture (USDA), State, and Housing and Urban Development (HUD). GAO found that: (1) OGE staff limitations prevented agency audits every 3 years; (2) OGE recommendations had not been accepted and implemented until 1988 or 1989,

when State and HUD committed additional staff to their programs, and in 1990, when USDA committed more staff; (3) OGE issued regulations to strengthen its oversight capability; and (4) many OGE recommendations went unaddressed because OGE failed to follow up on them.

Open Recommendations to Agencies

Recommendation: To strengthen the OGE oversight and enforcement program, the Director, OGE, should promptly issue regulations on confidential financial disclosure.

Status: Action in process. Regulations are being reviewed by the Office of Personnel Management and the Department of Justice before issuance by OGE.

Financial Disclosure: USDA's Systems Limited by Insufficient Top Management Support

GGD-90-100, 07/13/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO evaluated the Department of Agriculture's (USDA) financial disclosure systems to determine how USDA used those systems to detect and resolve potential conflicts between employees' outside financial interests and their official duties.

Findings

GAO found that: (1) the USDA financial disclosure system did not ensure that conflicts of interest would be detected and resolved; (2) USDA did not obtain confidential disclosure reports from employees in certain positions, since it believed that the positions did not pose significant risks; (3) USDA did not have procedures to ensure that all disclosure reports were filed and reviewed; (4)

USDA did not follow procedures to ensure that employees timely filed public and confidential disclosure reports; (5) USDA reviewers did not follow a systematic approach in identifying and resolving conflicts of interest; (6) USDA reviewers did not regularly receive internal management reports on the operation and the effectiveness of the ethics program; and

(7) USDA lacked adequate criteria for reviewing disclosure reports.

Open Recommendations to Agencies

Recommendation: To correct specific weaknesses in the systems, the Secretary of Agriculture should direct the designated agency ethics official (DAEO) to implement review guidance, such as that contained in the USDA Ethics Handbook, to ensure that thorough reviews of public and confidential disclosure reports are made and all

conflicts of interest indicated in reports are identified and fully resolved.

Status: Action in process. Estimated completion date: 12/92. The Ethics Handbook has been partially revised and, on March 21, 1991, USDA conducted training for financial disclosure report reviewers based on the Handbook and changes to it. Ultimate revision is planned for December 1992, pending issuance of OGE regulations.

Recommendation: To correct specific weaknesses in the systems, the Secretary of Agriculture should direct DAEO to require that management reports and

audits provide information that is useful to top management in evaluating such things as whether required reports were filed and reviewed on time and whether the reviews provide an adequate basis for detecting and resolving conflicts of interest in a timely manner.

Status: Action in process. The USDA Office of Personnel has been giving periodic reports to the Assistant Secretary for Administration on the status of the ethics program elements. The final form on which to give written reports to the Assistant Secretary will be completed, pending OGE requirements for information, by late 1991.

Federal Recruiting and Hiring: Making Government Jobs Attractive to Prospective Employees

GGD-90-105, 08/22/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed the: (1) major problems that federal agencies were having in recruiting and hiring qualified entry-level employees; and (2) effectiveness of Office of Personnel Management (OPM) and federal agency actions in addressing those problems.

Findings

GAO found that: (1) noncompetitive starting pay, ranging from 4 to 49 percent behind private-sector salaries, resulted in difficulty in recruiting high-quality applicants; (2) interviewed college students overwhelmingly said that entry-level federal salaries would not meet their financial needs; (3) even with special rates, starting salaries for

hard-to-fill occupations were not competitive with the private sector; (4) lack of flexibility in setting entry-level pay hindered federal competitiveness with the private sector in different geographical areas; (5) agencies viewed the federal government's hiring system as time consuming and unnecessarily complex; (6) a lack of documentation made it difficult to determine the timeliness of federal hiring methods or the effectiveness of OPM monitoring of agency hiring; (7) agencies' direct-hire procedures did not fully meet merit employment principles; (8) a lack of federal employment information available to college students and a poor image put federal agencies at a recruiting disadvantage; (9) agencies that actively recruited attracted sufficient numbers of applicants, although the quality of applicants was a concern; (10)

surveyed students rated personal contacts as the most effective recruiting technique; and (11) agency recruiters had little knowledge of OPM recruiting initiatives.

Open Recommendations to Agencies

Recommendation: The Director, OPM, should determine why information it provides to agencies is not being communicated to recruiters by the agencies, and in cooperation with the agencies, establish a recruiters' network to better communicate with and receive feedback from agency recruiters on OPM recruiting initiatives and policies. **Status:** Action in process. OPM is designing a recruiters' networking program.

Federal Workforce: Selected Sites Cannot Show Fair and Open Competition for Temporary Jobs

GGD-90-106, 09/05/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed six federal agencies' use of their authority to hire temporary employees without the Office of Personnel Management's (OPM) approval, to determine whether: (1) selected agencies complied with merit selection requirements; and (2) those agencies made temporary appointments for appropriate reasons.

Findings

GAO found that: (1) 11 agency installations reported that they complied with merit principles when making temporary appointments, but did not maintain sufficient documentation to assess their compliance; (2) the lack of documentation made it difficult to assess whether agencies ensured fair and equal consideration of all qualified and

interested job candidates; (3) OPM documentation requirements were not clearly stated and agencies lacked written procedures for describing the reasons for making temporary appointments; (4) of the 130 temporary appointments reviewed, 97 appeared to be appropriate for hiring temporary employees; (5) agencies made 25 percent of the reviewed appointments to fill permanent needs, which appeared to be inappropriate and could have violated the merit principle of fair and open competition; and (6) some agencies were not making the internal reviews required by OPM for temporary appointment authority.

Open Recommendations to Agencies

Recommendation: To better ensure that agencies comply with temporary

appointment statutes and OPM instructions, the Director, OPM, should revise Federal Personnel Manual (FPM) instructions to specify that agencies must maintain documentation to show that vacancy announcements were sent to OPM and state job service offices.

Status: Action in process. OPM is revising FPM to instruct agencies what documents must be maintained to demonstrate that vacancy announcements were sent to OPM and state job service offices. The additional FPM guidance will be issued once regulations on temporary appointments outside the register are adopted. Proposed regulations were published for the 60-day comment period in early August, 1991.

EEO at Justice: Progress Made but Underrepresentation Remains Widespread

GGD-91-8, 10/02/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed the affirmative action program at the Department of Justice (DOJ), focusing on: (1) whether DOJ had the data necessary to evaluate the success of its efforts to recruit, hire, and promote minorities and women; and (2)

the success of DOJ efforts where evaluation data existed.

Findings

GAO noted that, pursuant to a congressional agreement, it excluded the Federal Bureau of Investigation from the review. GAO found that: (1) DOJ had

data on its efforts to hire and promote minorities and females, but with the exception of one key job, it did not have recruitment data; (2) although DOJ acknowledged the need for recruitment data, it failed to aggressively collect such data; (3) DOJ submitted late and incomplete affirmative employment plans to the Equal Employment

Opportunity Commission (EEOC); (4) between 1982 and 1988, minority and female representation increased for 40 of the 50 professional, administrative, technical, clerical, and other categories, and 46 of the 60 key job categories, but underrepresentation remained widespread; (5) as of December 1988, underrepresentation existed in 21 of the 50 professional, administrative, technical, clerical, and other categories and 33 of the 60 key job categories; (6) equal employment opportunity (EEO) representation at DOJ was less than half of EEO representation in the civilian labor force; (7) females across all race and ethnic groups did not achieve full representation in upper grade levels, and minority men's representation at those levels was uneven; (8) DOJ compared more favorably to other cabinet agencies

in the administrative category than in the professional category; (9) specific accountability at DOJ for EEO matters appeared to be lacking; (10) DOJ agreed that using long-term trend data and analyses on a more comprehensive and systematic basis could enable it to better identify or forecast potential problem areas; and (11) DOJ viewed numerical goals as quotas.

Open Recommendations to Agencies

Recommendation: The Attorney General should strengthen management of the DOJ affirmative action program by expanding data collection and analysis efforts to include recruitment data and the systematic use of long-term trend data and analysis.

Status: Action in process. While department officials generally agree in principle with this recommendation, they are trying to determine what data elements they want captured and then will incorporate this into their automated systems.

Recommendation: The Attorney General should strengthen management of the DOJ affirmative action program by increasing the EEO accountability of appropriate Senior Executive Service (SES) members by including in their performance work plans the responsibility for setting ambitious goals and taking the vigorous actions needed to achieve affirmative employment plan goals, both numerical and narrative.

Status: Action not yet initiated.

Performance Management: How Well Is the Government Dealing With Poor Performers?

GGD-91-7, 10/02/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed how the federal government identified and dealt with employees whose performance was less than fully successful.

Findings

GAO found that: (1) federal agencies rated 5.7 percent of the estimated 1.57 million federal employees as poor performers; (2) 62 to 70 percent of the poor performers either improved their performance to fully successful, voluntarily agreed to vacate their positions, or had performance actions proposed against them; (3) 76 percent of supervisors indicated a willingness to

deal with poor performers; (4) supervisors experienced problems in dealing with General Schedule (GS) and Wage Grade (WG) poor performers because they were limited by law in the actions they could take to deal with those individuals; (5) government procedures for handling poor performers were generally similar to those in nonfederal organizations, although several nonfederal organizations provided more supervisory options; (6) 11 percent of supervisors were not identifying poor performers and 8 percent of supervisors with poor performers did not assist them; (7) approximately half of the supervisors experienced difficulty in implementing the process for dealing with poor

performers; (8) those supervisors who did not identify poor performers believed that the process was too time-consuming, wanted to avoid confrontation, or believed that management support was lacking; (9) due to the subjective nature of identifying and dealing with poor performers, the current legislative and regulatory framework for dealing with poor performers placed heavy emphasis on protecting employees against unfair treatment; and (10) supervisors needed training and technical assistance to assist them in identifying and dealing with poor performers.

Open Recommendations to Congress

Recommendation: Congress should consider ways to ease the difficulties

supervisors encounter when dealing with GS and WG employees who have performed at the minimally successful level for lengthy periods. A number of options were provided.

Congressional Action: Several task forces are considering linking pay to performance along with other pay issues. In light of this activity, Congress may consider action in the future.

Employee Financial Disclosure: CFTC System Affords Reasonable Protection Against Conflicts of Interest

GGD-91-3, 11/07/90 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO evaluated the Commodity Futures Trading Commission's (CFTC) employee financial disclosure system to determine whether it reasonably ensured prevention, detection, and resolution of conflicts between its employees' duties and their outside interests.

Findings

GAO found that CFTC: (1) restricted employees' outside financial activities; (2) required employees to annually file financial disclosure reports or certifications of compliance indicating a lack of conflicts of interest; (3) required 349 of its 558 employees to file reports or certifications in 1989; (4) took follow-up

steps to obtain 11 late reports from employees; (5) included steps in its review of reports to detect errors and conflicts of interest; (6) did not always timely review reports or make conflict-of-interest decisions; (7) did not require such additional information as financial transactions and value of outside interests in confidential disclosure reports; and (8) implemented most of the Office of Government Ethics' 1986 recommendations.

Open Recommendations to Agencies

Recommendation: To further reduce the risk of conflicts of interest and improve the CFTC disclosure system, the Chairman, CFTC, should direct the designated agency ethics official (DAEO)

to require employees to include information on their financial transactions that occur during the year in their confidential reports.
Status: Action not yet initiated.

Recommendation: To further reduce the risk of conflicts of interest and improve the CFTC disclosure system, the Chairman, CFTC, should direct DAEO to establish a program of regular ethics training for all CFTC employees.
Status: Action in process. CFTC recently sent out annual reminders on reporting outside employment. It also published an advisory memorandum dealing with speeches and honors.

Federal Affirmative Action: Better EEOC Guidance and Agency Analysis of Underrepresentation Needed

GGD-91-86, 05/10/91 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed the federal affirmative

employment program, focusing on: (1) the Equal Employment Opportunity Commission's (EEOC) major work-force

data requirements for agency multiyear affirmative employment plans; and (2) agency compliance with requirements.

Findings

GAO found that: (1) 27 of the 35 agencies, employing 98 percent of the federal work force, complied with the EEOC requirement to identify major occupations in their multiyear affirmative employment plans, but the criteria for selecting those occupations varied; (2) although EEOC required each agency to submit summary analyses by grade groupings for its total work force, it did not require data or analysis of major occupations by grade level and, as a result, agencies did not identify and address representation disparities that existed between upper and lower grades of major occupations; (3) EEOC approved 17 agency plans that did not include the required work-force analysis of major occupations, in an attempt to prevent further delays of otherwise appropriate affirmative employment plans; (4) agencies cited personnel changes in agency equal employment opportunity (EEO) offices and the inaccessibility of EEO data as the main reasons for late submissions of plans; (5) although the 18 agencies that complied with EEOC major occupation reporting requirements provided actual work-force numbers or percentages of employees in their major occupations, additional analyses of data could help to develop representation indexes and estimates of the number of individuals needed to attain full representation in major occupations; (6) major occupation data by grade level was needed to identify and to help eliminate those barriers that prevented the upward movement of individuals within major occupations; and (7) the compilation of representative information by common occupations could facilitate EEO information sharing among agencies.

Open Recommendations to Agencies

Recommendation: EEOC should strengthen the emphasis of the federal affirmative employment program on improving minority and female representation in upper grade levels by including in its revised directive better guidance on what constitutes a major occupation.

Status: Action in process. EEOC has included in its revised directive a better definition of what constitutes “major occupation”. EEOC expects to implement the new directive next year, in time for submission of the next set of affirmative employment plans.

Recommendation: EEOC should strengthen the emphasis of the federal affirmative employment program on improving minority and female representation in upper grade levels by expanding agency data collection and analysis requirements to include major occupation work-force data by grade level or grade groupings and the systematic use of representation indexes to analyze work-force data and estimate the number of people needed to attain full representation.

Status: Action in process. EEOC, in its new management directive, is planning to require more specific grade-level data and focused data collection. EEOC is reluctant to implement a systematic use of representation indexes because it believes that these indexes may be interpreted as a hiring quota.

Recommendation: EEOC should strengthen the emphasis of the federal affirmative employment program on improving minority and female representation in upper grade levels by

withholding plan approval until all required data and analyses are included. **Status:** Action in process. EEOC has stated that it no longer will approve plans lacking the required data and analyses. Moreover, the agency is developing internal procedures to ensure that all required data are submitted before plan approvals are given.

Recommendation: EEOC should strengthen the emphasis of the federal affirmative employment program on improving minority and female representation in upper grade levels by analyzing the time agencies took to prepare and EEOC to approve affirmative employment plans, develop standards for completing these processes, and hold agencies and EEO officials accountable for meeting the standards. **Status:** Action in process. EEOC has begun sending letters to agencies that have failed to meet reporting deadlines. They are currently reviewing plan submissions and developing specific standards for review and approval of future submissions.

Recommendation: EEOC should strengthen the emphasis of the federal affirmative employment program on improving minority and female representation in upper grade levels by: (1) compiling major occupation work-force data by agency; (2) identifying agencies with full EEO representations and successful affirmative employment strategies; and (3) sharing this information with other agencies with common occupations.

Status: Action in process. EEOC is in the process of improving its data collection procedures to make the information it gathers more useful in implementing affirmative employment.

Labor-Management Relations: Construction Agreement at DOE's Idaho Laboratory Needs Reassessing

GGD-91-80BR, 05/23/91 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed a site stabilization agreement between a labor union and organizations within the Department of Energy's (DOE) Idaho National Engineering Laboratory (INEL), focusing on whether: (1) nonunion contractors had access to DOE Idaho Operations Office (DOE-ID) construction contracts; (2) the agreement's wage rates were higher than typical rates; and (3) the requirements that nonunion contractors use union hiring halls resulted in double benefit payments.

Findings

GAO found that: (1) bidding policies and procedures for DOE-ID construction

contracts showed that any contractor could submit bids on INEL construction projects, but was required to sign the agreement if awarded a contract; (2) from October 1, 1986, through December 31, 1990, nonunion contractors successfully bid on 86 of the 286 DOE-ID contracts awarded, receiving 8 percent of the total value of the contracts; (3) 8 of 11 nonunion contractors would not bid on DOE work because they did not want to sign the agreement; (4) the composite wage rate under the agreement was 17 percent higher than the same rate under the Davis-Bacon Act, largely due to a commuting allowance for construction workers; (5) nonunion contractors disliked the provision requiring them to hire new or replacement workers through union hiring halls, since it

caused the break-up of regular work crews; and (6) the agreement could require nonunion contractors to pay twice for health and pension benefits for their permanent workers, once through their own plan and once through the union's plan.

Open Recommendations to Agencies

Recommendation: The Secretary of Energy should determine whether provisions in the agreement, as discussed in this report, remain desirable from a public policy perspective.

Status: Action not yet initiated.

Government Shutdown: Permanent Funding Lapse Legislation Needed

GGD-91-76, 06/06/91 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reported on the: (1) results of a questionnaire sent to government agencies in October 1990 on effects of a partial shutdown of the government over the Columbus Day weekend; and (2) potential effects of any future shutdowns.

Findings

GAO found that: (1) to avoid obligations of funds during a lapse in appropriations, the Office of Management and Budget (OMB) directed agencies to close down operations; (2) 6 of 22 agencies surveyed estimated that they authorized approximately \$843,000 in compensation to employees who were regularly scheduled to work; (3) 7 of 22 agencies surveyed reported that the

shutdown costs totalled approximately \$3.4 million due to lost revenue, administrative costs for shutdown plans, compensation for time employees did not work, and salaries of nonessential employees for time spent devoted to the termination of operations; (4) the agencies reported that, had the government shut down for a comparable 3-day period during a normal work week, the costs and disruptions would have been much more severe; (5)

legislation providing agencies with authority to obligate funds during a lapse in appropriations would have prevented disruptions in government services; (6) shutting down the government during temporary funding gaps was an inappropriate way to encourage compromise on the budget; (7) the shutdown did not convey an image of a well-managed government to the public; (8) forcing agency managers to choose who would be furloughed during temporary funding lapses severely tested management's ability to treat employees fairly; and (9) the shutdown disrupted government services and was counterproductive from a financial standpoint.

Open Recommendations to Congress

Recommendation: Congress should enact permanent legislation that authorizes agencies to incur obligations, but not expend funds, when agency appropriations expire. The only exception Congress should grant is when program authorization has expired or Congress has expressly stated that a program should be suspended during a funding hiatus pending further legislative action.

Status: Action in process.

Recommendation: Congress should, at a minimum, enact permanent legislation to allow agencies to incur obligations to compensate employees during temporary funding lapses but not pay them until an appropriation bill is passed.

Status: Action in process.

Congressional Action: In a June 1991 letter to the President on the recommendations, the Chairman, House Subcommittee on Civil Service, Committee on Post Office and Civil Service, stated that he planned to work with other congressional leaders, as well as the administration, to renew the public's confidence in the functioning of government by developing a bipartisan plan to implement the recommendations. The Chairman first wanted to hear from all sides of the issue. Representative George Gekas had requested sufficient copies of the report to send to each member of the House to highlight the need for congressional action. The Chairman, Subcommittee on Civil Service, is considering holding hearings.

Federal Lobbying: Federal Regulation of Lobbying Act of 1946 Is Ineffective

T-GGD-91-56, 07/16/91 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

GAO discussed the Federal Regulation of Lobbying Act, to determine: (1) the amount of receipts and expenditures reported by lobbyists; (2) whether lobbyists filed timely and complete reports; (3) whether people involved in lobbying were registering and reporting as required by the act; and (4) if additional measures could improve compliance with and administration of the act. GAO noted that: (1) 6,000 lobbyists reported total receipts of \$233.8 million and total expenses of \$76.2 million in 1989; (2) in 1989, lobbyists submitted 62 percent of the 32,009 quarterly reports late; (3) 85 percent of a random sample of initial registrations

and 94 percent of quarterly reports were incomplete; (4) about 9,800 individuals and organizations involved in lobbying were not registered as lobbyists; (5) the lobby report form and some of its instructions were confusing and ambiguous; (6) in 16 of the 22 various receipt and expenditure categories listed on quarterly report forms, lobbyists often reported receiving or spending nothing; and (7) since there was no audit or examination of filers' records, there was uncertainty on whether the information reported was accurate.

Open Recommendations to Congress

Recommendation: If the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, wants to achieve fuller disclosure of lobbying activities, it should clarify and expand the definition of lobbying, addressing both the determination of whether a person is principally engaged in lobbying and the narrow interpretation given lobbying by the Supreme Court.

Status: Action not yet initiated.

Recommendation: If the Subcommittee on Oversight of Government

Management, Senate Committee on Governmental Affairs, wants to achieve fuller disclosure of lobbying activities, it should authorize the Clerk of the House and the Secretary of the Senate to examine and informally resolve apparent violations, require a copy of written contracts between lobbyists and their clients, examine lobbyists' records on a random basis, and promulgate regulations. If these functions are inappropriate for the Clerk of the House or Secretary of the Senate, then perhaps administration of the act should reside in the executive branch.
Status: Action not yet initiated.

Recommendation: If the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, wants to achieve

fuller disclosure of lobbying activities, it should provide civil penalties for late or incomplete filings and nonfiling.
Status: Action not yet initiated.

Recommendation: If the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, wants to achieve fuller disclosure of lobbying activities, it should direct the Clerk of the House and the Secretary of the Senate to provide assistance and guidance to both current and prospective lobbyists on meeting disclosure requirements, including filing complete and timely registrations and reports.
Status: Action not yet initiated.

Recommendation: To improve the administration of the Federal Regulation

of Lobbying Act, the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, should work with the Clerk of the House and the Secretary of the Senate to clarify reporting instructions and simplify the reporting form.
Status: Action not yet initiated.

Recommendation: To improve the administration of the Federal Regulation of Lobbying Act, the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs, should explore with the Clerk of the House, the Secretary of the Senate, and lobbyists the reasonableness of the 10-day reporting time frame.
Status: Action not yet initiated.

Fraud and Abuse: Stronger Controls Needed in Federal Employees Health Benefits Program

GGD-91-95, 07/16/91 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed the Office of Personnel Management's (OPM) internal controls over the Federal Employees Health Benefits Program, focusing on whether those controls adequately protected funds from fraud and abuse within the context of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Findings

GAO found that: (1) OPM has not fully accomplished the objectives of FMFIA with respect to the health insurance program; (2) the OPM Retirement and Insurance Group (RIG) continues to rely almost entirely on the OPM Inspector

General audit reports to perform the oversight role, although information provided by those audits covered carriers' activities that occurred 5 to 10 years ago; (3) during the past 13 years, misappropriation of funds occurred in 7 of the 25 fee-for-service plans; (4) although regulatory and contractual requirements establish control objectives for the carriers, the activities or procedures for accomplishing the objectives have been left to the discretion of the carriers until abuses are identified through audits or other means; (5) RIG does not conduct adequate program oversight of plan operations to identify internal control deficiencies or hold the carriers accountable for correcting such

deficiencies; (6) RIG did not determine if the carriers timely or effectively corrected the problems identified in audits; (7) RIG did not provide the carriers adequate leadership or direction concerning the pursuit of provider fraud and abuse, and OPM did not implement its authority to administratively penalize fraudulent or abusive providers; (8) health insurance companies claim that the high cost of enrollee and provider fraud has been offset by their antifraud programs; and (9) OPM did not include program control weaknesses in its annual FMFIA reports.

Open Recommendations to Agencies

Recommendation: To achieve the objectives of FMFIA within the Federal Employees Health Benefits Program, the Director, OPM, should require RIG to assess the adequacy and effectiveness of the financial and claims processing controls used within the plans when conducting FMFIA evaluations of the health insurance program. An alternative approach for doing this would be to require the carriers to conduct FMFIA evaluations of their plans' controls and provide the results of their evaluations for RIG review.
Status: Action not yet initiated.

Recommendation: To achieve the objectives of FMFIA within the Federal Employees Health Benefits Program, the Director, OPM, should require RIG to: (1) implement the program analysis and on-site visits RIG identified on December 31, 1989, as the corrective actions needed to address the problem of limited carrier oversight; and (2) further define what the program analysis is to entail and identify the financial and claims processing information it will need from the carriers on an ongoing basis to perform its analyses.
Status: Action not yet initiated.

Recommendation: To achieve the objectives of FMFIA within the Federal Employees Health Benefits Program, the Director, OPM, should require RIG to

make the carriers accountable for implementing Inspector General audit recommendations for correcting internal control deficiencies and ensure that corrective actions taken by the carriers are timely and effective.
Status: Action not yet initiated.

Recommendation: To achieve the objectives of FMFIA within the Federal Employees Health Benefits Program, the Director, OPM, should require RIG to develop and implement an aggressive program for preventing and detecting enrollee and provider fraud and abuse. In developing this program, RIG should determine the minimum claims processing controls that should be contractually required of the carriers. As a basis for making this determination, RIG should evaluate and compare the costs and results of the activities currently performed by the carriers and obtain information on the fraud and abuse prevention and detection activities used in other government and private-sector insurance programs.
Status: Action not yet initiated.

Recommendation: To achieve the objectives of FMFIA within the Federal Employees Health Benefits Program, the Director, OPM, should require RIG to monitor the magnitude of enrollee and provider fraud and abuse in the program and the carriers' efforts to address the problem by, for example, requiring the carriers to submit periodic reports on

the number, type, and disposition of the fraud and abuse cases pursued.
Status: Action not yet initiated.

Recommendation: The Director, OPM, should determine where the responsibilities for implementing the authority to administratively penalize fraudulent and abusive providers should be organizationally placed within OPM, RIG, or the Office of the Inspector General (OIG) and require the responsible organizations to develop an action plan for implementing the authority as soon as possible.
Status: Action taken not fully responsive. Responsibility was assigned to OIG and resource needs were determined, but authority to sanction will not be implemented unless more resources are obtained.

Recommendation: The Director, OPM, should include the weaknesses discussed in this report in the annual FMFIA report to the President and Congress until the above recommendations are implemented.
Status: Action not yet initiated.

Recommendation: The Inspector General, OPM, should identify and implement the actions needed to achieve its goal of a 3- to 5-year audit cycle for the fee-for-service plans.
Status: Action in process. OIG identified resources needed to achieve goals, but the additional resources requested for fiscal year 1992 will not be enough.

Federal Workforce: Inappropriate Use of Experts and Consultants at Selected Civilian Agencies

GGD-91-99, 07/17/91 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed the government's use of experts and consultants, focusing on whether: (1) agencies complied with federal requirements for making expert and consultant appointments; and (2) agencies and the Office of Personnel Management (OPM) adequately monitored the appointments to ensure compliance with applicable requirements.

Findings

GAO found that: (1) 37 of the 106 expert and consultant appointments reviewed were inappropriate, primarily because agencies assigned appointees to positions that involved regular government employees' duties; (2) agency installations often did not follow internal control procedures for ensuring the proper use of experts and consultants because officials were often unaware of such procedures, pressure to fill vacancies, and incomplete forms submitted by appointees; (3) none of the installations complied with all the Federal Personnel Manual (FPM) documentation requirements in making expert and consultant appointments and none of the quarterly reports represented an independent review of the appointees' duties to determine the appropriateness of their work; (4) 2 installations made over half of their 16 appointments with missing or inadequate resumes or standard federal employment application forms; (5) eight of nine agency installations reviewed failed to comply with the FPM

requirement that they annually communicate to their appointing officials relevant information on the proper appointment of experts and consultants; (6) agency personnel offices generally did not review expert and consultant use because they either have no active personnel management evaluation program or lacked the capability to conduct independent appointment evaluations; and (7) current legislation does not explicitly state that agencies must report on the effectiveness of their management controls over expert and consultant appointments, which allows for inappropriate appointments.

Open Recommendations to Congress

Recommendation: To achieve better control over the use of experts and consultants, Congress should amend 5 U.S.C. 3109 to authorize OPM to: (1) develop regulations governing the employment of appointed experts and consultants; (2) take the necessary action, including withdrawal of the authority, to ensure compliance with the law and federal documentation and reporting requirements; and (3) require agencies to comply with any corrective action that OPM directs.

Status: Action not yet initiated.

Recommendation: To achieve better control over the use of experts and consultants, Congress should amend 31 U.S.C. 1114(b) to explicitly state that inspectors general are required to evaluate the progress agencies make in

establishing effective management controls over appointed experts and consultants.

Status: Action not yet initiated.

Open Recommendations to Agencies

Recommendation: To improve compliance with federal requirements governing the expert and consultant appointing authority, the Director, OPM, should revise FPM guidance to: (1) define the meaning of operating duties; (2) give examples of the nonoperating duties experts and consultants can perform; and (3) specify that experts can not do routine and continuous duties that are the responsibility of regular employees.

Status: Action not yet initiated.

Recommendation: To improve compliance with federal requirements governing the expert and consultant appointing authority, the Director, OPM, should issue regulations covering mandatory requirements for the employment of experts and consultants, including a prohibition on the use of experts and consultants to handle staff shortages and to expedite the process of hiring persons to other government positions.

Status: Action not yet initiated.

Recommendation: To improve compliance with federal requirements governing the expert and consultant appointing authority, the Director, OPM, should review, on a regular basis,

agencies' use and documentation of the appointments.

Status: Action not yet initiated.

Recommendation: To improve compliance with federal requirements governing the expert and consultant appointing authority, the Director, OPM, should ensure that personnel officials receive appropriate training on the procedures for making expert and

consultant appointments and that agencies comply with the FPM requirement that agencies annually communicate to the appointing officials key aspects of FPM Chapter 304.

Status: Action not yet initiated.

Recommendation: To improve compliance with federal requirements governing the expert and consultant appointing authority, the Director, OPM,

should require that agencies review the appointments as part of their internal personnel management evaluation program and, if agencies do not have an existing program, OPM should require agencies to develop a plan for establishing a personnel management evaluation program within a specified time frame.

Status: Action not yet initiated.

Federal Labor Relations: A Program in Need of Reform

GGD-91-101, 07/30/91 GAO Contact: Rosslyn S. Kleeman, (202)275-6204

Background

Pursuant to a legislative requirement, GAO reviewed the Federal Labor-Management Relations Program to determine if changes were needed to make it operate more effectively and efficiently.

Findings

GAO found that: (1) 29 of the 30 federal labor-management experts GAO surveyed noted that collective bargaining in the government was too legalistic and adversarial, and too often led to litigation over procedural matters on minor disputes; (2) the experts also noted that some dispute resolution mechanisms were too slow, lengthy, and complex, and that ineffective Federal Labor Relations Authority (FLRA) management has weakened the federal labor-management relations program; (3) over two-thirds of the experts supported an agency shop approach, which requires

employees to pay fees to the unions that represent them even if they do belong to the union; (4) over half of the agency officials opposed any bargaining changes, but all union officials and over 80 percent of neutrals supported increased bargaining rights; (5) over three-fourths of union officials and neutrals believed that labor relations was a low priority for federal agencies and was not well integrated into agency operations, but the majority of agency officials disagreed; (6) agency officials and most neutrals believed unions filed too many unfair labor practice charges over minor issues, but union officials believed that FLRA failed to order strong remedies to deter statute violations by agency officials; (7) agency and union representatives tended to agree with their respective headquarters' program assessments, but they differed widely in their view of how well programs worked at the local level; and (8) over 65 percent of the agency and union respondents

reported that their installations and offices had participated in cooperative labor-management initiatives and most respondents stated that they wanted to be involved in future cooperative efforts.

Open Recommendations to Congress

Recommendation: A panel of national recognized experts in labor-management relations matters and program participants should be established to develop a proposal for comprehensive program reform. As a first step, the Senate Committee on Governmental Affairs and the House Committee on Post Office and Civil Service should hold hearings on the state of the program.

Addressee: Senate Committee on Governmental Affairs

Status: Action not yet initiated.

Addressee: House Committee on Post Office and Civil Service

Status: Action not yet initiated.

Merit Systems Protection Board: Time-And-Attendance and Personnel Practices Need Attention

GGD-91-104, 08/08/91 GAO Contact: Bernard L. Ungar, (202)275-5074

Background

Pursuant to a congressional request, GAO reviewed allegations made against senior officials of the U.S. Merit Systems Protection Board (MSPB), regarding: (1) the time-and-attendance (T&A) practices of the three MSPB Board members and their personal staffs; (2) MSPB detailing of certain Schedule-C appointees and the pay level MSPB set for a Schedule-C appointee during a limited emergency Senior Executive Service (SES) appointment; (3) the role and organizational independence of the MSPB Inspector General (IG) in reviewing MSPB activities; and (4) a racially and sexually discriminatory working environment.

Findings

GAO found that: (1) MSPB Board members are not required to work specific duty schedules or specific hours and can maintain whatever work schedules and office hours they deem appropriate to do their work, but all other MSPB employees must comply with the agency's established T&A procedures and requirements; (2) T&A records showed that Board and Executive Office employees, timekeepers, and supervisors frequently failed to properly prepare and process T&A requirements; (3) MSPB improperly detailed three Schedule-C appointees from the Vice Chairman's office in

November 1990, when their employment should have ended upon that key official's departure; (4) MSPB made three initial SES appointments at a pay level higher than its pay-setting policy authorized; (5) the MSPB IG improperly reported to the Executive Director rather than directly to the Chairman, which violated the GAO standard and an Office of Management and Budget requirement for IG independence; and (6) of 31 current and former MSPB staff interviewed, 9 stated that they were the victims of racial or sexual discrimination or perceived that such discrimination existed at MSPB.

Open Recommendations to Agencies

Recommendation: The Chairman, MSPB, should report as a material internal control weakness, together with proposed or completed corrective actions, the T&A problems discussed above in the MSPB fiscal year 1991 annual Federal Managers' Financial Integrity Act of 1982 (FMFIA) report to the president and Congress and in each succeeding year's annual FMFIA report through the year in which the weaknesses are corrected. Corrective actions should include examining the offices of the Board members and Executive Director in future internal audits of MSPB T&A procedures and internal controls.
Status: Action not yet initiated.

Recommendation: The Director, MSPB, should instruct the MSPB Personnel Director to ensure that Schedule-C appointees employed in MSPB positions requiring a close and confidential working relationship with a key appointed official are not employed or detailed in circumstances where the requisite working relationship no longer exists.

Status: Action not yet initiated.

Recommendation: The Director, MSPB, should retroactively correct the salary rates of the three MSPB employees whose initial SES appointments violated the published MSPB 1985 pay-setting policy to comply with the policy. MSPB should thereafter adjust these employees' post-appointment pay actions to reflect the corrected (initial SES appointment) salary rates and account for the overpayments received by the employees through recovery or waiver request actions as appropriate.

Status: Action not yet initiated.

Recommendation: The Director, MSPB, should complete the planned MSPB internal management review to determine the extent and causes of employees' perceptions of a discriminatory work environment and follow up with any corrective actions needed.

Status: Action in process.

Resolution Trust Corporation: Progress Under Way in Minority and Women Outreach Program for Outside Counsel

GGD-91-121, 08/30/91 GAO Contact: J. William Gadsby, (202)275-8387

Background

Pursuant to a congressional request, GAO reviewed the Resolution Trust Corporation's (RTC) policies and processes for obtaining outside services through contracts and for including minority-owned and women-owned law firms in those opportunities, focusing on: (1) RTC progress in establishing, implementing, and overseeing its minority and women outreach program for outside counsel; (2) program shortcomings that may prevent more referrals to minority-owned and women-owned firms; and (3) actions taken to increase the participation of those firms.

Findings

GAO found that: (1) RTC and Federal Deposit Insurance Corporation (FDIC) officials attributed the slow start in establishing a minority and women outreach program to insufficient staffing; (2) since April 1991, RTC has implemented and expanded a pilot program designed to increase the number of minority-owned and women-owned firms on the national list of counsel utilized (LCU) and conducted several training seminars for outside counsel; (3) the RTC Board of Directors recently approved regulations for including minority-owned and women-owned firms in all RTC contracting activities; (4) in the nine RTC offices visited, the minority point persons were

charged with carrying out the outreach program responsibilities in addition to their legal work; (5) at the offices visited, the outreach programs were at various stages of development; (6) FDIC and RTC adopted a joint venture program that may increase the areas of expertise for minority-owned and women-owned firms, but shortcomings exist; and (7) program shortcomings included inappropriate firms and inaccurate and insufficient information in LCU, differing interpretations of certain factors used to select outside counsel, the inability of RTC monthly case referral reports to track all legal conservatorships and receiverships, and limited headquarters oversight of outreach activities in the regional and consolidated offices.

Open Recommendations to Agencies

Recommendation: To improve the minority and women outreach program for outside counsel, RTC and FDIC should assess the adequacy of staffing levels assigned both in headquarters and the field offices.

Addressee: Resolution Trust Corporation
Status: Action not yet initiated.

Addressee: Federal Deposit Insurance Corporation
Status: Action not yet initiated.

Recommendation: To improve the minority and women outreach program for outside counsel, RTC and FDIC

should enhance the usefulness of the list of counsel utilized by including such information as the firms' areas of expertise and rates.

Addressee: Resolution Trust Corporation
Status: Action not yet initiated.

Addressee: Federal Deposit Insurance Corporation
Status: Action not yet initiated.

Recommendation: To improve the minority and women outreach program for outside counsel, RTC and FDIC should develop and consistently implement procedures for selecting outside counsel to ensure that minority-owned and women-owned firms are considered for providing legal services for which they are qualified.

Addressee: Resolution Trust Corporation
Status: Action not yet initiated.

Addressee: Federal Deposit Insurance Corporation
Status: Action not yet initiated.

Recommendation: To improve the minority and women outreach program for outside counsel, RTC and FDIC should enhance oversight of the outreach activities at the regional and consolidated offices to ensure they are in agreement with the objectives of the outreach program.

Addressee: Resolution Trust Corporation
Status: Action not yet initiated.

Addressee: Federal Deposit Insurance Corporation
Status: Action not yet initiated.

Financial Management and Information Systems (990, 998)

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Budget Issues

Issue Area Summary: Budget Issues

Impact of GAO's Work

The federal deficit is the number one fiscal problem facing the nation today. In fiscal year 1990, the deficit was about \$220 billion, or 4 percent of the gross national product, and interest costs were over \$260 billion on the nation's \$3.2 trillion debt. The ultimate consequences of these large deficits and financing costs are likely to be a lowered level of U.S. savings, investments, and economic growth.

Successfully dealing with this problem requires not only hard choices on the spending and revenue sides of the budget, but also a sound system of budget reports and procedures. Unfortunately, the current cash-based unified budget does not fully meet the needs of decisionmakers and the informed public. When the current unified budget is combined with the complex Budget Enforcement Act deficit control process, the result is a set of budgetary practices that are very complicated and are of limited usefulness.

During the past 3 years, we have had three main objectives in this area: restructure the federal budget, improve cost reporting, and streamline the budget process. Some progress has been made toward achieving these objectives. In particular, 1990 credit-budgeting reform legislation has started important new procedures for credit programs along the lines we recommended. Also, the 1990 budget summit agreement established a bipartisan multiyear budget plan for deficit reduction—an approach we have recommended for streamlining the process.

In addition, we have, over the past year, pursued a fourth objective, namely to report our views on the fiscal policy needed to restore the economy's savings, investments, and long-term economic growth. In this area, too, some progress has been made, but more is needed.

Key Open Recommendations

Basic weaknesses in the federal budget's structure, costs, and process complicate the task of reaching consensus on budget policies. They vividly illustrate the need for a major overhaul of budgeting practices. Our proposals for addressing these problems are summarized in our recent report on the budget. (GAO/OCG-90-5, see p. 809.)

Restructure the Budget

The current unified budget should be retained to ensure continued disclosure of the government's total financial operations. But it should be divided into three major components—general, trust, and enterprise funds; each component should be subdivided to distinguish between operating and capital amounts. Having budget subtotals corresponding to these components would greatly enhance the budget's relevance to emerging fiscal issues and would increase its usefulness for setting and carrying out multiyear budget policy goals. There should be an overall deficit or surplus goal for the entire budget, as well as a separate goal for each major component.

Improve Cost Reporting

To reduce the chances of future budget surprises, more costs should be reflected in the budget when program initiatives or events in the economy create the likelihood or certainty of future payments. For example, the budget should fully recognize costs for future federal retiree payments when the liabilities for them are incurred even though the pension payments will not be made for several years. Similarly, recognizing budget costs for federal payroll and similar liabilities as they are incurred would eliminate the incentive to claim budget “savings” by shifting paydays from one fiscal year to another. Using commodities and similar assets in lieu of cash should be included in budgetary totals to end this form of backdoor spending.

Streamline the Budget Process

The President and the bipartisan leadership of the Congress should consider institutionalizing a process of reaching politically binding agreements on the broad shape of the budget, preferably covering a period of at least 2 years. The 1987 and 1990 budget summit agreements showed that such agreements could expedite budgetary actions and help ensure a more timely enactment of appropriation measures. In conjunction with this, the Congress should seek ways of increasing the efficiency of its budgetary operations by reducing the layering, the fragmentation, and the duplication of the current process. In recent years, congressional study groups have recommended ways to streamline legislative actions by modifying leadership and committee responsibilities. We do not endorse a specific proposal, but rather we urge that the Congress examine these and any new proposals with a view toward better coordinating the efforts of leaders and committees involved in budget matters.

Set Fiscal Policy Objectives

The deficit is a serious problem with ominous implications for the long-term health of the economy. Over the past 40 years, the average deficit as a percentage of the gross national product has doubled every decade. Moreover, although existing budget control legislation seeks a reduction of the level of deficits, the opposite is happening. After a brief decline, deficits are on the rise again, mainly because of the recent recession and high deposit insurance costs. By draining the pool of the nation’s savings, these huge deficits are undermining the nation’s ability to finance investment, thereby leading to lower economic growth and a weakened competitive position in the world. Rising deficits and borrowing have also meant that increasingly larger portions of federal revenue are being used for debt service rather than for more productive purposes.

We have recommended reversing this trend by implementing a fiscal policy designed to produce a total budget surplus of about 2 percent of the gross national product by the late 1990s.

Further Actions Needed on Key Open Recommendations

Our budget reform proposals and deficit reduction recommendations offer the potential for substantial benefits, but only if they are implemented as part of a coordinated strategy. Successful budget reform and deficit reduction require a comprehensive, integrated approach with congressional and executive commitment sustained over a number of years.

**Products With Open
Recommendations: Budget
Issues**

Product Title	Budget Issues: Agency Authority to Borrow Should Be Granted More Selectively (AFMD-89-4)	808
	The Budget Deficit: Outlook, Implications, and Choices (OCG-90-5)	809
	GAO Views on H.R. 2898, the "Social Security Protection Act of 1991" (T-AFMD-91-11)	809

**Related Products With Open
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Other Issue Areas**

Product Title	Public Debt: Management Actions Needed to Ensure More Accurate Accounting (GGD-90-54)	832
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Budget Issues: Agency Authority to Borrow Should Be Granted More Selectively

AFMD-89-4, 09/15/89 GAO Contact: James L. Kirkman, (202)275-9573

Background

Pursuant to a legislative requirement, GAO studied federal agencies' authority to borrow from the Department of the Treasury or the public to obtain funds in advance of appropriations, focusing on: (1) agencies' use of that authority between fiscal years (FY) 1978 through 1987; (2) guidelines for future provision of such authority; and (3) the appropriateness of such authority.

Findings

GAO found that 19 federal agencies: (1) obtained a total of \$353 billion from a total of 37 budget accounts with authority to borrow from FY 1978 through 1987, which constituted about 4 percent of the federal government's total budget authority for that period; (2) increased their outstanding debt with the public and Treasury from \$76 billion to \$195 billion from FY 1978 through 1987; and (3) frequently used new borrowings to repay old debt, borrowed more than they repaid, and repaid debt with appropriations rather than collections from program users. GAO also found that: (1) collections constituted the only meaningful reimbursement to Treasury of borrowed funds, since Treasury did not actually recover any funds when agencies repaid debts with appropriations or new borrowings; (2) although borrowing suggested that agencies would repay funds they received from Treasury,

many accounts were not able to repay with their collections; (3) the legislative histories of most of 12 reviewed accounts did not indicate whether Congress considered the accounts' ability to generate sufficient revenues to repay their debts or a reason why Congress selected authority to borrow as the form of financing; (4) 8 of the 12 reviewed accounts were unlikely to repay with collections, with 2 of those accounts not receiving any collections; and (5) such forms of financing as subsidized loan programs, annual appropriations, and contingency reserves could meet the needs of accounts using borrowing authority.

Open Recommendations to Congress

Recommendation: Congress should provide authority to borrow only for accounts that will probably be able to repay their debt with collections.

Status: Action taken not fully responsive.

Recommendation: Congress should: (1) require accounts to repay their debt with collections; (2) limit the number of years the accounts can use authority to borrow without renewed congressional approval; and (3) limit the amount of debt they can accumulate.

Status: Action taken not fully responsive.

Recommendation: Congress should repeal the Saint Lawrence Seaway Development Corporation's (SLSDC) remaining \$3.2 million in authority to borrow in view of Congress' recent action to fund SLSDC operation and maintenance with annual appropriations.

Status: Action not yet initiated.

Recommendation: Congress should replace authority to borrow with another form of financing, such as a contingency reserve or permanent appropriation for the following accounts that can not repay their borrowings with collections: (1) Office of the Administrator in the Federal Railroad Administration; (2) the Ocean Freight Differential in the Maritime Administration; and (3) the National Flood Insurance Fund in the Federal Emergency Management Agency.

Status: Action taken not fully responsive.

Recommendation: Congress should place a limit on the amount of debt the Government National Mortgage Association's Guarantees of Mortgage-Backed Securities can have with Treasury.

Status: Action in process.

Congressional Action: The Federal Credit Reform Act of 1990 enacted credit reform for the federal government, effective for fiscal year 1992.

The Budget Deficit: Outlook, Implications, and Choices

OCG-90-5, 09/12/90 GAO Contact: James L. Kirkman, (202)275-9573

Background

GAO reviewed the budget deficit problem facing the nation, the implications of the deficit for the U.S. economy, and the choices that must be made to reduce the deficit problem.

Findings

GAO found that: (1) the Office of Management and Budget reported that the baseline deficit for fiscal year 1991 was \$100.5 billion; (2) the total debt stood at over \$3 trillion in 1990 and was projected to reach \$5 trillion in 1995; (3) gross interest on the debt increased by 222 percent from 1980 to 1989 and was the fastest growing budget expenditure; (4) net savings in the United States has declined from 9 percent in 1960 to 3.7 percent in 1987; and (5) the 1990 budget summit negotiators are seeking to reach agreement on a deficit reduction package of \$30 billion to \$50 billion for 1991, with a longer term goal of about \$500 billion over the 5-year period from

1991 to 1995. GAO believes that: (1) \$242 billion in program cuts or revenue increases could yield \$120 billion in additional budget savings by 1997; and (2) developing a package of \$240 billion in policy changes was a major political challenge involving difficult choices.

Open Recommendations to Congress

Recommendation: Congress and the President should reach agreement on a multiyear plan to move the general fund budget to approximate balance by 1997. A \$300 billion fiscal policy swing could result in total budget surpluses of approximately 2 percent of the gross national product annually by 1997.

Addressee: Congress

Status: Action taken not fully responsive.

Addressee: Executive Office of the President

Status: Action taken not fully responsive.

Recommendation: The 102nd Congress should resume budget summit negotiations with the objective of reaching agreement on a comprehensive package of policy changes that will produce an overall budget surplus of about 2 percent of the Gross National Product, about \$180 billion, by 1997.

Status: Action not yet initiated.

Recommendation: The 102nd Congress should resume budget summit negotiations with the objective of enacting those changes into law in the form of a multiyear budget resolution, along with the substantive legislation required to implement that resolution, by the conclusion of the first session of the 102nd Congress.

Status: Action not yet initiated.

Congressional Action: Congress entered into negotiations with the Administration that resulted in enactment of the Omnibus Budget Reconciliation Act of 1990.

GAO Views on H.R. 2898, the "Social Security Protection Act of 1991"

T-AFMD-91-11, 09/26/91 GAO Contact: James L. Kirkman, (202)275-9573

Background

GAO discussed a bill's proposed treatment of the administrative expenses of the Social Security old-age, survivors, and disability insurance (OASDI) programs. GAO noted that: (1) since fiscal year 1986 and prior to the

enactment of the Budget Enforcement Act of 1990, the receipts and disbursements of the OASDI programs were off-budget, but were included in the deficit calculations of the Balanced Budget and Emergency Deficit Control Act of 1985; (2) the 1990 act provided

that receipts and disbursements for OASDI programs should not be counted for the purposes of the 1985 act, or for purposes of the budget submitted by the President or the congressional budget; (3) while the Congressional Budget Office asserts that for fiscal years after 1991

the provision applies to outlays for OASDI administrative expenses as well as to benefit payments, the Office of Management and Budget believes that the 1990 act's definition of the discretionary category requires that the outlays for OASDI administrative expenses be included in this category and has included those expenses in its calculations for purposes of the 1985 act; and (4) the net effect of proposed

legislation would be to exempt OASDI administrative expenses from the constraints imposed by the 1990 act discretionary spending limits and the normal operations of the Congressional Budget Act, and make about \$2.5 billion in outlays available annually for other domestic discretionary spending programs, which could potentially increase the deficit by that amount.

Open Recommendations to Congress

Recommendation: Congress should allow the Office of Management and Budget to make the adjustment required by the Budget Enforcement Act of 1990 so that discretionary savings are not eroded.
Status: Action not yet initiated.

Civil Audits

Issue Area Summary: Civil Audits

Impact of GAO's Work

Our civil agency audits have illustrated the importance of reliable financial statements and effective systems for the strengthening of accountability and improved control over the federal government's financial resources and affairs. The preparation and audit of accurate and useful financial statements depends upon the quality and the availability of the financial information on which they are based and ultimately the adequacy of the underlying systems and related internal controls. The government's financial systems and internal controls are woefully inadequate, however. Even though agencies have spent billions of dollars to upgrade their financial systems, these efforts have met with limited success. Many federal financial systems are weak, outdated, and inefficient and cannot routinely produce relevant, timely, and accurate data on the results and costs of operations.

Chief Financial Officers Act of 1990

There is an ever-growing consensus within the Congress and the executive branch that major improvements are needed to restore integrity to the federal government's financial management operations. In this regard, the Congress recently passed the Chief Financial Officers (CFO) Act of 1990—the most important financial management legislation enacted in the last 40 years.

The CFO Act has been a priority of the Comptroller General for over 5 years and its enactment represents a major accomplishment of our work and our long-term commitment to improvements in federal financial management. The act mandates financial management reforms that we have recommended for many years, including key elements such as central leadership, a CFO organizational structure, professional qualifications for financial management personnel, long-range planning, audited financial statements, and improved financial information and accountability reporting.

Other Financial Management Improvements

Our work, over the past several years, also resulted in other significant improvements in federal financial management. Examples follow.

We demonstrated through discussion and analysis of several agencies' financial operations the type of information that will give the Congress and the President greater insight into and understanding of agencies' financial affairs and that should be addressed in agency reports and attested to by the independent auditor.

We conducted financial audits resulting in significant improvements in the quality of agency financial information and identified serious problems in agency financial operations.

We facilitated fundamental change in the government's Financial Integrity Act program and strengthened implementation of the act. We developed a program that will enable the Office of Management and Budget (OMB) and the agencies to focus on high-risk areas and to provide leadership to redirect the government's program for addressing long-standing internal control problems.

We evaluated a wide range of agencies' internal controls and accounting systems, resulting in significant savings as well as system improvements.

We facilitated greater disclosure by OMB in the President's budget of the risks associated with the government's \$6 trillion credit assistance and insurance programs.

We played a major role in gaining passage of the Cash Management Improvement Act of 1990 and sections of the National Defense Authorization Act of 1991 to strengthen control over the government's "M" accounts.

Key Open Recommendations

Although progress has been made, much remains to be done to improve the federal government's outdated financial management systems and practices and prevent the breakdown of internal controls. These problems are not limited to a few agencies or a few programs; rather, all the major agencies still have serious internal control and accounting deficiencies; many of which have remained uncorrected for years.

Governmentwide Recommendations

We have continually pressed agencies and the administration to improve credit management and debt collection practices across government. Our report on OMB's nine-point credit management program recommended that the Congress amend the Debt Collection Act of 1982 to require agencies, where consistent with program legislation, to use provisions of the act that are now optional and other credit management techniques. We continue to consider strengthened legislation in the credit management area to be an extremely important element for improving the government's loan programs, with billions in savings possible. (GAO/AFMD-90-12, see p. 827.)

We have repeatedly emphasized the need for long-range financial management planning. Our report on additional actions needed to improve federal financial management systems recommended that OMB direct the CFO Council to ensure that a long-range financial management implementation plan was developed and implemented for the federal government. While the CFO Act requires such a plan, OMB must ensure that this long-range planning is effectively undertaken to help the government improve financial management. (GAO/AFMD-90-14, see p. 829.)

Agency-Specific Recommendations

Over the years, we have made many agency-specific recommendations to correct problems of fundamental accounting procedures, including serious internal control and accounting system weaknesses. The following recommendations deserve priority attention.

We recommended, in our report on the Farmers Home Administration's (FmHA) financial statements for 1989 and 1988, that FmHA take certain actions to correct (1) problems in the acquired property-tracking system and (2) internal control weaknesses related to the farm loan classification system's inability to project loan losses on FmHA's \$22 billion direct farm loan portfolio. (GAO/AFMD-91-36, see p. 842.)

In our audit report on the financial statements of the Department of Veterans Affairs for fiscal years 1989 and 1988, we recommended certain actions to correct weaknesses in property and equipment accounts, in automatic data processing, security controls, and the recovery of erroneous veterans' benefit payments. (GAO/AFMD-91-6, see p. 835.)

In our report on the financial management environment of the Immigration and Naturalization Service, we recommended the appointment of an Associate Commissioner for Financial Management to develop a viable accounting system, improve controls over revenue and debt collection activities, and strengthen reporting under the Financial Integrity Act. (GAO/AFMD-91-20, see p. 837.)

Our audit report on the Forest Service's financial statements for the fiscal year ended September 30, 1988, included recommendations for (1) integrating all financial accounting and reporting systems with the Forest Service's general ledger, (2) improving accounting controls in its general ledger and subsidiary systems, and (3) modifying its cost accounting system to provide better information on its timber-harvesting activities. (GAO/AFMD-91-18, see p. 840.)

We recommended that the Director of the U.S. Mint develop an automated cost accounting system to provide accurate and timely information on the cost of operations. (GAO/AFMD-89-88, see p. 822.)

Further Actions Needed on Key Open Recommendations

As indicated above, the CFO Act mandated sweeping reforms in federal financial management. While most agencies are taking actions in response to our recommendations, implementation must be completed as soon as possible to ensure that the act's objectives are achieved. Prompt action on our recommendations will help improve federal management and accountability and buttress efforts to gain control of government operations. Therefore, the administration and agencies must take the necessary actions to ensure high-caliber leadership, an effective CFO organizational structure, effective long-range planning, and preparation of meaningful and auditable financial statements.

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Financial Audit: Veterans Administration's Financial Statements for Fiscal Year 1986

AFMD-87-38, 07/29/87 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Veterans Administration's (VA) consolidated financial statements for fiscal year (FY) 1986, and reviewed VA internal controls and compliance with federal laws and regulations.

Findings

GAO found that: (1) it could not establish the book value of VA assets, including land, buildings, and equipment that VA acquired over periods dating back to 1930; (2) had VA calculated its insurance reserve balance under generally accepted accounting principles, its balance of \$11.2 billion would have decreased by between \$4 billion and \$5.7 billion; (3) VA did not always properly bill patients who were not entitled to

free care, and its records showed about \$20.2 million in receivables for ineligible-patient care; (4) VA failed to comply with the Prompt Payment Act and the Veterans' Rehabilitation and Education Amendments of 1980, and may not have complied with the Debt Collection Act of 1982; and (5) except as noted, the VA financial statements presented fairly the VA financial position as of September 30, 1986, in accordance with generally accepted accounting principles applied on a consistent basis.

Open Recommendations to Agencies

Recommendation: The Administrator of Veterans Affairs should conduct a review of delinquent VA debts and, accordingly, either assess the proper

amount of interest and administrative costs, as required by law, or execute waivers if there are appropriate reasons for doing so.

Status: Action in process. VA is implementing software changes so that interest and administrative costs can be charged on delinquent loan guaranty debts in FY 1992, but is pursuing legislation that would preclude it from assessing such costs on delinquent compensation and pension debts. While the Office of Management and Budget (OMB) has disapproved of previous such legislation, VA plans to pursue this with OMB and resubmit its legislative proposal.

Debt Collection: More Aggressive Action Needed To Collect Debts Owed by Health Professionals

AFMD-88-23, 02/02/88 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO evaluated the Department of Health and Human Services' (HHS) Health Resources and Services Administration's (HRSA) debt collection efforts under its financial assistance programs for health professions and medical facilities, focusing on the: (1) Health Professions Student Loan

Program; (2) Nursing Student Loan Program; (3) National Health Service Corps Scholarship Program; (4) Health Education Assistance Loan Program; and (5) Health Facilities Direct and Guaranteed Loan Program.

Findings

GAO found that: (1) HRSA imposed several measures which resulted in

significant declines in loan delinquency rates for health professions schools, but not for nursing schools; (2) the delinquency rates for nursing schools will decline when HRSA terminates a large number of these schools from the program for noncompliance with performance standards; (3) health professions and nursing schools reported \$47.5 million in delinquent loans as of June 30, 1986, of which \$27 million was

more than 3 years delinquent; and (4) HRSA has not established a time frame in which schools must request write-off approval for uncollectible loans. GAO also found that: (1) lack of a comprehensive debt management system, staffing shortages, and failure to follow established procedures have seriously hindered HRSA attempts to collect on delinquent debts; (2) HRSA untimely issued collection notices, made few personal contacts with delinquent debtors, and improperly granted additional time for delinquent debt repayment; and (3) HHS opposes offsetting delinquent educational debts from Medicare reimbursements to physicians.

Open Recommendations to Agencies

Recommendation: The Secretary of Health and Human Services should direct the Administrator, HRSA, to establish time limits within which schools participating in the Health Professional and Nursing Student Loan programs must determine the collectibility of delinquent loans and must request HRSA write-off approval for those which are determined to be uncollectible.

Status: Action in process. HHS published a Notice of Proposed Rulemaking (NPRM) on December 18, 1989, to implement this recommendation. The comment period ended on February 16,

1990. HHS analyzed comments received on the NPRM and expects to issue final regulations in late 1991.

Recommendation: The Administrator, HRSA, should set time limits within which the schools must reimburse the funds, or HRSA (in the case of those schools which are no longer participating in the programs) for those loans for which the schools did not follow required collection procedures.

Status: Action in process. HHS published NPRM on December 18, 1989, to implement this recommendation. The comment period ended on February 16, 1990. HHS analyzed comments received on the NPRM and expects to issue final regulations in late 1991.

Internal Controls: Need to Strengthen Controls Over Payments by Medicare Intermediaries

HRD-89-8, 11/14/88 GAO Contact: Linda G. Morra, (202)275-1655

Background

GAO reviewed the Health Care Financing Administration's (HCFA) internal controls over Medicare payments for health care services to determine whether HCFA ensured that: (1) patients were eligible for Medicare benefits; (2) claimed services were provided, covered by Medicare, necessary, and of good quality; and (3) payments were reasonable and correct.

Findings

GAO reviewed 277 cases of potential claims processing errors from a backlog of over 2 million unresolved errors, and found that: (1) in March 1988, HCFA purged the backlog of over a million of the cases and did not plan to resolve errors in the purged cases; (2) there were

73 overpayments totalling \$272,011 and 7 underpayments totalling \$5,468; (3) HCFA misclassified 180 claims as duplicates because of problems in obtaining data from HCFA intermediaries responsible for processing and paying claims; (4) HCFA made little use of consulting firms' findings under contracts to review the adequacy of peer review organizations' (PRO) reviews; (5) PRO failed to detect unnecessary hospital admissions and allowed payments for incorrectly categorized diagnoses; and (6) HCFA did not report its internal control weaknesses in its Federal Managers' Financial Integrity Act (FMFIA) evaluations.

Open Recommendations to Agencies

Recommendation: The Secretary of Health and Human Services should require the Administrator, HCFA, to evaluate the adequacy and timeliness of corrective actions taken by carriers in resolving errors detected by master record edits.

Status: Action in process. HHS agreed with this recommendation and plans to issue a regional office memorandum to implement it.

Recommendation: To have greater assurance that PRO are performing effective medical reviews, the Secretary of Health and Human Services should require the Administrator, HCFA, to: (1) develop guidelines on the relative roles

and responsibilities of the SuperPRO contractor, HCFA regional offices, and PRO in determining why differences between the SuperPRO contractor and PRO review decisions are occurring; (2) identify actions that PRO should take to reduce the differences; and (3) track PRO corrective actions to ensure that the differences are reduced to appropriate levels.

Status: Action in process. HCFA has established an advisory group to develop guidelines and instructions to carry out this recommendation. This advisory

group is considering the GAO recommendations, but a report is not expected until 1992.

Recommendation: To have greater assurance that PRO are performing effective medical reviews, the Secretary of Health and Human Services should require the Administrator, HCFA, to: (1) reevaluate the relative roles of the medical staff of the SuperPRO contractor and HCFA regional offices; (2) eliminate from the PRO Monitoring Protocol and Tracking System

(PROMPTS) instructions the requirement that regional office medical review staff conduct routine case evaluations in those areas covered by the SuperPRO contractor; and (3) use the SuperPRO contractor's results as a primary basis for monitoring the quality of PRO medical reviews.

Status: Action in process. HCFA is currently drafting a new SuperPRO scope of work, but additional details are not yet available.

Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1987 and 1986

AFMD-89-23, 11/30/88 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO reviewed the Veterans Administration's (VA): (1) consolidated financial statements for the fiscal years ended September 30, 1987 and 1986; (2) internal accounting controls; and (3) compliance with laws and regulations.

Findings

GAO found that, except for two qualifications, the consolidated financial statements presented fairly: (1) the financial position of VA on September 30, 1987 and 1986; and (2) the results of VA operations, the changes in its financial position, and the budget reconciliation for fiscal year (FY) 1987. GAO qualified its opinion due to: (1) its inability to perform necessary auditing procedures to substantiate the asset and related expense accounts, due to unavailable documentation and inaccurate account balances; and (2) a \$3-billion overstatement in life insurance reserves due to VA use of statutory

assumptions, rather than more realistic assumptions. GAO also found: (1) that the VA manual property accounting system was inefficient; and (2) automatic data processing (ADP) internal control weaknesses at all three VA data processing centers. In addition, GAO found that VA violated laws and regulations by failing to charge: (1) interest and administrative costs on certain debts that compensation and pension programs generated; or (2) the correct interest rate on its loan guaranty accounts receivable. GAO found that: (1) VA stated that it could not charge the correct rate until 1991 when it would complete necessary computer software reprogramming; and (2) the VA cash vendor invoice payment procedures did not fully comply with regulations.

Open Recommendations to Agencies

Recommendation: The Administrator of Veterans Affairs should direct the Office

of Information Systems and Telecommunications and the Department of Veterans Benefits to improve the ADP centers. These corrective actions should include: (1) implementing effective manual or automated documented reviews of software program code changes for sensitive applications; and (2) incorporating software maintenance and data integrity controls, such as establishing independent audit test files at the Austin Data Processing Center. **Status:** Action in process. VA is conducting a systems audit study that will include considering automated reviews of software program code changes. The agency is trying to develop a consistent approach across all three systems development centers. Controls will be improved at the Insurance Center when the insurance systems are converted to COBOL computer language, which is to be completed by the end of FY 1992.

Recommendation: The Administrator of Veterans Affairs should require the Director of the Department of Veterans Benefits to determine an effective and appropriate method of resolving the issue of charging interest on accounts receivable relating to the compensation and pension benefit overpayments as required by the 1980 amendments to the Veterans' Rehabilitation and Education

Act. At least two potential alternatives include: (1) issuing waivers as authorized by 38 U.S.C. 3102 for cases where charging interest and administrative costs is deemed to be against equity and good conscience; or (2) obtaining the legislative approval to exempt compensation and pension receivables from interest and administrative costs charges.

Status: Action in process. VA is pursuing legislation that would preclude the agency from assessing interest and administrative costs on delinquent compensation and pension debts. While the Office of Management and Budget (OMB) has disapproved of such legislation in the past, VA plans to pursue this further with OMB and resubmit its legislative proposal.

Financial Audit: Farmers Home Administration's Losses Have Increased Significantly

AFMD-89-20, 12/20/88 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Farmers Home Administration's (FmHA): (1) financial statements for the year ended September 30, 1987; (2) internal accounting control system; and (3) compliance with laws and regulations.

Findings

GAO found that, although the financial statements presented fairly the FmHA financial condition, FmHA: (1) had a significantly deteriorating financial condition, with an accumulated deficit of \$36 billion; (2) relies on Treasury loans to continue its operations and may require significantly increased congressional assistance to sustain operations; (3) had an operating loss of \$22 billion for fiscal year (FY) 1987; and (4) owed the Treasury \$85 billion, with \$24 billion due in 1989. GAO also found

that FmHA: (1) made loans at interest rates far below what it had to repay; (2) as a lender of last resort, made loans to individuals who were not otherwise creditworthy, resulting in a large number of delinquent loans; (3) did not record property it received by voluntary conveyance at fair-market value; (4) lacked a policy for writing off uncollectible loans and did not analyze the ultimate collectibility of its loan portfolio in accordance with Office of Management and Budget (OMB) requirements; (5) had numerous control weaknesses in its Automated Multiple Family Housing Accounting System (AMAS); (6) lacked adequate controls over the entry of guaranteed loans into its accounting system; and (7) did not reconcile its detailed property files with general ledger control accounts.

Open Recommendations to Agencies

Recommendation: The Secretary of Agriculture should direct the Administrator, FmHA, to complete all acquired property system modifications within reasonable time frames to ensure that: (1) all detailed files are balanced with the general ledger; (2) acquired property is recorded at fair value at the time of acquisition; and (3) gains and losses on the acquisition of property are properly recorded.

Status: Action in process. Modifications to the Acquired Property Tracking System were implemented on February 27, 1991, which included provisions for recording property at fair-market value, recognizing gains and losses, recording costs, balancing to the general ledger, and edit checks to detect unusual valuations of property. FmHA is to review accuracy by late 1991.

Financial Audit: Food and Nutrition Service's Financial Statements for 1987

AFMD-89-22, 03/15/89 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Food and Nutrition Service's (FNS) financial statements for the fiscal year ended September 30, 1987.

Findings

GAO found that: (1) the statement of financial position presented fairly the FNS financial position as of September 30, 1987, in conformity with generally accepted accounting principles; (2) FNS failed to adjust the food stamp benefits issued and the related liability of undelivered coupons, resulting in a 70-percent increase in liability between 1984 and 1987, with no significant growth in program benefits over the same period; and (3) FNS did not effectively use its financial accounting

and reporting system in preparing its financial reports.

Open Recommendations to Agencies

Recommendation: To correct these weaknesses, the Secretary of Agriculture should direct the Administrator, FNS, to determine whether all issuance points are properly reporting food coupons returned to inventory on the FNS-250 reports and direct those that are not properly reporting them to do so.

Status: Action in process. Rather than correct how issuance points are reporting food coupons returned to inventory on the 250 report, FNS began obtaining issuance data from a new Issuance and Reconciliation Report. If

FNS could ensure that the Form 46 information is accurate, this recommendation would no longer be applicable. Further work is in process to correct inaccurate Form 46 reporting. Action should be completed by the end of 1991.

Recommendation: To correct these weaknesses, the Secretary of Agriculture should direct the Administrator, FNS, to record all relevant accounting transactions, such as year-end liability accruals, in the accounting system.

Status: Action in process. FNS is developing procedures for preparing financial reports recording adjustments, and calculating bad debt allowances and the food stamp redemption liability.

National Archives: A Review of Selected Management Issues

AFMD-89-39, 05/23/89 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

In response to a congressional request, GAO investigated allegations that: (1) the National Archives and Records Administration (NARA) and National Archives Trust Fund Board improperly commingled appropriated funds and unrestricted Trust Fund money; (2) NARA violated federal procurement and personnel regulations; and (3) because Trust Fund personnel did not hold civil

service appointments, they were not eligible to compete for remaining positions if a reduction-in-force occurred.

Findings

GAO found that: (1) NARA recorded its reproduction fees deposited into the Trust Fund in separate accounts; (2) NARA did not improperly expend the funds, because the fees were available for any appropriate Trust Fund

expenditure; (3) the Trust Fund was not required to follow the Federal Acquisition Regulation when purchasing goods and services; and (4) because NARA personnel appointments were consistent with the law and regulations, all employees would compete equally for remaining positions in the event of reductions-in-force. GAO also found that: (1) the Trust Fund could not ensure that it complied with the legislative requirement that its profits not exceed

the 10-percent profit margin allowed for its publications; (2) Trust Fund financial operations lacked written policies, procedures, and documentation for its accounting practices; (3) NARA and Trust Fund annual reports did not provide a Statement of Changes in Financial Position; and (4) the financial statements did not fully disclose unusual transactions and were unaudited,

resulting in inaccurate and unreliable financial information for presentation to Congress.

Open Recommendations to Agencies

Recommendation: In order to ensure the reliability of the Trust Fund's financial information and proper accounting, the

Trust Fund Board should obtain an independent annual audit of the Trust Fund's financial statements.

Status: Action in process. The audit is complete and the final audit report is expected by late 1991.

Financial Management: The U.S. Mint's Accounting and Control Problems Need Management Attention

AFMD-89-88, 07/26/89 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO reviewed aspects of the U.S. Mint's numismatic programs and overall financial management, focusing on: (1) whether the Mint complied with legal requirements involving the shipment of Statue of Liberty coins; (2) internal controls for die inventories and coins; (3) cost accounting systems, funds control systems, and management information reports; and (4) the budgetary fund structure for numismatic programs.

Findings

GAO found that the: (1) Mint did not comply with a legal requirement that it ship Statue of Liberty coins to customers only after payment or guarantees of payment, but the number of coins incorrectly sent represented less than 1 percent of the 15.5 million coins shipped; (2) Mint had weak internal controls over dies and coins; (3) physical inventories of dies were not frequent enough; (4) resolution of die inventory discrepancies was not independently reviewed; and (5) Mint did not always report coin shortages to field mint security offices.

GAO also found that the: (1) Mint's June 30, 1987, reports on revenues and expenses related to numismatic programs were unreliable; (2) Mint's cost accounting system was manual and decentralized and did not produce reliable cost information; (3) Mint's funds control system had deficiencies in its design, reporting, and use of financial plans; (4) Mint has not developed management information reports needed to support decisionmaking; and (5) Mint accounted for its numismatic programs through its annual salaries and expenses appropriation, instead of through a revolving fund.

Open Recommendations to Congress

Recommendation: Congress should establish a public enterprise revolving fund, subject to the appropriations process, to finance the Mint's numismatic program operations.

Status: Action in process.

Congressional Action: On August 1, 1989, the Subcommittee on Consumer Affairs and Coinage, House Banking,

Finance and Urban Affairs Committee, held hearings on the U.S. Mint's authorization for fiscal years 1990 and 1991. GAO was requested to testify on findings and recommendations. Also, draft legislation to establish a revolving fund was introduced but was not enacted. Draft legislation was not submitted in 1991 because of Office of Management and Budget concerns about exempting the Mint from federal procurement regulations.

Open Recommendations to Agencies

Recommendation: To ensure that field mints have adequate internal control procedures for die inventories, the Director of the Mint should ensure that the San Francisco Mint implements adequate internal controls over dies released by its die room to its chroming unit.

Status: Action in process. The Mint reported that San Francisco implemented a Daily Die Inventory System in August 1990. GAO is awaiting documentation that the system is working properly.

Recommendation: To modernize critical elements of the Mint's financial management system through improved cost, funds control, and management information, the Director of the Mint should develop an automated cost accounting system to provide accurate and timely information on the cost of operations.

Status: Action in process. Estimated completion date: 12/92. In early 1989, the U.S. Mint contracted with Booz-Allen Hamilton Inc. to identify financial system requirements, including cost accounting. The targeted completion date for the system was December 30, 1992. The Mint has begun automating manual cost accounting processes. The Mint expects to implement improvements in stages through 1993.

Recommendation: To modernize critical elements of the Mint's financial management system through improved cost, funds control, and management information, the Director of the Mint should enhance the Mint's funds control system in order to: (1) provide data to help managers ensure that funds are not

overobligated or overexpended; (2) generate standard, consistent, and reliable funds control reports from information in the accounting system; and (3) use the Mint's financial plans as the basis for controlling funds at both the headquarters and field mint levels.

Status: Action in process. Estimated completion date: 03/92. In October 1988, the U.S. Mint began developing an estimated funds control system. The targeted completion date has been moved from October 1990 to March 1992. The Automated Requisition component of the funds control system is operational at all Mint locations. The Mint has not provided documentation of its funds control policies and procedures or of its systems status.

Recommendation: To modernize critical elements of the Mint's financial management system through improved cost, funds control, and management information, the Director of the Mint should develop management information reports that will give Mint managers a range of program and financial information, including summarized or

comparative reports on programs showing, by time period, information such as the numbers of coins produced and sold, revenues and expenses, and unit costs.

Status: Action not yet initiated.

Recommendation: To comply with the Comptroller General's internal control standard that control systems be documented, the Director of the Mint should initiate projects that will update the Mint's written policies and procedures for cost accounting and for funds control.

Status: Action in process. Estimated completion date: 12/92. Grant Thornton, Inc. documented and updated the Mint's accounting procedures and certain other policies and procedures. As the overall system modernization effort progresses, policies and procedures will be further developed and documented. Also, the Mint's February 1990 financial management improvement program requires that policies and procedures be further developed.

Financial Management: Opportunities for Improving VA's Internal Accounting Controls and Procedures

AFMD-89-35, 08/11/89 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO reviewed the Department of Veterans Affairs' (VA) financial management systems, focusing on how VA could improve internal accounting controls and financial management.

Findings

GAO found that VA: (1) made significant progress in preparing its consolidated

financial statements in accordance with generally accepted accounting principles, although statements did not always agree with underlying accounting systems and general ledger balances and had undocumented or poorly supported consolidation and closing procedures; (2) did not adequately implement internal controls for medical care cost recovery; (3) lacked automated system internal controls to ensure complete and accurate

processing of compensation, pension, and education benefit payments data; (4) did not obtain proper authorization for releasing payments over threshold amounts; (5) did not meet requirements in such areas as timely collection on accounts receivable, recognition and recording of liabilities, and prompt and accurate accumulation and reporting of obligational data on all appropriated funds; (6) improved principal controls in

its housing credit assistance area, although remaining weaknesses included the lack of an established system for recognizing losses on guaranteed loans, lack of reconciliation between the general ledger control account and subsidiary ledger balances, and improper documentation and approval of journal vouchers; (7) lacked effective payroll system controls for implementing proper pay changes for all employees, resulting in incorrect payments; and (8) did not perform pay verifications and reconciliations to ensure correct processing of payroll data.

Open Recommendations to Agencies

Recommendation: The Secretary of Veterans Affairs should direct the Chief Benefits Director and the Controller to develop a plan for implementing corrective action on the internal control problems that the GAO audit disclosed in the housing credit area. VA requirements for reconciliation of account balances and documentation and proper authorization of accounting transactions are excellent internal control techniques for ensuring the integrity of data contained in the VA financial accounting system. Accordingly, the plan for corrective action should include procedures for

ensuring compliance with agency policies and procedures. In addition, the Controller should clarify the policy regarding approval of journal vouchers to require an individual not directly involved in voucher preparation to approve vouchers initiated by the Chief, Accounting Section.

Status: Action in process. Estimated completion date: 09/92. VA is developing a new financial management system and revising policies and procedures to correct internal control problems and variances in account balances in housing credit. The new system is scheduled to be implemented in fiscal year 1992. Until the new system is in full use, VA plans to emphasize the importance of reconciliations by all means available.

Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1988 and 1987

AFMD-89-69, 09/15/89 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Veterans Administration's (VA) consolidated financial statements for the fiscal years ended September 30, 1988 and 1987, and the related consolidated statements of operations and changes in financial position and reconciliation to budget for the fiscal years then ended.

Findings

GAO found that the consolidated financial statements presented fairly the financial position of VA as of September 30, 1988 and 1987, the results of its operations, and the changes in its financial position and reconciliation to budget for the fiscal years then ended, in conformity with generally accepted accounting principles. GAO qualified its

opinion, since: (1) VA did not have the documents supporting the original cost of land, buildings, and equipment which it acquired over periods dating back to its establishment in 1930; (2) although VA made significant improvements in transferring project costs from work-in-process to completed facilities, it still kept manual accounting records for land and buildings, which had errors in recorded values; (3) the financial statements reflected statutorily calculated life insurance reserves, rather than reserves calculated in accordance with generally accepted accounting principles; and (4) the VA housing credit program experienced financial problems that may require assistance beyond that identified in its current appropriation request.

Open Recommendations to Agencies

Recommendation: The Secretary of Veterans Affairs should direct the Controller to determine an appropriate method for achieving consistent implementation of the federal capitalization and depreciation accounting principles and policies. One possible approach would be to provide assistance and training on this matter to field station accountants during normal field station reviews.

Status: Action in process. VA revised its capitalization policies and procedures in February 1991 and plans to include in its new Financial Management System a fixed asset module for standardizing real property recordkeeping, thus ensuring consistent implementation of the federal

capitalization and depreciation

accounting principles and policies. VA

plans to implement the new system in fiscal year 1992.

Medicare: Internal Controls Over Electronic Claims for Anesthesia Services Are Inadequate

HRD-90-49, 12/18/89 GAO Contact: Janet L. Shikles, (202)275-5451

Background

Pursuant to a legislative requirement, GAO reviewed Medicare payments to anesthesiologists and verified the anesthesia times claimed.

Findings

GAO found that: (1) all eight Medicare carriers GAO reviewed required anesthesia times on all paper claims for anesthesia services and did not process paper claims until providers submitted such times, but seven of the eight carriers paid electronic claims for services that did not show anesthesia

times; (2) carriers lacked adequate assurance that providers billing electronically had correctly computed their anesthesia time units, and did not reconcile time units claimed with anesthesia times reported on the claims, sometimes resulting in overpayments; (3) the Health Care Financing Administration (HCFA) did not ensure that organizations adopted internal controls over the use of federal funds; and (4) HCFA annual contractor evaluations did not determine whether carriers subjected electronic claims to the same prepayment reviews as paper claims.

Open Recommendations to Agencies

Recommendation: The Acting Administrator, HCFA, should reemphasize to carriers that electronic media claims for anesthesia services must show anesthesia times and receive the same prepayment reviews as paper claims.

Status: Action in process. HCFA issued instructions to intermediaries and stated that it would advise carriers of proper processing procedures for electronic claims in its update of electronic media claims manual instructions. Action should be completed by the end of 1991.

Financial Audit: Farmers Home Administration's Financial Statements for 1988 and 1987

AFMD-90-37, 01/25/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Farmers Home Administration's (FmHA) consolidated statements of its financial position as of September 30, 1988 and 1987, and the related statements of operations and cash flows for the fiscal years then ended.

Findings

GAO found that: (1) the statements presented fairly the FmHA financial position as of September 30, 1988 and 1987, and the related statements of operations and cash flows for the years then ended, in conformity with generally accepted accounting principles; (2) although FmHA implemented the Acquired Property Tracking System (APTS) in response to internal

accounting deficiencies, the system did not conform to federal agency policies and procedures; (3) FmHA had not completed system modifications which would allow it to properly record acquired property or integrated APTS data with the related general ledger control accounts; (4) APTS contained inaccurate and incomplete information from FmHA field offices, since the software did not include parameter

checks to detect unreasonable property values; (5) FmHA field supervisors did not establish market values for collateral in order to project loan losses; and (6) FmHA did not have an appropriate methodology for determining the necessary property holding and disposition costs to ensure reasonable loan loss estimates and acquired property balances.

Open Recommendations to Agencies

Recommendation: The Secretary of Agriculture should direct the Administrator, FmHA, to ensure that all

county offices receive APTS reports, require periodic reconciliations of APTS report information with the detailed acquired property files as of fiscal yearend, and develop appropriate internal controls to detect the recording of unreasonable dollar values for inventory properties.

Status: Action in process. Modifications to APTS were implemented on February 27, 1991, which included provisions for reporting property at fair-market value, recognizing gains and losses, recording costs, balancing to the general ledger, and edit checks to detect unusual valuations of property. FmHA is to review accuracy by the end of 1991.

Recommendation: The Secretary of Agriculture should direct the Administrator, FmHA, to ensure that field office supervisors use market values of collateral as close to the end of the fiscal year as practicable to estimate loan losses in the loan classification system.

Status: Action in process. A memo was sent to FmHA county offices on September 7, 1990, requiring review of all loan collateral. Systems modifications for single family housing programs were implemented on September 6, 1991, and farm programs implementation is targeted for late 1991.

Financial Audit: EPA's Financial Statements for Fiscal Years 1988 and 1987

AFMD-90-20, 03/16/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a legislative requirement, GAO examined the Environmental Protection Agency's (EPA) consolidated financial statements for the years ended September 30, 1988 and 1987, focusing on: (1) EPA internal accounting controls; (2) EPA compliance with laws and regulations; and (3) the Superfund program's financial condition.

Findings

GAO found that: (1) EPA estimated a \$30-billion cleanup cost for approximately 1,200 hazardous waste sites, but it may have underestimated the cost; (2) as of September 30, 1988, EPA had identified over 30,000 waste sites and had completed preliminary assessments at over 26,000 sites and inspections at over 9,000 sites; (3) at the

end of 1988, EPA had started cleanup work at 201 of the 1,200 sites, and had completed work at 27 sites; (4) the new EPA reporting system did not provide satisfactory accounting information; and (5) EPA did not timely reconcile its general ledger and external reports. GAO also found that: (1) EPA did not correct previously reported property management internal control problems; (2) the EPA subsidiary accounting system for property and related internal controls did not adequately account for or maintain control over those assets; and (3) the property management system did not reasonably safeguard EPA assets or provide the appropriate information in financial statements. GAO also found that EPA complied with the provisions of laws and regulations that could have a material effect on its consolidated financial statements.

Open Recommendations to Agencies

Recommendation: To improve EPA accounting for and control over all property assets, the Administrator, EPA, should ensure that the new accounting system and the property control system contain a common data element or interface to permit the reconciliation of accounting and property systems data.

Status: Action in process. Estimated completion date: 10/93. As part of a systems improvement effort, EPA is working on improved communications between its accounting and administrative systems. This includes plans for an interface between its accounting and property systems to enhance the reconciliation of accounting and property records. The scheduled completion date is October 1993.

Credit Management: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program

AFMD-90-12, 04/16/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO provided information on five federal agencies': (1) changes in loans receivable data between fiscal years 1985 and 1988; and (2) activities to implement the Office of Management and Budget's (OMB) nine-point credit management program.

Findings

GAO found that, over the past several years, federal agencies have made progress in certain credit management areas, such as screening loan applicants, servicing loan accounts, and implementing debt collection procedures, but credit management programs have continued to deteriorate because agencies failed to: (1) check whether loan applicants were delinquent in paying taxes; (2) adequately monitor private lenders whose loans were guaranteed; (3) fully utilize private collection firms in the collection process; and (4) follow appropriate write-off procedures or report close-out accounts to the Internal Revenue Service (IRS) as income to the debtor. GAO also found that: (1) guaranteed loans increased 34 percent and defaulted guarantees increased 84 percent during fiscal year 1988; and (2) the Farmers Home Administration (FmHA) and Small Business Administration (SBA) understated loan delinquencies by about \$9.5 billion and \$200 million, respectively, because they did not report the entire amount of loans due over 180 days.

Open Recommendations to Congress

Recommendation: Because of the magnitude of the government's credit management problems, Congress should amend the Debt Collection Act to require agencies, where consistent with program legislation, to: (1) contract for debt collection services; (2) offset salaries of government employees who owe delinquent debts; (3) report information about an individual's delinquent debts to credit reporting agencies; (4) use administrative offset to recover delinquent debts; (5) prescreen loan applicants to determine credit worthiness, ability to repay, and if they owe delinquent debts to the federal government, including IRS; (6) deny credit to applicants who owe delinquent debt to the federal government; (7) refer all appropriate debts to IRS for the purpose of offsetting delinquent debtor's tax refunds; and (8) report closed out debts to IRS as income to the debtor. When enacting new credit programs or when reauthorizing existing programs, Congress should specify the applicability of those techniques.

Status: Action not yet initiated.

Recommendation: Congress should legislatively direct the Secretaries of Housing and Urban Development and Veterans Affairs and the Administrators, FmHA and SBA, in coordination with IRS, to test the use of consent forms for obtaining and using tax information in the loan making process. The affected agencies could designate selected programs, including

those with guaranteed loans, for participation in the test.

Status: Action not yet initiated.

Recommendation: Congress should require IRS to disclose address information to agencies pursuing debt collection activities under authorities in addition to the Federal Claims Collection Act.

Status: Action not yet initiated.

Congressional Action: Congress has not yet taken any action; however, the House Committee on Government Operations and the Senate Committee on Governmental Affairs are considering legislation dealing with the Debt Collection Act.

Open Recommendations to Agencies

Recommendation: To improve loan origination procedures, the Director, OMB, and the Secretary of the Treasury, in conjunction with IRS and affected agencies, should resolve impediments to prescreening loan applicants against delinquent tax accounts.

Addressee: Office of Management and Budget

Status: Action in process. OMB, Treasury, and IRS have been working with three credit agencies to develop a test program for matching selected loans against IRS files. In August 1991, the Department of Education, SBA, and the Department of Housing and Urban Development (HUD) sent a combined total of 5,000 loan origination cases to

IRS for matching against its delinquent tax files.

Addressee: Department of the Treasury
Status: Action in process. OMB, Treasury, and IRS have been working with three credit agencies to develop a test program for matching selected loans against IRS files. In August 1991, Education, SBA, and HUD sent a combined total of 5,000 loan origination cases to IRS for matching against its delinquent tax files.

Recommendation: The Secretary of Education and the Administrator, FmHA, should require program managers or private lenders to modify loan applications to include an applicant's certification that he or she is not delinquent on federal debt.

Addressee: Department of Education
Status: Action in process. Education is revising a regulation to address this recommendation. Proposed rule changes are to be published in late 1991.

Addressee: Farmers Home Administration

Status: Action in process. FmHA plans to revise the single family housing application and consider the issue for guaranteed loans. The revised form is to be published in late 1991.

Recommendation: The Secretary of Veterans Affairs (VA), for the VA Loan Guaranty Program, and the Administrator, FmHA, for FmHA rural housing programs, should require program managers to deny credit to any loan applicant found to be delinquent on a federal debt, until the debt is satisfactorily resolved.

Addressee: Farmers Home Administration

Status: Action in process. FmHA has drafted but has not yet published proposed regulations which state a delinquency on a federal debt can be grounds for denying an applicant FmHA assistance.

Recommendation: The Secretaries of Education and Housing and Urban Development should require that program managers and private lenders modify loan applications to include a signed borrower's certification that the borrower has been advised of and understands the government's debt collection practices.

Addressee: Department of Education
Status: Action in process. Education is revising its regulations to require full notification of collection practices. The proposed regulations were published on November 20, 1990. Final regulations are to be published in late 1991.

Addressee: Department of Housing and Urban Development

Status: Action in process. HUD agreed to modify those applications which do not include such a certification. A proposed rule was published on January 29, 1991 for title I. Final regulations are to be published during late 1991.

Recommendation: To improve servicing activities, the Administrator, FmHA, should address the feasibility of consolidating servicing and collection activities into regional centers. This should be part of the FmHA planned review of its county office organizational structure.

Status: Action in process. FmHA cancelled a pilot project which would provide a centralized servicing unit for single family housing accounts. FmHA has decided to centralize activities and obtain a contractor to review servicing issues. The contractor is to provide options for centralizing servicing. FmHA plans to issue the request for proposals for this contract in late 1991.

Recommendation: To improve lender monitoring, the Secretary of Education and the Administrator, SBA, should require program managers to implement the procedures set forth in their agencies' regulations, such as regularly scheduled site visits.

Addressee: Department of Education

Status: Action in process. Education recently increased resources for oversight activities. Education expects to complete reviews of all 54 guaranty agencies during fiscal year 1991.

Recommendation: The Secretary of Veterans Affairs should require program managers to develop and use formal lender agreements which include specific lender requirements and penalties for not achieving those requirements.

Status: Action in process. VA will begin using lender agreements, but has not yet set a target date for the development of these agreements.

Recommendation: To improve debt collection and appropriately write off uncollectible accounts, the Administrator, FmHA, should require program managers to report eligible delinquent Rural Housing accounts to credit bureaus as soon as practicable.

Status: Action in process. FmHA is performing the computer systems development work necessary to implement this recommendation.

Recommendation: To improve debt collection and appropriately write off uncollectible accounts, the Secretary of Education should require the guaranty agencies to temporarily assign delinquent accounts to Education so that those accounts can be referred by Education to IRS for federal income tax refund offset.

Status: Action in process. Education sent a "Dear Colleague" letter to guarantee agencies in March 1990 advising them to participate fully, and stated that participation would become mandatory. An agency official stated that all guaranty agencies are participating. However, Education is conducting an analysis of loan portfolios to determine whether the agencies are referring the maximum number of accounts possible.

Recommendation: To improve debt collection and appropriately write off uncollectible accounts, the Secretaries of Education, Housing and Urban Development, and Veterans Affairs, and the Administrators, SBA and FmHA (for its Rural Housing loans), should assess interest, penalties, and administrative costs on delinquent debts, pursuant to the Debt Collection Act or other applicable statutes.

Addressee: Department of Education

Status: Action taken not fully responsive. Education began charging each active account \$3 per month to cover Education's administrative costs. Education charges interest and penalties only on accounts on which judgments were made.

Addressee: Farmers Home Administration

Status: Action in process. FmHA is developing computer systems which

would allow it to assess fees for returned checks and for the administrative costs of the IRS offset program. However, the project has been held up due to higher priority automation requirements.

Addressee: Department of Veterans Affairs

Status: Action in process. VA is in the process of implementing computer software changes so that interest and administrative costs can be charged on delinquent loan guaranty debts in fiscal year 1992.

Addressee: Department of Housing and Urban Development

Status: Action in process. HUD is in the process of amending regulations to charge such assessments in the Title I program. A proposed rule was published on January 29, 1991 and is expected to be finalized by late 1991.

Addressee: Small Business Administration

Status: Action in process. SBA is developing regulations to permit lenders to impose a late payment penalty. The SBA proposed role change will be published in late 1991.

Recommendation: To improve debt collection and appropriately write off uncollectible accounts, the Secretary of Housing and Urban Development and the Administrators, SBA and FmHA (for its Rural Housing loans), should report closed-out accounts to IRS as income to the debtor.

Addressee: Department of Housing and Urban Development

Status: Action in process. HUD established a procedure for reporting single family accounts to IRS. HUD plans to start reporting in 1992.

Financial Management: Additional Actions Needed to Improve Federal Financial Management Systems

AFMD-90-14, 04/27/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO reviewed efforts by the Office of Management and Budget (OMB) and the Department of the Treasury to improve the federal government's financial management operations.

Findings

GAO found that: (1) due to the lack of a governmentwide financial management plan to help guide and control their efforts, agencies struggled in developing financial systems; (2) in April 1989, OMB began developing a governmentwide financial management improvement plan; (3) the Financial Management

Service's (FMS) Federal Agency Financial Systems Program helped in furthering governmentwide improvements in financial management systems, but the program still needed improvements; (4) program officials believed that insufficient resources hindered their efforts to accomplish their objectives; (5) 2 years after the program's establishment, there were only eight program staff regulating the entire federal government; (6) FMS did not develop a comprehensive strategy defining program objectives; (7) Treasury's plans did not rank program objectives or identify milestones for accomplishing them; and (8) a

comprehensive strategy would provide agencies with direction and focus and would be an integral part of an OMB long-range financial management plan.

Open Recommendations to Agencies

Recommendation: The Director, OMB, should direct the Chief Financial Officer (CFO) Council to develop and implement a long-range, governmentwide financial management improvement plan and ensure that the plan includes reasonable estimates of the costs and resources needed to implement the plan.

Status: Action in process. Estimated completion date: 03/92. The Chief Financial Officers Act requires OMB to submit to Congress a financial management status report and a governmentwide financial management plan by February 1992. The goal is to estimate the costs of implementing the plan and identify personnel needs and resources. GAO will monitor OMB actions.

Recommendation: The Director, OMB, should direct the CFO Council to establish realistic milestones to gauge progress achieved under each planned objective and update the governmentwide financial management improvement plan based on that examination.

Status: Action in process. Estimated completion date: 03/92. OMB is required by the Chief Financial Officers Act to submit to Congress a financial management plan and a financial management status report by February 1992. The plan will include milestones and other actions necessary for implementation. GAO will monitor OMB actions.

Recommendation: The Director, OMB, should direct the CFO Council to ensure that the resources needed for implementing the governmentwide financial management improvement plan are identified in each agency's budget.

Status: Action in process. Estimated completion date: 03/92. OMB is required by the Chief Financial Officers Act to obtain agencies' 5-year financial management systems plans that will identify budgetary needs. This action will depend on OMB submission to

Congress of its governmentwide plan by February 1992. GAO will monitor OMB actions.

Recommendation: Because of continued congressional interest in improving the federal government's financial management systems, the Director, OMB, should report annually to the House Government Operations Committee and the Senate Governmental Affairs Committee on the progress in implementing, and any impediments to achieving, the objectives outlined in the long-range, governmentwide financial management improvement plan being prepared by the CFO Council.

Status: Action in process. Estimated completion date: 03/92. OMB is required by the Chief Financial Officers Act to report annually to the Chairmen, House Committee on Government Operations and the Senate Committee on Governmental Affairs, not later than 30 days after receiving individual annual reports on financial management improvements. GAO will monitor OMB efforts.

Recommendation: The Director, OMB, and the Secretary of the Treasury, together, should clarify the role of the FMS Federal Agency Financial Systems Program. The Director, OMB, should then ensure that FMS is provided sufficient resources to effectively fulfill the program's role.

Addressee: Office of Management and Budget

Status: Action in process. Estimated completion date: 03/92. OMB has worked with FMS to address the role of the Federal Agency Financial Systems Program, and will ensure sufficient

resources are made available. OMB has added a senior systems manager to its staff and significantly upgraded its ability to implement the Price Waterhouse review methodology. GAO plans to monitor OMB and Treasury efforts.

Addressee: Department of the Treasury
Status: Action in process. Estimated completion date: 01/92. OMB has worked with FMS to address the role of the Federal Agency Financial Systems Program, and will ensure sufficient resources are made available. OMB has added a senior systems manager to its staff and significantly upgraded its ability to implement system reviews.

Recommendation: Once the FMS Federal Agency Financial Systems Program's role is clearly defined, the Secretary of the Treasury, in consultation with OMB, should issue a comprehensive financial management systems strategy for the program. This strategy should be in concert with the long-range, governmentwide financial management improvement plan being developed by OMB and the CFO Council. Once developed, the strategy should be communicated to all federal agencies.

Status: Action in process. Estimated completion date: 01/92. Officials from both Treasury and OMB have worked in conjunction with the CFO Council on a strategy for reviewing agencies' financial systems. In 1990, OMB and FMS performed intensive on-site system plan reviews at five agencies. In 1991, OMB held meetings with agencies to discuss their 5-year system plans. As a result, the 5-year system plan call is being revised, and OMB Circular A-127 will be revised.

Cash Management: Diners Club Business Travel Management Program Needs Improvement

AFMD-90-66, 04/30/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a legislative requirement, GAO studied the difficulties surrounding the government's use of credit cards, focusing on the key benefits and problems associated with the Diners Club business travel management program.

Findings

GAO found that: (1) agencies believed that they benefited from employees' use of individual charge cards; (2) some agencies reduced employees' need for travel advances and improved the government's cash flow by using the charge card; (3) the charge card enabled employees to carry less cash when travelling on business; (4) most agencies did not take full advantage of program benefits; (5) agencies did not survey employees to assess their concerns about the charge card program; (6) some employees used charge cards for unauthorized purposes or did not pay their bills on time; (7) some agencies experienced increased interest costs because they had problems reconciling their centrally billed accounts; and (8)

the automatic teller machine (ATM) program may not be the most cost-effective method of issuing cash travel advances and needs improved controls.

Open Recommendations to Agencies

Recommendation: To ensure effective implementation of the Diners Club individual charge card program and to realize additional cash management benefits offered by this program, the Director, Office of Management and Budget (OMB), should issue a directive to the heads of agencies and departments on the government's use of the Diners Club business travel management program. This directive would require that the General Services Administration (GSA) survey federal employees on their views regarding the program and that agencies comply with existing policies governing the Diners Club individual charge card program and related travel policies and procedures, including: (1) limiting travel advances to meals and incidental expenses and miscellaneous expenses, such as taxis, tolls, and parking; (2) paying employee travel reimbursements

within 25 working days after the completion of a trip; (3) developing a program to encourage employees to use their Diners Club individual charge cards to purchase transportation tickets; and (4) quantifying the cash management benefits attributable to the Diners Club individual charge card program. The directive should also clearly define the agencies' role and responsibilities with respect to employees who use their Diners Club individual charge cards for personal purposes or are delinquent in paying Diners Club bills.

Status: Action not yet initiated.

Recommendation: The Director, OMB, should issue, as part of the directive regarding the government's use of the Diners Club business travel management program, a requirement to the heads of agencies and departments to ensure prompt review of past due amounts on the Diners Club centrally billed accounts. This requirement should ensure that unsupported items on those accounts are researched to determine the validity of charges.

Status: Action not yet initiated.

Financial Management: Bureau of Indian Affairs' Efforts to Implement New Accounting System

AFMD-90-60, 05/24/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO monitored the Bureau of Indian Affairs' (BIA) conversion to a new accounting system.

Findings

GAO found that BIA: (1) prepared a system implementation and conversion plan; (2) experienced system testing and training delays, primarily due to a lack of computers and an acceptable telecommunications system; (3) believed

that it could meet its planned implementation date and would only delay implementation if it experienced additional problems; and (4) planned to use a telecommunications system other than the one directed by the Department of the Interior because the systems were not compatible.

Open Recommendations to Agencies

Recommendation: The Secretary of the Interior should direct BIA to fully test

the new accounting system and train its users before system implementation.

Status: Action in process. In January 1991, OMB and Interior collaborated on a plan to correct BIA management problems, particularly in its accounting system. A team of accountants and financial management experts has been sent to Albuquerque, New Mexico to assist BIA in implementing these plans. The system is being tested and users are being trained. Federal Financial System implementation is planned for late 1991.

Public Debt: Management Actions Needed to Ensure More Accurate Accounting

GGD-90-54, 05/31/90 GAO Contact: J. William Gadsby, (202)275-8387

Background

GAO reviewed the Bureau of the Public Debt's internal control and accounting control systems, focusing on whether they: (1) enabled the Bureau to accurately account for the public debt and related interest; and (2) conformed to the Comptroller General's standards, as the law required.

Findings

GAO found that: (1) inadequate oversight of operations by Bureau management has resulted in long-standing internal control and accounting system weaknesses; (2) the systems do

not conform to Comptroller General standards; (3) the weaknesses led to billions of dollars of differences in the records accounting for the outstanding public debt and related interest; (4) the differences were due to untimely reconciliations; (5) Bureau management plans to implement a replacement accounting system in fiscal year 1991; (6) the new system could strengthen internal controls and enable the Bureau to more accurately account for and report the outstanding public debt and interest; and (7) management must better monitor operations to ensure that transactions are accurately and timely

recorded, and that errors are corrected promptly.

Open Recommendations to Agencies

Recommendation: To ensure that the Public Debt Accounting and Recording System (PARS) improves accounting for the public debt and related interest, the Secretary of the Treasury should direct the Commissioner, Bureau of the Public Debt, to increase managerial oversight and emphasis over internal and fiscal agent operations to ensure that the systems of internal and accounting control are adequate and maintain

accurate data. To do this, Bureau management must ensure that: (1) fiscal agents furnish source documents in a timely manner; (2) fiscal agents and Bureau personnel make timely corrections of source document and other accounting errors; (3) actions are taken to identify and correct internal control weaknesses that cause out-of-balance conditions; (4) timely and thorough reconciliations are made and account balances are verified; and (5) the information it needs to effectively monitor internal and fiscal agent operations is built into PARS prior to its implementation.

Status: Action in process. Bureau management has taken, and continues to take, numerous actions to increase its oversight of internal and fiscal agent operations to ensure that the systems of internal and accounting control are adequate and maintain accurate data to enhance the effective implementation of PARS. In addition, Treasury officials continue to provide managerial oversight.

Recommendation: The Secretary of the Treasury should monitor Bureau of the Public Debt management efforts to develop and implement the replacement

accounting system, PARS, and take other necessary actions to more accurately account for the public debt of the United States and related interest.

Status: Action in process. The Bureau anticipates implementation of two of three PARS modules in 1992. Implementation of the remaining module on U.S. government securities has not been scheduled. According to a Treasury official, PARS continues to receive senior management attention.

Financial Management: Forest Service Is Not Consistently Implementing Charge-as-Worked Cost Reporting

AFMD-90-50, 06/12/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO reviewed the Forest Service's actions to charge its accounts as worked rather than as budgeted in fiscal years (FY) 1988 and 1989.

Findings

GAO found that: (1) the Forest Service took a number of actions to implement the charged-as-worked policy, including directives, letters, memoranda, and revisions to its account coding structure; (2) such Service actions resulted in employees' strong awareness of the charged-as-worked policy and the need to properly charge costs; (3) Service employees believed that the policy was effective and had a positive impact on their work; (4) the Service experienced problems in implementing the charged-as-worked policy and comparing units' cost information, primarily because

units used different work details, shared services, equipment costs, budget activity accounts, and categories of work; (5) the Service used practices that inhibited unit compliance with the charged-as-worked policy, and such practices hampered units' efforts to charge costs to the benefiting activities, resulting in inaccurate activity cost information; and (6) Service management controls for the charged-as-worked policy were inconsistently applied by units, unit adherence to the Service's corrective action varied by location, and the Service had not fully implemented further corrective action.

Open Recommendations to Agencies

Recommendation: To ensure that the Forest Service fully and consistently implements the charge-as-worked policy and accurately records and reports costs,

the Chief, Forest Service, should issue detailed procedures to be followed by all units to ensure consistent treatment of costs incurred for work details, shared services, equipment use, and computer services.

Status: Action in process. By late 1991, the Forest Service plans to issue detailed procedures to be followed by all units to ensure consistent treatment of costs incurred for work details, shared services, equipment use, computer services, and other costs.

Recommendation: To ensure that the Forest Service fully and consistently implements the charge-as-worked policy and accurately records and reports costs, the Chief, Forest Service, should clarify definitions for work activity codes by providing descriptive examples so that work performed for similar activities is consistently charged to the same budget activity accounts.

Status: Action in process. Improved definitions and other changes will be incorporated into the handbook by late 1991. A reassignment of personnel has delayed the action from the original June 1991 target date.

Recommendation: To ensure that the Forest Service fully and consistently implements the charge-as-worked policy and accurately records and reports costs, the Chief, Forest Service, should

consider eliminating the primary purpose principle.

Status: Action in process. The Forest Service will complete an analysis of the effects of eliminating this principle by September 30, 1991.

Recommendation: To ensure that the Forest Service fully and consistently implements the charge-as-worked policy and accurately records and reports costs, the Chief, Forest Service, should ensure

that management controls are consistently used by all units to monitor compliance with the charge-as-worked policy.

Status: Action in process. The Forest Service plans to require that all management program reviews look at compliance with the charge-as-worked policy and, where corrective action is needed, develop an action plan. Manual update is to be completed by late 1991.

Cost Accounting: Department of Energy's Management of Contractor Pension and Health Benefit Costs

AFMD-90-13, 08/29/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO reviewed Department of Energy (DOE) policies and practices regarding the reimbursement of contractors for the costs of their employees' pension and retiree health plans.

Findings

GAO found that: (1) DOE allowed contractors to establish the amount of their contributions to employee plans, as long as the contributions fell within the minimum and maximum guidelines set by law; (2) a 1987 DOE study indicated that 20 contractors had pension assets of \$2 billion, about \$600 million above the value of the accrued benefits; (3) DOE lacked a formal funding policy regarding contractors' pension plans, and did not systematically determine the allocation of its resources to contractors' pension plans; (4) pension plans that are funded above plan liabilities could lead to such problems as distorted pension costs, program overcharges and undercharges,

participant pressure for increased benefits, and the use of pension funds to finance health care costs; (5) DOE required contractors to have site-specific pension plans or separate accounting for pensions between contractor employees and commercial employees; (6) DOE did not ensure that contractors followed its policy that employees who transfer between plans receive a payment from each plan; (7) DOE policy did not address all aspects of postcontract payments for pension plans; and (8) DOE financial audits of contractors' site-specific plans were limited and resulted in disclaimers of opinion, limiting DOE management oversight and control over pension plan assets.

Open Recommendations to Agencies

Recommendation: The Secretary of Energy should direct the Office of Industrial Relations to ensure that the revised DOE pension order includes a formal funding policy, encourages plan

administrators to choose full-scope audits of site-specific pension plans, and addresses issues related to employee transfers and postcontract ad hoc cost-of-living adjustments.

Status: Action in process. DOE has proposed, but has not yet finalized, a revised pension order. GAO believes the proposed revised order will, if finalized without substantial change, successfully implement the recommendation.

Recommendation: The Secretary of Energy should direct the Office of Industrial Relations to develop additional policies and procedures on settling postcontract retiree health benefits which set forth the criteria for deciding at contract expiration which approach, lump-sum settlement, continued pay-as-you-go reimbursement, or transfer of employees to the successor contractor, should be used.

Status: Action in process. The policy on post-contract retiree health benefits is still in the drafting stage.

Financial Management: Defining Requirements Is Crucial to System 90's Success

AFMD-90-85, 09/05/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO reviewed the Financial Management Service's (FMS) efforts to initiate and define requirements for a long-term strategy for modernizing and integrating its financial management activities, System 90, focusing on its first application, the Payments, Claims, and Enhanced Reconciliation (PACER) system.

Findings

GAO found that: (1) although FMS performed many of the analyses stipulated in federal system development guidance, it did not clearly define the system's capabilities or adequately analyze the related costs and benefits; (2) due to inadequate FMS cost-benefit analyses, there was limited information for determining which System 90 and PACER design aspects were likely to be most cost-beneficial; (3) FMS has not

completed refining and clarifying PACER functional and internal control requirements; (4) in an effort to eliminate errors, omissions, or ambiguities in the documentation prior to contract award, a task force was analyzing various aspects of the PACER design; (5) FMS did not include System 90 or PACER in the Financial Management System's Five-Year Plan, as required; and (6) from fiscal year (FY) 1990 through FY 1994, FMS estimated that the System 90/PACER effort could cost about \$55 million.

Open Recommendations to Agencies

Recommendation: In order to ensure that System 90 and PACER provide the capabilities that FMS needs in the most cost-beneficial manner, the Secretary of the Treasury should direct the System 90 project development team to revise and update its analysis of costs and

benefits associated with System 90 and PACER in accordance with Federal Information Processing Standard 64 to determine how much PACER will cost the federal government as a whole and to determine which system capabilities will be the most valuable and, therefore, the most important to implement. **Status:** Action in process. FMS is reconsidering its system development plans and related costs and benefits.

Recommendation: The Secretary of the Treasury should direct FMS to include System 90 in future 5-year plans, as required by Office of Management and Budget Circular A-127.

Status: Recommendation valid/action not intended. Treasury believes that System 90/PACER should not be included in its 5-year plan because it is an "operating system" and such inclusion would add cost without adding value. No further explanation was provided.

Financial Audit: Department of Veterans Affairs Financial Statements for Fiscal Years 1989 and 1988

AFMD-91-6, 11/14/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO reviewed the Department of Veterans Affairs' (VA): (1) consolidated financial statements for the fiscal years ended September 30, 1989 and 1988; (2) financial operations and appropriation

activity; and (3) self-assessment of internal controls.

Findings

GAO found that, except for property and equipment, the consolidated financial

statements presented fairly the financial position of VA as of September 30, 1989 and 1988. GAO qualified its opinion due to missing or undocumented values of VA assets and inconsistent adherence to capitalization and depreciation policies by VA field personnel. GAO also found

that: (1) VA net operating costs decreased slightly from 1988 to 1989; (2) VA health care and veterans benefits costs remained steady but could change in the future; (3) veterans' housing credit assistance would require substantial future appropriations; (4) the veterans' life insurance program was secure; (5) VA general administrative costs did not grow significantly; (6) VA had serious credit management problems; (7) Congress and VA management needed greater assurance that unused and unliquidated appropriations were properly accounted for; (8) automatic data processing (ADP) software maintenance and data integrity control weaknesses continued at all three VA data processing centers; (9) internal controls were ineffective in preventing and recovering erroneous benefit payments on behalf of deceased recipients; and (10) VA major accounting systems failed to conform with accounting principles and standards for ADP, property management, personnel and organizational management, program management, and accounting and financial management systems.

Open Recommendations to Agencies

Recommendation: The Secretary of Veterans Affairs should direct the Assistant Secretary for Finance and Planning to revise existing internal control and accounting policies and procedures for VA property, equipment, and related depreciation to meet the requirements of generally accepted accounting principles.

Status: Action in process. Estimated completion date: 05/92. VA Circular 00-91-2 was issued on February 25, 1991, requiring that all VA real property costing \$5,000 or more be capitalized in accordance with Title II. VA plans to implement personal property policies and procedures in May 1992 with the

installation of the Integrated Supply Management System (ISMS).

Recommendation: The Secretary of Veterans Affairs should direct the Assistant Secretaries for Finance and Planning and for Acquisition and Facilities to jointly establish policies and procedures to remove all equipment items from the equipment system data base that do not meet the VA capitalization threshold.

Status: Action in process. Estimated completion date: 05/92. Personal property capitalization policies and procedures are being prepared for installation with ISMS in May 1992.

Recommendation: The Secretary of Veterans Affairs should direct the Assistant Secretaries for Finance and Planning and for Acquisition and Facilities to jointly establish policies and procedures to distinguish the capitalized equipment from non-capitalized equipment for accounting purposes.

Status: Action in process. Estimated completion date: 05/92. ISMS, scheduled for implementation in May 1992, is being designed with procedures to distinguish capitalized from non-capitalized equipment for accounting purposes.

Recommendation: The Secretary of Veterans Affairs should direct the Assistant Secretaries for Finance and Planning and for Acquisition and Facilities to jointly establish policies and procedures to reconcile and make necessary adjustment for the capitalized equipment component of the equipment property system to agree with the general ledger control account balance.

Status: Action in process. Estimated completion date: 05/92. ISMS, scheduled for implementation in May 1992, is being designed with procedures to reconcile and make necessary adjustments for the capitalized equipment component of the equipment property system to agree

with the general ledger control account balance.

Recommendation: The Secretary of Veterans Affairs should direct the Assistant Secretaries for Finance and Planning and for Acquisition and Facilities to jointly establish policies and procedures to determine an appropriate method for maintaining the general control account and the subsidiary system in balance.

Status: Action in process. Estimated completion date: 05/92. ISMS, scheduled for implementation in May 1992, is being designed with procedures to ensure that the general control account and the subsidiary system remain in balance.

Recommendation: The Secretary of Veterans Affairs should direct the Assistant Secretary for Information Resources Management and the Chief Benefits Director to jointly revise existing ADP internal control policy and procedures to ensure that each of the three VA data processing centers provides for a documented and operationally tested contingency plan.

Status: Action in process. VA realigned its data processing centers as follows: Hines and Philadelphia to Veterans Benefits and Austin to the Office of Finance and Planning. Veterans Benefits has begun development of contingency plans and the Austin center plans to develop a documented and operationally-tested contingency plan after completing its corrective action plan at the end of fiscal year 1991.

Recommendation: The Secretary of Veterans Affairs should direct the Assistant Secretary for Finance and Planning and the Chief Benefits Director to jointly issue policy and procedural guidance to ensure the prompt identification and recovery of all erroneous benefit payments.

Status: Action in process. Reclamation action on specific death cases highlighted by GAO have been referred to the VA Centralized Accounts

Receivable Division for collection action. Additional policy and procedural guidance for identifying and recovering erroneous payments are being developed

and are anticipated to be implemented by late 1991. The Veterans Benefits department is developing a plan to eliminate the backlog.

Financial Audit: Food and Nutrition Service's Financial Statements for Fiscal Years 1988 and 1987

AFMD-91-3, 12/21/90 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Food and Nutrition Service's (FNS): (1) financial statements for the fiscal years ended September 30, 1988 and 1987; (2) internal control system; and (3) compliance with laws and regulations.

September 30, 1988 and 1987 and the related statements of operations and changes in funds with the Treasury for the year ended September 30, 1988, presented fairly the FNS financial position in conformity with generally accepted accounting principles.

Status: Action in process. Estimated completion date: 01/92. FNS plans to develop additional guidance on coupon inventory controls in the compliance supplement to OMB Circular A-128 and develop a technical assistance package for states to improve their oversight and controls.

Findings

GAO found that: (1) FNS did not adequately monitor states' control of food coupons; (2) the FNS financial reporting process failed to produce reliable results; (3) FNS year-end reports to the Department of the Treasury were inaccurate; (4) FNS did not adjust its accounting records for the value of food coupons returned to inventory; and (5) the statements of financial position as of

Open Recommendations to Agencies

Recommendation: The Secretary of Agriculture should direct the Administrator, FNS, to: (1) enforce FNS oversight of state controls over food coupons, including inventory audit procedures, recordkeeping, and reporting to FNS; and (2) develop the policies and procedures necessary to ensure the consistent monitoring of state agency controls.

Recommendation: The Secretary of Agriculture should direct the Administrator, FNS, to ensure that financial statements and reports are prepared using required accounting policies, procedures, and methodologies. **Status:** Action in process. FNS is developing procedures for preparing financial reports, recording adjustments, and calculating bad debt allowances and the food stamp redemption liability.

Financial Management: INS Lacks Accountability and Controls Over Its Resources

AFMD-91-20, 01/24/91 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Immigration and Naturalization Service's (INS) financial

management systems, operations, and controls.

Findings

GAO found that: (1) INS lacked the systems and procedures to ensure the collection, accountability, control, and

deposit of millions of dollars in revenue and debts; (2) INS debt management problems stemmed from inaccurate financial data, unreliable financial systems, insufficient internal controls, lack of coordination among district offices, and low priority on financial management; (3) district offices did not adhere to INS cash management procedures for depositing receipts; (4) INS lost large amounts of fee revenue because of checks returned for insufficient funds; (5) INS did not maintain complete records essential for supporting its debt collection efforts; (6) incomplete files and low management priority made INS collection of breached surety bonds more difficult; (7) INS ineffectively directed the design and implementation of an INS-wide debt management system; (8) financial management problems severely affected INS ability to effectively manage and accurately report the results of its program and administrative operations; (9) INS lacked effective controls over fund balances, and its financial reports did not accurately reflect its financial condition or provide reliable financial information; (10) coding errors, lack of reconciliations between the primary and subsidiary accounting systems, and data entry backlogs contributed to the inaccuracies in reports generated by the primary accounting system; and (11) INS did not report all of its internal control and accounting weaknesses to the President or Congress.

Open Recommendations to Agencies

Recommendation: The Attorney General should direct the Commissioner, INS, to ensure that total fee revenue due the government is collected efficiently and that effective systems are in place to provide reliable information for managing INS fee programs.

Status: Action in process. An implementation plan was developed and

approved by the INS Commissioner in January 1991. As part of its efforts to improve debt collection, INS is reviewing the adequacy of its methods of collecting user fees.

Recommendation: The Attorney General should direct the Commissioner, INS, to continue efforts to develop an effective debt collection system and hold managers accountable for maintaining reliable financial data on debts owed the government.

Status: Action in process. In January 1991, INS developed a comprehensive plan to address its longstanding debt collection problems. The plan calls for the implementation of a viable system and proposed legislative language which would authorize reimbursement of collecting breached bonds from the funds collected.

Recommendation: The Attorney General should direct the Commissioner, INS, to appoint an Associate Commissioner for Financial Management who should serve as the agency focal point for developing an overall financial management plan for improving systems and integrating INS financial management structure.

Status: Action in process. The INS Commissioner has created an Associate Commissioner for Finance position in its reorganization structure. As of late 1991, an appointment to this position was still pending. INS is following the Office of Management and Budget (OMB) directive requiring the development of integrated financial management systems. INS is working with the Department of Justice (DOJ) in the design and development of its systems.

Recommendation: The Attorney General should direct the Commissioner, INS, to appoint an Associate Commissioner for Financial Management who should review INS financial system requirements and ensure that the DOJ

Financial Management Information System is able to meet them.

Status: Action in process. The Commissioner has created an Associate Commissioner for Finance position in its reorganization structure. As of late 1991, an appointment to this position was still pending. INS is following the OMB directive requiring the development of integrated financial management systems. INS plans, through careful review, to ensure that new system designs meet its financial requirements.

Recommendation: The Attorney General should direct the Commissioner, INS, to appoint an Associate Commissioner for Financial Management who should adhere to established accounting policies and procedures for performing periodic reconciliations between INS accounting records and internal and external financial reports to determine the causes of differences and the correct amount for fund balances.

Status: Action in process. The Commissioner has created an Associate Commissioner for Finance position in its reorganization structure. As of late 1991, an appointment to this position was still pending. Currently, INS regional offices are required to submit monthly certification that cash balances are correct, as well as quarterly certification of ledger account balances and unrecorded transactions.

Recommendation: The Attorney General should direct the Commissioner, INS, to appoint an Associate Commissioner for Financial Management who should prepare INS financial statements in accordance with Title 2 of the GAO Policy and Procedures Manual and arrange for them to be independently audited on an annual basis.

Status: Action in process. The Commissioner has created an Associate Commissioner for Finance position in its reorganization structure. As of late 1991,

an appointment to this position was still pending. INS has also created a new unit—the Office of Internal Audit—to detect, report, and oversee correction of internal control weaknesses. INS anticipates that this unit could be an independent body.

Recommendation: The Attorney General should direct the Commissioner, INS, to

appoint an Associate Commissioner for Financial Management who should include field activities in the Federal Managers' Financial Integrity Act review process and report all material weaknesses and actions to correct them to DOJ for inclusion in the annual report to the President and Congress.

Status: Action in process. The Commissioner has created an Associate

Commissioner for Finance position in its reorganization structure. As of late 1991, an appointment to this position was still pending. INS has also created a new unit—the Office of Internal Audit—to detect, report, and oversee correction of internal control weaknesses. INS anticipates that this unit could be an independent body.

Financial Management: National Park Service Implements New Accounting System

AFMD-91-10, 02/13/91 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO reviewed the accounting capabilities of the National Park Service (NPS) and monitored its implementation of a new accounting system for its bureaus and major offices.

Findings

GAO found that NPS: (1) formerly used a system that did not comply with federal accounting standards, but implemented its new Federal Financial System (FFS) to improve its accounting operations; (2) expected its new accounting system to provide proper accounting for NPS appropriations and allocation of park entrance fees; (3)

delayed establishing automatic interfaces with its other financial data systems and deferred plans to change its accounting codes; (4) also modified plans to provide many of the new system's users with direct access to the system's mainframe computer; and (5) required close monitoring to help ensure that its system's costs do not increase beyond its needs for effective operation, NPS uses sufficient staff to operate the system, and system documentation is adequate.

Open Recommendations to Agencies

Recommendation: To ensure that NPS develops and completes the enhancements to FFS that are planned or being considered and that the areas of

particular concern to the subcommittees are properly accounted for through FFS, the Secretary of the Interior should instruct the Director, NPS, to monitor the areas discussed in this report through reviews of the NPS accounting system under the Federal Managers' Financial Integrity Act (FMFIA).
Status: Action in process. The FMFIA report is due in late 1991.

Recommendation: The Secretary of the Interior should disclose to Congress, through Interior's reports under FMFIA, whether NPS is properly accounting for its appropriations and allocating park entrance fees.

Status: Action in process. FMFIA reports will not be prepared until late 1991.

Financial Audit: Forest Service's Financial Statements for Fiscal Year 1988

AFMD-91-18, 03/18/91 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Forest Service's financial statements for the fiscal year ended September 30, 1988.

Findings

GAO found that: (1) the central accounting system did not integrate all separate accounting and reporting systems; (2) internal control policies and procedures within individual accounting and reporting systems failed to ensure that financial information was reliable and in compliance with prescribed accounting principles; (3) the general ledger was unable to produce accurate and timely financial reports, since the Service failed to integrate it with its accounting and reporting systems; (4) the Timber Sale Program Information Reporting System (TSPIRS) was not in accordance with generally accepted accounting principles; (5) the Service violated the Anti-Deficiency Act by overobligating the National Forest System's funds and the Job Corps account's allotment; and (6) except as noted, the financial statements presented fairly the Service's financial position, and the results of its operations, in conformity with generally

accepted accounting principals applied on a consistent basis.

Open Recommendations to Agencies

Recommendation: The Secretary of Agriculture should direct the Chief, Forest Service, to integrate all financial accounting and reporting systems with the Forest Service's general ledger so that all accounts are part of the general ledger system. This should include the capability of automatically updating all integrated systems when a transaction is processed.

Status: Action not yet initiated.

Recommendation: The Secretary of Agriculture should direct the Chief, Forest Service, to reconcile data in the general ledger with all subsidiary systems.

Status: Action not yet initiated.

Recommendation: The Secretary of Agriculture should direct the Chief, Forest Service, to ensure that field unit staff: (1) promptly update the fixed asset subsidiary ledger system; (2) review and reconcile field unit ledgers with central accounting records; and (3) periodically inventory equipment.

Status: Action not yet initiated.

Recommendation: The Secretary of Agriculture should direct the Chief, Forest Service, to improve accounting controls in the general ledger and subsidiary systems by: (1) clarifying and correcting written procedures for classifying payables and receivables; (2) supervising field staff to ensure that their work is accurate and timely, and that agency policies and procedures are followed; and (3) reviewing external and internal reports to ensure accuracy, consistency, and compliance with federal financial reporting requirements.

Status: Action not yet initiated.

Recommendation: The Secretary of Agriculture should direct the Chief, Forest Service, to modify TSPIRS to incorporate procedures to: (1) better match costs and volume of timber harvested; (2) improve the capitalization and depreciation of the cost of roads and related structures; and (3) periodically review growth pool balances and the amortization formula to determine how realistically they account for conditions in the forests.

Status: Action not yet initiated.

Bureau of Indian Affairs' Efforts to Reconcile and Audit the Indian Trust Funds

T-AFMD-91-2, 04/11/91 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO discussed the Bureau of Indian Affairs' (BIA) efforts to reconcile and audit the Indian trust funds. GAO noted that: (1) numerous audit reports have pointed out serious accounting and financial management problems and weak internal controls throughout BIA; (2) the lack of general ledger control over accounts, inaccurate data, the lack of accounting systems documentation, and inadequate management of the Indian trust funds caused numerous accounting errors; (3) the first phase of the BIA trust fund reconciliation and audit project would identify the correct account balances for over 500 tribal accounts and 17,000 individual Indian money trust accounts; and (4) BIA planned to use the first-phase results to develop plans for moving into a second phase that would cover the remaining 1,500 tribal and 283,000 individual Indian money accounts. GAO believes that: (1) legislation may be needed to provide appropriations for monies owed to account holders or relief for unrecoverable overpayments that go back many years; (2) BIA planned to implement the Department of the Interior's six-part plan to help it control fund accounting transactions, reconcile all account balances, and implement a new Interior-wide accounting system; and (3) BIA must ensure that it carries out its financial responsibilities

efficiently and effectively by developing a comprehensive financial management plan for both its appropriated funds and trust fund operations.

Open Recommendations to Agencies

Recommendation: To ensure effective reconciliation, audit, and accounting for Indian trust funds, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to finalize the trust funds reconciliation project management plan. The plan should address key issues such as contractor oversight, BIA project support and staffing, the role of the designated tribal representatives, and contractor reporting.

Status: Action in process. In September 1991, a draft plan addressing the issues GAO identified was provided to the Indian/Tribal Monitoring Association for comment.

Recommendation: To ensure effective reconciliation, audit, and accounting for Indian trust funds, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to develop plans and timetables for audit and certification of reconciled accounts.

Status: Action in process. In August 1991, BIA provided GAO with a draft request for proposals (RFP) for audit and

certification of reconciled accounts. The RFP was incomplete in content and target dates were unrealistic, given the slippage in initiating reconciliation of the accounts. BIA will revise the draft RFP by late 1991.

Recommendation: To ensure effective reconciliation, audit, and accounting for Indian trust funds, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to develop policies and procedures to ensure that balances remain accurate once the accounts are reconciled.

Status: Action in process. BIA responded that its strategic plan will address this recommendation and that policies and procedures will be developed in conjunction with the reconciliation. However, no one has been assigned responsibility for developing policies and procedures or ensuring that reliable systems will be in place.

Recommendation: To address BIA long-term financial management problems, the Secretary of the Interior should direct the Department's Chief Financial Officer to ensure that BIA financial management improvement initiatives, including reorganization plans, tie into and support the Chief Financial Officers Act's objectives.

Status: Action not yet initiated.

Financial Audit: Farmers Home Administration's Financial Statements for 1989 and 1988

AFMD-91-36, 05/06/91 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

GAO examined the Farmers Home Administration's (FmHA): (1) consolidated financial statements as of September 30, 1989 and 1988; (2) internal accounting control structure; (3) compliance with laws and regulations; and (4) operating results for the fiscal year (FY) then ended.

Findings

GAO found that: (1) FmHA used inaccurate accounting records to support its reported amount of acquired property and did not properly reconcile reports produced by the Acquired Property Tracking System with its field offices' detailed acquired property files; (2) FmHA complied with laws and regulations for FY 1989; and (3) the new FmHA farm loan system lacked sufficient internal controls and was unable to project loan losses. In addition, GAO found that FmHA financial operations for FY 1987 through FY 1989 showed that: (1) FmHA consistently operated at a loss, since it paid higher interest than it received from borrowers and many borrowers did not repay loans; (2) FmHA total loan portfolio book value

decreased from \$60.9 billion in FY 1987 to \$54.5 billion in FY 1989; (3) emergency farm loans represented a high delinquency and default risk; (4) nonfarm loans totalled \$32 billion as of September 30, 1989 and continued to represent 59 percent of total outstanding FmHA loans; and (5) FmHA loan guarantees increased to \$4.5 billion. GAO also noted that it: (1) and the Office of Management and Budget identified FmHA as a high-risk area within the federal government; and (2) was conducting detailed reviews to determine the nature and extent of problems associated with FmHA systems and programs.

Open Recommendations to Agencies

Recommendation: The Secretary of Agriculture should direct the Administrator, FmHA, to require accurate and timely reconciliation of the acquired property general ledger accounts with detailed acquired property files each fiscal year.

Status: Action in process. With the implementation of systems modifications in February 1991, adjustments were made to bring the general ledger into

agreement with supporting detail records. FmHA is to review accuracy by late 1991.

Recommendation: The Secretary of Agriculture should direct the Administrator, FmHA, to implement internal controls to detect and correct data entry errors in the farm loan classification system.

Status: Action in process. Edit checks were implemented in February 1991 to detect unusual amounts. Loan classifications for single family housing programs were completed on September 6, 1991, with farm programs to be completed by late 1991.

Recommendation: The Secretary of Agriculture should direct the Administrator, FmHA, to reconcile estimated loss information from the loan classification system to the hard-copy files at the field offices to ensure that all previous data entry errors are corrected.

Status: Action in process. Reports are sent to FmHA field offices twice a year to verify classification information for farm programs and annually for single family housing programs. Accuracy of these reports is to be evaluated during assessment reviews by late 1991.

Corporate Financial Audits

Issue Area Summary: Corporate Financial Audits

Impact of GAO's Work

Government corporations now provide over \$5 trillion in guarantees and insurance in support of the nation's major financial industries, including banks, savings and loan institutions, credit unions, and pension plans. The savings and loan crisis and the problems in the banking industry have heightened policymakers' and the public's concern over the significant exposure to the taxpayer presented by government corporations involved in such credit assistance and insurance programs.

Because of the financial risk inherent in these industries and the potential cost to the taxpayer, the Congress and regulators need more reliable and informative financial reports to provide early warnings of problems. Through our financial statement audits of government corporations, we determine and report on these entities' financial condition, adequacy of internal control systems, and compliance with laws and regulations. In so doing, we have identified deficient regulatory, auditing, and accounting practices that add to the entities' risk and taxpayers' exposure.

Troubled Financial Institutions

Our work has included audits of the bank, savings and loan, credit union, and pension plan insurance funds; reviews of bank and thrift supervision and examination processes; and reviews of accounting rules relied on to ensure accurate financial reporting.

Our financial audits of the Federal Savings and Loan Insurance Corporation gave the Congress and regulators early warnings on the emerging savings and loan crisis. Many of our recommendations to help resolve the industry's problems and establish controls to minimize risks to the insurance fund have been implemented. More recently, our timely warnings on the banking industry problems have received significant attention by the administration and the Congress. Our reporting on the precarious condition of the Bank Insurance Fund has resulted in the elimination of the cap on bank insurance assessments and the maximum cap on the Fund's balance.

During our audit of the Pension Benefit Guaranty Corporation's 1990 financial statements, we identified material weaknesses in the Corporation's internal accounting and related financial management systems' controls. These weaknesses significantly affected the reliability of the Corporation's financial reports and its ability to ensure that its obligation to beneficiaries of terminated pension plans could be met. As a result of our audit, the Corporation has undertaken a major effort to improve its financial management systems and controls.

Accounting and Auditing Standards

Another major focus of our work is uncovering and eliminating accounting weaknesses that obscure the actual financial condition of institutions and their insurance funds. As such, we are working with the accounting-standard-setting bodies to improve accounting for banks and thrifts in areas that affect reliability of financial reporting, such as loan loss recognition and measurement and related-party transactions. Also, we have been successful in preventing adoption of proposed accounting treatments, such as issuing preferred stock to recapitalize the Bank Insurance Fund or splitting loans into performing and nonperforming portions. These proposals would have resulted in unreliable financial reporting on the condition of the Bank Insurance Fund and the banking industry.

Key Open Recommendations

Bank Insurance Fund

In our report on the Bank Insurance Fund's December 31, 1989, financial statements, we made several recommendations to improve bank supervision and examination procedures by providing an early warning system for troubled banks and to help minimize Fund losses. Despite recent legislative action and action by the Federal Deposit Insurance Corporation (FDIC) to increase premium rates, the continuing high level of bank failures reduced the Fund balance at December 31, 1990, to \$4 billion, from a level of \$13.2 billion at December 31, 1989. The significant level of bank failures thus far in 1991 and projections of other banks likely to fail make it highly likely that the Fund will be insolvent by December 31, 1991. (GAO/AFMD-90-100, see p. 849.)

Two legislative proposals—H.R. 6 and S. 543—provide for funding for the Bank Insurance Fund, both for losses and working capital, and for strengthening the regulatory process for financial institutions. Legislation must be passed soon to avoid a disruption in FDIC's bank resolution process.

Internal Control, Audit, and Accounting Requirements for Banks

Legislative proposals—H.R. 6 and S. 543—also contain critically needed reforms, as we recommended, to improve internal controls and auditing for banks and to provide a framework for an early warning system to identify and deal with troubled banks to help minimize losses of deposit insurance funds. These proposals are largely responsive to our recommendations for (1) requirements for annual full-scope examinations of banks by regulatory agencies, (2) annual audits by independent public accountants, (3) management reporting on internal control systems, (4) auditor reporting on management's assessment of internal controls and compliance with laws and regulations, and (5) requirements for independent audit committees staffed by qualified members.

These proposals should be an essential part of any legislation to rebuild the insurance funds. (GAO/AFMD-90-100, see p. 849, and GAO/AFMD-91-43, see p. 850.)

Accounting Standards

Our recommendations for changes in generally accepted accounting principles were directed to the accounting-standard-setting bodies and, in the absence of any resolution of our concerns, to the banking regulators. In response to our recommendations that losses for problem loans be recognized on a more timely basis, the Financial Accounting Standards Board (FASB) reiterated in July 1991 that the criteria for recognition of such losses when they are "probable" is not meant to imply that such losses must be "virtually certain." We are concerned that FASB's action is not sufficient and that problem loans will not be fully recognized. This, in turn, could lead to inflated asset values. We are working with FASB to refine the loan loss recognition criteria to require recognition of losses that are more likely than not (rather than probable) to occur.

FASB is still considering our recommendations to (1) more appropriately reflect current market conditions in the definition and the determination of fair market values for insubstance foreclosed assets and other real estate owned and (2) clarify accounting rules and audit procedures for related-party transactions to ensure they are accounted for and are reported on the basis of their substance when it differs materially from the legal form of the transactions.

Accounting rules for valuing troubled assets need to be changed to avoid inflated values. To fairly present dealings between parties and to serve as a safeguard against inappropriate transactions, related-party transactions need to be accounted for on the basis of their substance. Establishing such requirements is especially critical if banks are given expanded powers to enter the securities and insurance markets. (GAO/AFMD-91-43, p. 850.)

**Cash Reserves to Cover Losses on
RTC Asset Sales**

In our May 1991 report on the Resolution Trust Corporation's (RTC) compliance with the statutory maximum obligation limit, we reported that RTC was no longer reserving funds to cover possible unexpected losses when receivership assets were finally sold. As allowed by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), RTC changed its methodology for calculating the maximum obligation limit that eliminated \$18.8 billion in Treasury appropriations from the obligations limit formula. Subsequently, the Congress appropriated an additional \$30 billion that was also not included in the formula. By not including the appropriations in the formula, RTC does not have to reserve any of these funds to cover likely future losses from asset sales. Therefore, any future losses from differences between the estimated recovery value of RTC's assets and their actual net sales proceeds will have to be funded by the Congress. We believe the Congress should reestablish the cash reserve feature by amending FIRREA to recognize all funding sources in the formula. RTC would then be required to set aside a portion of its unspent loss funds to provide a hedge against any loss resulting from the possible overvaluation of its assets in receiverships. (GAO/AFMD-91-63, see p. 853.)

RTC Asset Management Systems

In our first three reports on RTC's compliance with the maximum obligations limit set forth in FIRREA, we reported that RTC was not tracking and reporting the results of its asset sales. This information is necessary to evaluate the accuracy of the estimated fair market value of RTC's assets in receiverships—a key component of the obligations limit formula. Therefore, we recommended that RTC develop systems to give RTC management information such as the initial estimated fair market value assigned each asset, the date available for sale and the date actually sold, the sales price, and the gain or the loss on the sale. RTC is developing several asset systems that will contain information on the actual sales price compared with the estimated recovery value. These systems, however, are in various stages of completion, and we cannot yet determine how responsive they will be to our recommendation. (GAO/AFMD-90-101, see p. 848, and GAO/AFMD-91-63, see p. 853.)

Export-Import Bank Deficit

Our report on the Export-Import Bank's September 30, 1989, financial statements disclosed that (1) significant losses associated with the Bank's foreign loans and claims receivable portfolios had resulted in a serious capital deficiency and (2) continued losses due to loan credit quality and interest rate spread problems would lead to increases in the Bank's accumulated deficit. We recommended that the Congress implement a comprehensive recapitalization plan for the Bank that would (1) restore the Bank's equity position to a positive level, as measured by generally accepted accounting principles, and (2) provide a means for ensuring that the Bank maintained a minimum positive level of capital despite any future losses it might incur in fulfilling its mission. (GAO/AFMD-90-80, see p. 848.)

During 1990, the Bank sustained significant additional losses of \$890 million stemming from loan credit quality and interest rate spread problems, which increased the Bank's capital deficiency to \$5.4 billion. As a result of continuing losses in carrying out its charter, the Bank depends on Federal Financing Bank (FFB) borrowings to fund its operations. Absent the comprehensive recapitalization plan we recommended, FFB or the Department of the Treasury will continue to be forced, in effect, to finance the Bank's losses.

Products With Open Recommendations: Corporate Financial Audits

Product Title	Financial Audit: Export-Import Bank's 1989 and 1988 Financial Statements (AFMD-90-80)	848
	Obligations Limitation: Resolution Trust Corporation's Compliance as of March 31, 1990 (AFMD-90-101)	848
	Bank Insurance Fund: Additional Reserves and Reforms Needed to Strengthen the Fund (AFMD-90-100)	849
	Failed Banks: Accounting and Auditing Reforms Urgently Needed (AFMD-91-43)	850

Obligations Limitation: Resolution Trust Corporation's Compliance as of September 30, 1990 (AFMD-91-63)	853
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**Related Products With Open
Recommendations Under
Other Issue Areas**

Product Title		
Troubled Financial Institutions: Solutions to the Thrift Industry Problem (GGD-89-47)	680	
Deposit Insurance: A Strategy for Reform (GGD-91-26)	692	
Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks (GGD-91-90)	698	
Credit Unions: Reforms for Ensuring Future Soundness (GGD-91-85)	699	
FDIC: Loan Sales Jeopardized by Systems and Other Internal Control Problems (IMTEC-91-61)	703	

Financial Audit: Export-Import Bank's 1989 and 1988 Financial Statements

AFMD-90-80, 07/19/90 GAO Contact: Robert Gramling, (202)275-9406

Background

GAO examined the financial records and internal accounting controls of the Export-Import Bank of the United States (Eximbank) as of September 30, 1989 and 1988, and related statements of income and changes in retained earnings and of cash flows for the years then ended.

Findings

GAO found that: (1) the Eximbank fiscal year (FY) 1989 financial statements present possible losses totalling \$4.8 billion associated with its \$12.1-billion foreign loans and claims portfolios; (2) the 1988 financial statement had been

changed to show the losses associated with the impairment of the foreign loans and claims portfolios that occurred prior to FY 1989; (3) a reported \$1.9-billion net loss in FY 1989 was principally due to the continued impairment of Eximbank foreign loans and claims portfolios; and (4) a one-time exposure fee that Eximbank began assessing in May 1987 would not improve the negative interest rate spread on most of its current portfolio.

Open Recommendations to Congress

Recommendation: Congress should implement a recapitalization plan for Eximbank that would: (1) restore the bank's equity position to a positive level as measured by generally accepted accounting principles; and (2) provide a means for ensuring that the bank maintains a minimum positive level of capital despite any future losses it may incur in fulfilling its mission.

Congressional Action: Congressional committees have begun hearings on the bank's reauthorization in 1993. There has been no serious discussion or action as yet on the recapitalization issue.

Obligations Limitation: Resolution Trust Corporation's Compliance as of March 31, 1990

AFMD-90-101, 07/27/90 GAO Contact: Robert Gramling, (202)275-9406

Background

Pursuant to a congressional request, GAO reviewed the quarterly report on the Resolution Trust Corporation's (RTC) compliance with the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), to determine whether: (1) RTC included all the required categories in its calculations; and (2) the values reported appeared reasonable for select components of the calculations.

Findings

GAO found that: (1) none of the categories for the formula required by FIRREA were omitted; (2) the failure to reasonably estimate the fair market value of assets could result in overstated future RTC obligations; (3) noncompliance with RTC policy concerning advances made to conservatorships could impact the return on asset recoveries, thereby increasing resolution costs; (4) giving representations and warranties to the secondary market and contracting

services with the private sector, if adopted, may affect additional obligations; and (5) RTC needs to establish the basis for measuring associated costs so that future quarterly reports are accurate and informative.

Open Recommendations to Agencies

Recommendation: The RTC Executive Director should take the necessary actions to ensure that future RTC quarterly reports to the Chairman,

House Committee on Banking, Finance and Urban Affairs, disclose actual results on asset sales in comparison with estimates.

Status: Action in process. RTC is developing several asset systems which will contain information on actual sales price compared to estimated recovery

value. These systems are in various stages of completion.

Bank Insurance Fund: Additional Reserves and Reforms Needed to Strengthen the Fund

AFMD-90-100, 09/11/90 GAO Contact: Robert Gramling, (202)275-9406

Background

GAO: (1) audited the Bank Insurance Fund's financial statements for the years ended December 31, 1989, and 1988; and (2) discussed serious problems facing the banking industry, the Fund's ability to deal with those problems, and reforms to strengthen the Fund.

Findings

GAO found that: (1) although the Fund had the resources to handle anticipated bank failures in 1990, its low level of reserves, coupled with a recession, could lead to a level of bank failures that would exhaust the Fund and require taxpayer assistance; (2) the Fund ended 1989 with a net loss of \$852 million, which reduced its balance to \$13.2 billion; (3) the increasingly risky nature of loan portfolios was the leading cause of problems within the banking industry; (4) 35 banks were in such severe financial condition that they were likely to fail or require assistance within the next year, and about 1,100 banks had serious financial problems; (5) the ratio of the Fund's balance to insured deposits stood at 0.7 percent, the lowest level ever; (6) the Fund was not likely to reach its legislatively required minimum reserve ratio of 1.25 percent until 1995; (7) the Fund was contingently liable for \$8 billion of troubled assets held by acquirers of failed banks; and (8)

regulators relied on banks' quarterly reports of financial condition, but such reports were not always accurate or comprehensive. GAO also found that the financial statements: (1) presented fairly the Fund's financial position; and (2) did not include the estimated costs of anticipated bank failures, since those costs did not meet the degree of certainty for loss recognition established by accounting principles. GAO believes that adherence to those principles may unduly delay the recognition of losses that could substantially reduce the Fund's balance.

Open Recommendations to Agencies

Recommendation: The Chairman, Federal Deposit Insurance Corporation (FDIC), the Chairman, Federal Reserve Board (FRB), and the Comptroller of the Currency (OCC) should annually perform on-site, full-scope examinations of problem banks and large banks.

Addressee: Department of the Treasury: Office of the Comptroller of the Currency

Status: Action in process. OCC believes its approach provides sufficient information on the status of national banks. OCC maintains resident examiners in large banks and performs annual examinations and off-site analyses of problem banks. Action

contemplated in H.R. 6 and S. 543 will require regulators to conduct annual full-scope, on-site examinations on all insured institutions.

Addressee: Federal Deposit Insurance Corporation

Status: Action in process. FDIC believes its use of off-site monitoring has complemented its on-site bank examination practices. FDIC believes that the priority and frequency of examinations, increased levels of examiners, and improved efficiency have increased levels of on-site examinations. Action contemplated in H.R. 6 and S. 543 will require regulators to conduct annual full-scope, on-site examinations on all insured institutions.

Addressee: Federal Reserve System: Board of Governors

Status: Action in process. FRB examination policies parallel those in this recommendation. FRB requires large and problem banks to receive annual on-site, full-scope examinations for small, non-problem institutions. FRB accepts examinations conducted by state authorities on an alternate year basis. H.R. 6 and S. 543, as passed by the House and Senate Banking Committees, require annual on-site, full-scope examinations.

Recommendation: The Secretary of the Treasury should ensure that Treasury's study of deposit insurance reform

determines the reasonableness of the minimum and maximum reserve ratios designated by FIRREA in light of the banking industry's present condition and the exposure to the Bank Insurance Fund.

Status: Action in process. Treasury's study did not address the reasonableness of reserve levels. In November 1990, Congress amended FIRREA, removing the maximum reserve ratio and requiring FDIC to determine what would be the most appropriate target level for the Fund, provided it achieves a minimum reserve ratio of 1.25 percent of insured deposits. S. 543 requires FDIC to determine the most appropriate level of the Fund.

Recommendation: The Chairman, FDIC, should revise FDIC guidelines for recorded values of assets held in separate asset pools to include a critical review of the appraisers' underlying assumptions in valuing assets acquired from failed banks or assets maintained in separate asset banks and adjust

recorded values, if necessary, to reflect those assets' realistic values in light of their historical experience and current conditions.

Status: Recommendation valid/action not intended. FDIC believes its guidelines are sufficient and notes that appraisals are periodically redone, and sales values are compared to appraisals to determine if any adjustments are needed. Work in 1990 identified cases where sell-off periods, which affect estimates of both holding costs and revenue streams, appeared optimistic in light of current market conditions and asset quality.

Recommendation: The Chairman, FDIC, should monitor the use of separate asset pools to ensure the Bank Insurance Fund has cash resources to meet its commitments.

Status: Recommendation valid/action not intended. FDIC stresses that there are measures in place to minimize potential liquidity problems with these transactions. FDIC assumes that

substantially, all pool assets will be sold before the Fund is required to purchase any remaining assets. Current market conditions, the economy, and the growing inventory of government-owned assets indicate that these assumptions are overly optimistic.

Recommendation: The Secretary of the Treasury should ensure that Treasury's study of deposit insurance reform determines means in addition to premium assessments, such as increased capital levels in banks, that would reduce the Fund's potential liabilities. The results of this study should be reported to Congress in a timely manner.

Status: Action in process. The Treasury study, issued February 1991, outlined the means, other than increased assessments, to reduce the Fund's exposure. Several of these proposals, such as risk-based premiums, restricting insurance coverage, and providing for interstate banking for well capitalized banks are included in H.R. 6 and S. 543.

Failed Banks: Accounting and Auditing Reforms Urgently Needed

AFMD-91-43, 04/22/91 GAO Contact: Robert Gramling, (202)275-9406

Background

GAO analyzed the financial reports prepared by managers and regulators' examination reports for 39 banks that failed in 1988 and 1989 to identify: (1) the impact of accounting and internal control weaknesses on those failures; and (2) reforms that could minimize future losses to the Bank Insurance Fund.

Findings

GAO found that: (1) examination of the call reports banks prepared an average 6 months prior to their failure showed that the reports typically overstated loan values and did not provide advance warning of troubled financial conditions; (2) much of the \$7.3-billion deterioration in asset values resulted from flawed accounting rules which gave bank management too much latitude in reporting problem loans and repossessed collateral; (3) internal control

weaknesses contributed significantly to the 39 banks that failed in 1988 and 1989, and 33 of the 39 banks had management problems involving internal control issues; (4) regulators cited such factors as directors' actions, deficient operations management, legal and regulatory violations, loan portfolio weaknesses, inadequate loan loss reserves, and inaccurate call reports, as significant causes for bank failures; (5) many of the 39 failed banks did not obtain an independent audit in their last

year prior to failure, which made it less difficult to conceal its financial difficulties; and (6) audits would enhance both the corporate governance and regulatory functions, and the roles of management would be strengthened if they were held accountable for the condition of internal controls.

Open Recommendations to Congress

Recommendation: Congress should enact legislation requiring that, as a condition for federal deposit insurance, depository institutions prepare annual financial statements in accordance with generally accepted accounting principles and have them audited by an independent public accountant.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that, as a condition for federal deposit insurance, depository institutions maintain a system of internal accounting controls which meets requirements like those included in section 13(b)(2)(B) of the Securities Exchange Act of 1934, as added by the Foreign Corrupt Practices Act.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that, as a condition for federal deposit insurance, depository institutions maintain controls to ensure compliance with laws and regulations and with special regulatory directives such as memorandums of understanding or cease and desist orders.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that, as a condition for federal deposit insurance, depository institutions evaluate internal controls in accordance with guidelines issued by FDIC, OCC, and FRB to prepare an annual management report to be published along with the audited

financial statements, and which: (1) describes management's responsibility and action taken by it for establishing and maintaining an effective internal control structure and for preparing financial statements; (2) includes management's assessment of the effectiveness of the internal control structure and reports material weaknesses that have not been corrected; and (3) is signed by the chief executive officer and the chief accounting or financial officer of the institution.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that, as a condition for federal deposit insurance, depository institutions have truly independent audit committees made up solely of outside directors with duties that include reviewing with management and the independent accountant the basis for the reports of management and the independent accountant.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that the regulators conduct annual on-site, full-scope examinations of all depository institutions.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that independent public accountants, acting as auditors of federally insured financial institutions, be required to report on management's assertions described in its report on internal controls by studying and evaluating the institution's internal controls in accordance with generally accepted auditing standards or other procedures prescribed by the regulators and include the auditor's report in management's annual report.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that independent public accountants, acting as auditors of federally insured financial institutions, be required to report to the institution and the regulators the internal control weaknesses that are important but are not defined as material to the financial statements or already included in management's annual report.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that independent public accountants, acting as auditors of federally insured financial institutions, be required to report to the institution and the regulators on the institution's compliance with: (1) laws and regulations that are identified by the regulators as relating to safety and soundness where compliance can be objectively determined; and (2) special regulatory directives as defined by the regulators to maintain prudent operations or to restore the financial health of the institution.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that independent public accountants, acting as auditors of federally insured financial institutions, be required to immediately pursue indications of illegality by the institution and inform an officer authorized to sign management's annual internal control report and the audit committee of the institution if the accountant determines that an illegality likely occurred and, then, inform the institution's board of directors in a timely manner.

Status: Action taken not fully responsive.

Recommendation: Congress should enact legislation requiring that independent public accountants, acting as auditors of federally insured financial institutions, be required to resign from the audit

engagement or report to the regulators on the illegality, or both, if the illegality is substantial and the institution does not take corrective action.

Status: Action taken not fully responsive.

Recommendation: Congress should enact legislation requiring that independent public accountants, acting as auditors of federally insured financial institutions, be required to notify the regulators of the timing and reasons for changes in their status as the auditor of a federally insured financial institution.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that independent public accountants, acting as auditors of federally insured financial institutions, be required to undergo periodic peer review such as that prescribed by the American Institute of Certified Public Accountants (AICPA) self-regulatory program or such other quality assurance program acceptable to the regulators.

Status: Action in process.

Recommendation: Congress should enact legislation requiring that federal regulators of depository institutions share with the institution's independent public accountant their knowledge of potential illegal acts by the institution, with exceptions for ongoing litigation and investigations.

Status: Action in process.

Recommendation: Congress should enact legislation authorizing the regulators to remove the auditors for cause with appropriate due process.

Status: Action in process.

Recommendation: Congress should enact legislation that requires large institutions to maintain an audit committee that: (1) includes members with banking or related financial management expertise; (2) includes an

attorney member or has its own outside counsel; and (3) does not have members that are large customers of the institution.

Status: Action in process.

Recommendation: Congress should enact legislation that requires large institutions to have the independent public accountant that audits their financial statements: (1) review and report on the institution's quarterly financial reports employing specific procedures agreed upon with regulators; (2) examine a 1-year financial forecast prepared for the independent public accountant; and (3) meet at least annually with the institution's regulators and audit committee to review the institution's annual financial forecast and assessment of internal controls with more frequent meetings, if quarterly or annual reports disclose significant internal control or financial weaknesses.

Status: Action taken not fully responsive.

Recommendation: Congress should enact legislation that requires the regulators to periodically review the independent auditor's procedures and working papers for large institutions as a basis for regulatory reliance thereon.

Status: Action in process.

Recommendation: Congress should enact legislation that authorizes the appropriate regulator to require the independent public accountant for large institutions to review specific operations of the institution as deemed necessary to ensure objectives are met.

Status: Action taken not fully responsive.

Recommendation: Congress should enact legislation requiring that the regulators biennially report to Congress on the effectiveness of the auditing and

management reforms at large institutions.

Status: Action taken not fully responsive.

Congressional Action: In August 1991, the House Committee on Banking, Finance and Urban Affairs and the Senate Committee on Banking, Housing and Urban Affairs passed, respectively, H.R. 6 and S. 543 to effectively implement management reporting on internal controls and related reforms GAO recommended.

Open Recommendations to Agencies

Recommendation: AICPA and the Financial Accounting Standards Board (FASB) should issue accounting guidance in accordance with the following guidance: (1) a problem loan should be accounted for as an in-substance foreclosure unless there is clear evidence of the lender's ability to collect the loan based on its contractual terms, as opposed to existing accounting rules that require probable non-payment and clear evidence that the loan will default; (2) the value of in-substance foreclosed loans and other real estate owned should be determined based on existing market conditions unless there is clear evidence to support projections of improved financial and economic conditions. The carrying value for other real estate owned should be reduced by estimated carrying costs, including a cost of capital, to the expected date of sale; and (3) the accounting rules and audit procedures for related party transactions should be enhanced to clarify that related party transactions are required to be accounted for and reported based on their economic substance. Also, to assist in identifying transactions where economic substance differs from the legal form of the related party transactions, guidance should be

provided on how to determine economic substance.

Addressee: American Institute of Certified Public Accountants

Status: Action taken not fully responsive. AICPA deferred to FASB for dealing with the accounting rules. FASB plans to further reiterate the requirements of existing accounting rules which GAO believes will not significantly alter the problem.

Addressee: Financial Accounting Standards Board

Status: Action taken not fully responsive. FASB plans to reiterate the requirements of existing accounting rules which GAO believes will not significantly alter the problem.

Recommendation: The Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (FRB) should adopt the revised accounting guidance for all depository institutions.

Addressee: Federal Deposit Insurance Corporation

Status: Action taken not fully responsive. FASB action is incomplete and is likely ineffective, so agency action is currently not yet triggered.

Addressee: Department of the Treasury: Office of the Comptroller of the Currency

Status: Action taken not fully responsive. FASB action is incomplete

and is likely ineffective, so agency action is currently not yet triggered.

Addressee: Federal Reserve System: Board of Governors

Status: Action taken not fully responsive. FASB action is incomplete and is likely ineffective, so agency action is currently not yet triggered.

Recommendation: AICPA should review its professional standards and ethics rules and make appropriate revisions to facilitate the conduct of the additional audit work recommended.

Status: Action not yet initiated.

Obligations Limitation: Resolution Trust Corporation's Compliance as of September 30, 1990

AFMD-91-63, 05/31/91 GAO Contact: Robert Gramling, (202)275-9406

Background

Pursuant to a congressional request, GAO assessed the Resolution Trust Corporation's (RTC) third-quarter compliance with the maximum RTC obligation limit set forth by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989, which provided a formula calculating maximum allowable obligations.

Findings

GAO found that: (1) none of the formula categories required by FIRREA were omitted from the RTC calculation; (2) since RTC changed its calculation method for its third-quarter compliance

to eliminate Department of the Treasury funding, its adjusted obligation level was not comparable to the amounts calculated for the first- and second-quarter reports; (3) excluding the Treasury funding from the formula eliminated the 15-percent cash reserve feature and resulted in a potentially misleading assessment of RTC ability to fund any future losses resulting from asset sales; (4) RTC financial accounts had errors and misclassifications, but none of them materially affected the adjusted obligation level; and (5) RTC addressed one of three recommendations GAO previously made and continues to work on the other two.

Open Recommendations to Congress

Recommendation: Congress should consider reestablishing a cash reserve feature by amending FIRREA to recognize all funding sources in the obligations limitation formula.

Congressional Action: Congress has not amended FIRREA to include all funding in the obligations limitation formula. As a result, RTC is not providing a cash reserve to cover possible losses at the time of sale due to overvalued assets in its receiverships. With passage of the RTC Funding Act of 1991, \$48.8 billion of Treasury appropriations are not being recognized in the formula.

Defense Financial Audits

Issue Area Summary: Defense Financial Audits

Impact of GAO's Work

Because of the immense size of the Department of Defense's (DOD) operations, it is critical that its financial systems produce accurate, reliable, and relevant information that its managers, top executive branch leadership and the Congress can use in decisionmaking. DOD expenditures constitute about \$300 billion, or 35 percent, of all federal expenditures and DOD controls about 70 percent of all federal property and equipment-type assets. Between 1965 and 1991, the annual defense budget has grown from about \$50 billion to about \$300 billion.

Our work addresses the adequacy of DOD agencies' financial management and accounting systems to control, account for, and accurately report on the financial status of its operations and resources. Our past work has concentrated primarily on three aspects of DOD's financial management and accounting operations.

Internal Controls

First, we focused on identifying material internal control weaknesses and accounting system deficiencies that adversely affect the accuracy and the timeliness of DOD financial data. Numerous recommendations have addressed DOD agencies' inability to adequately control, account for, and report on the use of billions of dollars entrusted to them to acquire and deploy weapon systems and other equipment.

Financial Statement Audits

A second set of recommendations focused on building key decisionmaker interest and commitment in achieving sound financial management through the preparation and audit of financial statements. Financial statement audits (1) ensure that accounting transactions, accounting systems, financial statements, and financial reporting to the Congress, Treasury, the Office of Management and Budget, and the public are correct and consistent and (2) provide the opportunity for an independent evaluation of the effectiveness of the controls intended to protect agency resources and to disclose its financial condition and results of operations.

Financial Management Practices

Our third focus was assessing DOD's ongoing and planned financial management improvement initiatives. In response to mounting concerns of the public, the Congress, and executive branch officials over the federal government's fiscal condition, DOD has begun the most comprehensive and far-reaching initiatives ever attempted to improve and modernize its financial practices, systems, and controls. The intent of these initiatives—many of which are relatively long-term—is to eliminate operational redundancies through standardizing military services' policies, procedures, and systems. For example, in reviewing DOD's initiative to consolidate its stock and industrial funds into a \$77 billion operation, we identified seven major areas needing improvement.

Taken together, our work in these areas has resulted in hundreds of millions of dollars in savings, and in the correction of serious internal control weaknesses and has improved the overall quality of DOD's financial management and accounting systems. For example, the Air Force recalled and amended financial reports it had submitted to the Treasury to correct approximately \$62 billion in errors. The Congress took action to reduce DOD's fiscal year 1990 and 1991 budgets by a total of \$725 million. Also, DOD implemented several internal control procedures to ensure that overpayments to contractors were promptly detected and corrected.

Key Open Recommendations

Although improvements have been made, much more remains to be done to improve DOD's ability to accurately account for and report on its financial operations and the financial status of its resources. The following are among the most important recommendations that have not yet been fully implemented.

Air Force Programs

Our February 1990 report on the Air Force's financial management operations and its efforts to prepare consolidated financial statements recommended that the Secretary of the Air Force initiate various financial and accounting operation improvements. Our recommendations were directed at improving the accuracy and the utility of financial data and reports so that DOD and Air Force management could better manage and control Air Force resources. Most recommendations have not been fully acted on because DOD and the Air Force are relying upon long-term initiatives to correct the problems. (GAO/AFMD-90-23, see p. 859.)

In a report to the Commander, Air Force Logistics Command, we recommended increasing the emphasis on the identification and the correction of the major causes of inaccurate perpetual inventory records at the Command's air logistics centers. Unreliable perpetual records reduce management's ability to properly control and manage inventories and can be a major factor contributing to unrequired or excessive inventories. The actions to implement our recommendations are ongoing and should be monitored closely to ensure full implementation. (GAO/AFMD-91-34, see p. 866.)

In a report on the Air Force Systems Command, we recommended that the Commander establish procedures to ensure proper classification and recording of expenditures in the accounting system and to ensure that expenditures and unliquidated obligations are promptly reconciled. Such weaknesses can result in expenditures that exceed amounts authorized. DOD and Air Force have not yet initiated actions in response to these recommendations. (GAO/AFMD-91-22, see p. 863.)

Navy Program

Our report on the Navy's accounting for ship fuel purchases found that the Navy did not have adequate controls to ensure that accurate and reliable data on ship fuel purchases and disbursements were recorded in its accounting systems. We recommended that the Secretary of the Navy direct the Commanders in Chief of the Atlantic and Pacific Fleets to implement controls to ensure that fuel purchases and related disbursements were properly and promptly recorded in the accounting systems. The Atlantic Fleet has implemented our recommendations. Unlike the Atlantic Fleet, the Pacific Fleet did not maintain detailed information in its accounting system for ship fuel purchases. As a result, the Pacific Fleet needs to develop procedures similar to those already implemented at the Atlantic Fleet. (GAO/AFMD-91-54, see p. 869.)

DOD-Wide Programs

Our report on DOD's plans to change its method of financing over \$70 billion of repairable inventory recommended that the Secretary of Defense establish uniform policies on the pricing, ownership, and inventory valuation of repairable items. The lack of uniform policies regarding repairable inventory will preclude uniform financial reporting by the military services' stock funds. DOD is currently developing uniform inventory policies. (GAO/AFMD-91-40, see p. 868.)

Products With Open Recommendations: Defense Financial Audits

Product Title	Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources (AFMD-90-23)	859
	Financial Management: DOD and VA Need to Improve Operation of the Montgomery GI Bill Reserve Program (AFMD-90-30)	861
	Financial Management: Problems in Accounting for DOD Disbursements (AFMD-91-9)	862
	Financial Audit: Financial Reporting and Internal Controls at the Air Force Systems Command (AFMD-91-22)	863
	Financial Audit: Air Force's Base-Level Financial Systems Do Not Provide Reliable Information (AFMD-91-26)	864
	Lease Refinancing: A DOD-Wide Program Is Not Currently Feasible (AFMD-91-39)	865
	Financial Audit: Financial Reporting and Internal Controls at the Air Logistics Centers (AFMD-91-34)	866
	Financial Management: Uniform Policies Needed on DOD Financing of Repairable Inventory Items (AFMD-91-40)	868
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Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources

AFMD-90-23, 02/23/90 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

GAO reviewed the Air Force's financial management operations and its efforts to consolidate financial statements.

Findings

GAO found that: (1) the Air Force's financial management systems did not provide adequate and reliable information on Air Force operations; (2) the Air Force did not have accurate cost data for such non-cash assets as inventory, equipment, aircraft, and missiles; (3) 70 percent of the assets listed on the Air Force's financial statement were unauditable; (4) the Air Force did not maintain a general ledger system to ensure full accountability of costs and assets; and (5) the inventory systems did not provide reliable data to support the quantities or values of inventories on hand. GAO also found that: (1) two of the Air Force accounting systems did not conform to prescribed principles and standards; and (2) the Air Force made unsupported and arbitrary adjustments to account balances throughout fiscal year (FY) 1988.

Open Recommendations to Agencies

Recommendation: The Secretary of the Air Force should develop an overall plan specifying corrective actions and milestones for the Air Force to produce consolidated financial statements in accordance with Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies that will be submitted for independent audit.

Status: Action in process. Estimated completion date: 12/93. Improvements in financial statements will occur primarily as a result of other actions the Air Force is taking on the audit report.

Recommendation: The Secretary of the Air Force should give high priority to developing an integrated accounting system capable of generating reliable financial management reports on a timely basis.

Status: Action in process. Estimated completion date: 10/93. Department of Defense (DOD) initiatives are intended to develop a standardized system for all of DOD.

Recommendation: The Secretary of the Air Force should develop management reports designed to achieve cost-effectiveness and efficiency.

Status: Action in process. The Air Force plans to review its management reports and how the reports are used, appropriately revise its regulations, and develop training packages for its staff regarding reasonableness checks of accounting data.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to correct deficiencies identified in existing systems to the fullest extent possible.

Status: Action not yet initiated.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to investigate unusual and abnormal account balances.

Status: Action in process. The Air Force will review existing regulations and revise them as deemed necessary. It also will establish reasonableness checks for financial reports and account balances.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to perform a periodic comparative analysis of account balances from one period to the next and follow up and explain significant variances.

Status: Action in process. The Air Force will review existing regulations and revise them as deemed necessary. Guidelines will be established for variance analysis.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to perform, to the fullest extent possible in light of existing systems deficiencies, comparative analyses of operating units across time periods and of other cost centers to determine efficiency of operations.

Status: Action in process. The Air Force will review existing guidelines and revise them as it deems necessary. Guidelines will be established for comparative analysis.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to accumulate and report actual costs of equipment in accordance with Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

Status: Action in process. The Air Force is determining what system modifications are needed to accumulate

actual costs of equipment. DOD, however, is relying on its corporate information management effort to address the problem of accumulating actual costs of equipment. Currently, the Defense Finance and Accounting Service is evaluating a means to resolve problems in the area of property accounting. This action should be completed by the end of 1991.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to generate more reliable and complete financial information for reports to the Department of the Treasury and for annual consolidated financial statements.

Status: Action in process. Estimated completion date: 10/93. The Air Force will review existing regulations and procedures to identify changes needed to report in a more timely and accurate manner. Implementation of a new general ledger will enable more complete and timely reporting. The Air Force has implemented procedures to eliminate intra-agency balances and capture and report losses due to aerospace vehicle destructions and dispositions.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to report the internal control problems with reconciliations and documentation for adjustments in Federal Managers' Financial Integrity Act (FMFIA) reports to the Secretary of Defense.

Status: Action in process. The Air Force will emphasize internal control reviews and Title 2 reviews for FY 1991 reporting. This action should be completed by the end of 1991.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to reconcile

disbursements with obligations and promptly correct errors.

Status: Action in process. Estimated completion date: 12/92. The Air Force is working with the Defense Logistics Agency to resolve long-standing reconciliation problems on contractual disbursements. Also, DOD stated that two other actions are planned to establish and publish standards for recording transactions and obtain staff recommendations for system changes.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to enforce the Air Force requirement that supervisors and managers review and approve all significant adjustments.

Status: Action in process. To date, the Air Force has reviewed its regulations on adequate documentation and review of adjustments. It has published technical bulletins to its personnel stressing compliance with existing requirements.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to report unsupported adjustments and reconcile internal control problems, if applicable, in future FMFIA reports.

Status: Action in process. The Air Force will emphasize internal control reviews and Title 2 reviews for FY 1991 reporting. This action should be completed by the end of 1991.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to accumulate and report actual costs of weapons systems, which include acquisition costs, government-furnished materials, operating and maintenance costs, and modifications.

Status: Action in process. The Air Force will study the feasibility of improved costing methods for its general ledger. DOD and the Air Force consider the

Defense Management Report (DMR) as the long-term solution.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to report actual and planned cost data to Congress so better decisions can be made on program funding.

Status: Action in process. DOD and the Air Force consider DMR the long-term solution. However, the Air Force issued a January 1991 memorandum to its personnel which established procedures for preparing and submitting future selected acquisition reports to Congress.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to establish and implement procedures to identify and record in the accounting records equipment paid for and accepted by the Air Force but held by contractors.

Status: Action taken not fully responsive. In the long term, DOD initiatives will reportedly provide an integrated capability to identify and record all equipment paid for and accepted by DOD but held by contractors. The Air Force intends to take no further action, but will rely on DOD initiatives.

Recommendation: The Secretary of the Air Force should emphasize the need to improve the accuracy of perpetual inventory records. In this regard, the Secretary should require the Chief Financial Officer to establish a policy to value unserviceable items to reflect the estimated costs of repair.

Status: Action in process. Estimated completion date: 09/93. The Air Force expects to implement an automated process for valuation of unserviceable inventory.

Recommendation: The Secretary of the Air Force should emphasize the need to

improve the accuracy of perpetual inventory records. In this regard, the Secretary should require the Chief Financial Officer to adopt an improved standard cost accounting system integrated with the general ledger which provides for accurate determination of standard costs based on replacement costs, identification of inflation growth, and analysis of variance in purchase prices, material usage, and repair costs. **Status:** Action in process. DOD has indicated that a DMR initiative to develop standard financial management requirements is expected to address this area. The Air Force is relying on the DMR initiative as the long-term solution.

Recommendation: The Secretary of the Air Force should emphasize the need to improve the accuracy of perpetual inventory records. In this regard, the Secretary should require the Chief Financial Officer to initiate a special

effort to reduce the \$10 billion of unrequired inventory and deal with the root causes of this problem.

Status: Action in process. The Air Force has continuous action to reduce inventory. Teams from the Air Force Logistics Agency visited all air logistic centers and disposed of \$600 million of inventory, freeing up 1.2 million cubic feet of storage space. DOD stated that the DMR initiatives are to address this problem.

Recommendation: The Secretary of the Air Force should make improving accounting practices and financial management systems an Air Force-wide priority, supported by adequate resources.

Status: Action in process. The Air Force developed an action plan dependent on availability of resources and DOD financial management changes under DMR. The Air Force is relying on DMR

initiatives to produce improved financial systems.

Recommendation: The Secretary of the Air Force should direct the Chief Financial Officer to develop a comprehensive plan for improving and integrating the Air Force's financial management and accounting systems. **Status:** Action in process. DOD is directing systems plans now.

Recommendation: The Secretary of the Air Force should ensure that a project management structure and plan are in place to avoid the potential pitfalls that have caused problems in past systems development efforts. This structure must include adequate representation and participation by top management and functional users in all phases of the development effort. **Status:** Action in process. DOD is directing systems plans and development now.

Financial Management: DOD and VA Need to Improve Operation of the Montgomery GI Bill Reserve Program

AFMD-90-30, 08/08/90 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

Pursuant to a congressional request, GAO reviewed the Montgomery GI Bill Reserve Program, focusing on: (1) the timeliness and accuracy of the eligibility data that the Department of Defense (DOD) submitted to the Department of Veterans Affairs (VA); (2) DOD plans for improving the timeliness and accuracy of eligibility data; (3) DOD accuracy in contributing to the Education Benefits Fund; and (4) DOD efforts to collect amounts that program participants owed the government.

Findings

GAO found that: (1) DOD did not submit timely and accurate eligibility data to VA; (2) DOD took an average of 91 to 351 days to submit eligibility data to VA, primarily due to system incompatibility and inadequate training; (3) DOD took actions to improve data accuracy, but due to system incompatibility, data timeliness continued to be a problem; (4) DOD established manpower population count and per-capita normal cost as the two elements for computing contributions to the fund, and assigned a board to define how the reserve

components should determine the manpower population count and per-capita normal cost; (5) the military services' failure to properly apply the manpower population count and the board's inability to develop a reliable per-capita normal cost resulted in inaccurate monthly contributions to the fund; (6) DOD and VA did not ensure proper recordkeeping and collection of program participants' debts, and had not reached agreement on responsibility for such debts; and (7) DOD and VA data indicated that over 8,200 individuals owed the government about \$6 million

for breach of contract, and VA did not pursue collection of another \$10 million owed by program participants for other reasons.

Open Recommendations to Agencies

Recommendation: To improve the efficiency of the program, the Secretary of Defense should establish controls to ensure that accurate eligibility data are submitted to VA. At a minimum, such controls should include the training of individuals responsible for collecting, processing, and reporting eligibility data.

Status: Action in process. In April 1990, the ASD Reserve Affairs asked services to review training and controls for unit-level Selected Reserve Program administrators. DOD will ask service IG to add MGIB-related management and training to inspection agenda. In May 1991 DOD revised management data reports to include MGIB eligibility by personnel type and component and benefit applicant status.

Recommendation: To improve the efficiency of the program, the Secretary of Defense should establish controls to ensure that the military departments

compute the manpower population count in accordance with DOD instructions.

Status: Action in process. Procedures in DOD Instruction 1322.17 were revised to increase the accuracy and efficiency of the system that processes the Manpower Population Count. The instruction was supposed to be effective January 31, 1991. Current status follow-up information shows that it will be effective by the end of 1991.

Recommendation: The Secretaries of Veterans Affairs and Defense should establish who will be responsible for collecting amounts owed by reservists who breach their contractual agreements.

Addressee: Department of Defense
Status: Action in process. In October 1990, DOD implemented a procedure and started collecting breach of contract debts, but DOD and VA have not agreed on which agency will collect the associated penalties. The VA follow-up group sent a follow-up letter to the VA Benefits Administration and the Assistant Secretary for Financial Management in July 1991, requesting a follow-up response by late 1991.

Addressee: Department of Veterans Affairs

Status: Action in process. In October 1990, DOD implemented a procedure and started collecting breach of contract debts, but DOD and VA have not agreed on which agency will collect the associated penalties. The VA follow-up group sent a follow-up letter to the VA Benefits Administration and the Assistant Secretary for Financial Management in July 1991, requesting a follow-up response by late 1991.

Recommendation: The Secretary of Veterans Affairs should direct VA debt collection personnel to: (1) pursue the collection of amounts owed the government by program participants through the use of debt collection tools outlined in VA collection standards; and (2) adhere to Internal Revenue Service regulations by referring the debtor to a credit bureau prior to submitting program debts to the Internal Revenue Service for offset.

Status: Action in process. The Office of the Assistant Secretary of Finance and Planning is developing changes to the VA Debt Collection Manual, VA Manual MP-4. The changes were expected to be completed in March 1991. VA audit follow-up groups have requested the Assistant Secretary to provide information on action being taken.

Financial Management: Problems in Accounting for DOD Disbursements

AFMD-91-9, 11/09/90 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

GAO reviewed the military services' accounting problems with cross-disbursements, focusing on cross-disbursements that the Department of State made on behalf of the services.

Findings

GAO found that: (1) the services' failure to use uniform financial information caused serious problems in accounting for disbursements; (2) the use of nonstandard data made the processing of cross-disbursement transactions

extremely complex and resulted in clerical processing errors; (3) incomplete or erroneous cross-disbursement information resulted in millions of dollars of disbursements remaining unmatched with obligations; (4) as of September 30, 1989, the services could

not match \$54 million in cross-disbursements from State with obligations; (5) Army and Air Force data on total cross-disbursements as of December 1989 and February 1990, respectively, showed an aggregate of almost \$6 billion in disbursements unmatched with obligations, and \$440 million of that amount was over 180 days old; (6) the Department of Defense (DOD) implemented a department-wide management improvement project, the Corporate Information Management (CIM) initiative, to develop standard,

uniform information requirements and data formats; and (7) DOD planned to develop a single, uniform numbering or coding structure, the Single Numbering project, to link planning, programming, and budgeting phases with budget execution and accounting.

Open Recommendations to Agencies

Recommendation: The Secretary of Defense should incorporate the single numbering coding structure in all

service feeder systems that will support and provide information to the DOD-wide standard accounting and finance systems to be developed as a result of the CIM program.

Status: Action in process. DOD has established a task force to develop recommendations regarding a single numbering structure within DOD for accounting and budgetary data.

Financial Audit: Financial Reporting and Internal Controls at the Air Force Systems Command

AFMD-91-22, 01/23/91 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

GAO provided information on the Air Force Systems Command's (AFSC) financial management operation, focusing on AFSC need for improved internal controls and financial reporting.

Findings

GAO found that: (1) AFSC trial balances for fiscal year (FY) 1988 and FY 1989 were substantially incomplete and inaccurate, resulting in unreliable financial reports and statements; (2) AFSC product divisions failed to promptly record commitments and obligations in accounting system records; (3) AFSC product divisions did not always reconcile disbursement transactions with accounting records; (4) AFSC product divisions inconsistently documented their efforts to ensure that contract awards and modifications were proper; (5) material weaknesses relating to prompt recording of expenditures affected the accuracy of accounting

reports concerning the amount of unliquidated obligations; (6) AFSC lacked adequate controls to ensure the proper reconciliation of expenditures and unliquidated obligations; (7) the AFSC Contract Management Division overstated its liabilities by about \$400 million in FY 1988 and by about \$192 million in FY 1989; (8) the AFSC Contract Management Division lacked adequate control over its inventory process; and (9) AFSC low priority on ensuring the accuracy of trial balances resulted in its failure to detect and correct many easily identified errors and inaccuracies in the accounting records.

Open Recommendations to Agencies

Recommendation: The Commander, AFSC, should direct the AFSC Comptroller to ensure that account balances of all AFSC organizations and activities are included in the consolidated trial balances.

Status: Action not yet initiated.

Recommendation: The Commander, AFSC, should direct the AFSC Comptroller to enforce Air Force policy and regulations requiring trial balances to be accurate, complete, and supported by reliable documentation.

Status: Action not yet initiated.

Recommendation: The Commander, AFSC, should require the AFSC product divisions to identify the appropriate authorization document on each purchase request.

Status: Action not yet initiated.

Recommendation: The Commander, AFSC, should require AFSC product divisions to document the determinations of contractors' eligibility.

Status: Action not yet initiated.

Recommendation: The Commander, AFSC, should direct the AFSC Comptroller to ensure that

commitments, obligations, and expenditures are promptly recorded in the Air Force General Accounting and Finance System.

Status: Action not yet initiated.

Recommendation: The Commander, AFSC, should direct the AFSC Comptroller to ensure that the accounting and finance offices promptly conduct required reconciliations of disbursements and obligations and follow up on differences.

Status: Action not yet initiated.

Recommendation: The Director, Defense Logistics Agency (DLA), should ensure that the Contract Management Division's efforts to correct liability reporting problems are promptly completed and that its new report and liability data are validated.

Status: Action not yet initiated.

Recommendation: The Director, DLA, should direct the Contract Management Division to disclose its liability reporting problems, if uncorrected, as a material weakness in its annual statement of assurance on the status of internal controls for FY 1990.

Status: Action not yet initiated.

Recommendation: The Director, DLA, should direct the Contract Management Division to continue counting Treasury checks on hand when performing monthly inventories.

Status: Action not yet initiated.

Recommendation: The Director, DLA, should direct contracting officers administering Division contracts to comply with Air Force Regulation 177-102 by notifying the division when a demand for payment is made of a contractor.

Status: Action not yet initiated.

Recommendation: The Director, DLA, should make each Air Force plant representative office responsible for forwarding approved progress payment requests to the paying office.

Status: Action not yet initiated.

Recommendation: The Director, DLA, should require Air Force plant representative offices to perform the followup necessary to ensure that progress payment requests are accurate and appropriately relate to incurred cost and physical progress.

Status: Action not yet initiated.

Recommendation: The Director, DLA, should direct Air Force plant representative offices to monitor more comprehensively and more frequently contractor systems and compliance procedures for recording and reporting government-owned property.

Status: Action not yet initiated.

Financial Audit: Air Force's Base-Level Financial Systems Do Not Provide Reliable Information

AFMD-91-26, 01/31/91 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

GAO reviewed the Air Force's base-level financial management operations for fiscal years (FY) 1988 and 1989, focusing on weaknesses in internal controls and financial reporting within the bases and related commands.

Findings

GAO found that the: (1) Air Force's base-level General Accounting and Finance System routinely generated inaccurate financial information that totalled over \$2.7 billion in FY 1988 and 1989; (2) base and command personnel failed to

perform analytical reviews of account balances, resulting in widespread instances of inaccurate and incomplete financial data; (3) European base staff attributed significant undetected or uncorrected accounting errors in account balances to poorly trained personnel and careless accounting practices; (4) the new Combat Ammunition System failed to report inventory balances in the base-level general ledger system, causing a \$115.7 million understatement of ammunition inventories; (5) bases failed to report accurate real property account balances because they incorrectly recorded construction in progress and

did not timely process real property transactions; (6) base-level personnel did not always properly receive, issue, and account for equipment and inventory items; and (7) bases failed to compare master payroll files with master personnel records to ensure that payments were appropriate and accurate.

Open Recommendations to Agencies

Recommendation: The Assistant Secretary of the Air Force, Financial Management and Comptroller, should

ensure that construction in progress is recorded consistently and accurately. **Status:** Action in process. The Department of Defense (DOD) stated that, where necessary, actions were implemented to review and clarify existing requirements for accurate accounting of construction in progress. Also, increased emphasis was placed on training accounting personnel regarding this matter.

Recommendation: The Assistant Secretary of the Air Force, Financial Management and Comptroller, should ensure that reports of discrepancy are produced and followed up on in a timely manner.

Status: Action in process. DOD stated that on September 20, 1990, Headquarters, Air Force Logistics Command, issued a message to bases

directing them to ensure full compliance with existing requirements for preparing and resolving reports of discrepancy. Also, on May 6, 1991, Headquarters, U.S. Air Force, directed all major commands to comply with pertinent regulations regarding these reports. The Air Force Audit Agency is conducting the FY 1992 financial audit of the Air Force pursuant to the Chief Financial Officers Act of 1990. This recommendation should remain open until GAO receives the results of this audit.

Recommendation: The Assistant Secretary of the Air Force, Financial Management and Comptroller, should ensure that equipment is issued only to authorized personnel and only in authorized quantities.

Status: Action in process. On May 7, 1991, Headquarters, U.S. Air Force,

reemphasized to all major commands the need to reinforce existing requirements that equipment be issued only to authorized users in authorized quantities. The Air Force Audit Agency will conduct a financial audit of the Air Force in FY 1992. GAO is awaiting the results.

Recommendation: The Assistant Secretary of the Air Force, Financial Management and Comptroller, should ensure that equipment is tagged and identified for inventory accountability.

Status: Action in process. On May 7, 1991, Headquarters, U.S. Air Force, reemphasized to all major commands existing requirements that in-use equipment be properly identified. The Air Force Audit Agency will conduct a financial audit of the Air Force in FY 1992. GAO is awaiting the results.

Lease Refinancing: A DOD-Wide Program Is Not Currently Feasible

AFMD-91-39, 03/14/91 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

Pursuant to a congressional request, GAO evaluated the feasibility of implementing the Army's equipment lease refinancing program throughout the Department of Defense (DOD), focusing on: (1) the type of information needed for a lease refinancing program; and (2) whether such information was readily available to DOD and its components.

Findings

GAO found that: (1) between fiscal years 1985 and 1988, DOD equipment lease obligations declined from \$868 million to \$515 million; (2) at the completion of its

lease refinancing program, the Army found that the leases it had previously thought to be viable candidates for pooling and refinancing were ineligible; (3) the Army's lease refinancing contractor found that most of the Army's leases did not include assignable purchase options and could not be refinanced; (4) the contractor also identified several problems with the reliability and availability of the Army's lease data; (5) it could be difficult to implement a lease financing program similar to the Army's across DOD, since the declining number and value of DOD leases reduced the likelihood of creating pools of eligible leases, and the DOD lease reporting system did not provide

adequate financial management; (6) the DOD Corporate Information Management initiative, aimed at strengthening financial management by consolidating accounting and finance operations and systems, provided an opportunity to develop procedures that would support effective financial management of leases; and (7) DOD could use the Air Force's contract management systems as a starting point for designing its consolidated lease management system.

Open Recommendations to Agencies

Recommendation: The Administrator of General Services should amend the Federal Acquisition Regulation to provide agencies with specific guidance and criteria for identifying leases that should include assignable purchase options and for documenting related decisions.

Status: Action not yet initiated.

Recommendation: The Secretary of Defense should ensure that DOD components obtain, record, and maintain the: (1) lease assignable purchase option prices and dates; (2) lease-stated interest

rate; (3) lease commencement date; (4) purchase price offered by the lessor when the lease was awarded; (5) lease term including option years; (6) number of lease payments; and (7) lease payment amount exclusive of maintenance and service costs.

Status: Action not yet initiated.

Recommendation: The Secretary of Defense should instruct DOD components to account for and record the lease acquisition cost component separately from the lease finance cost component on capital leases in accordance with Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

Status: Action not yet initiated.

Recommendation: The Secretary of Defense should design DOD management information systems under the Corporate Information Management initiative to record and report the information needed to routinely monitor lease operations and costs as well as to implement a lease refinancing program. Procedures should be established for DOD and its components to monitor lease costs, particularly the finance cost component of total lease costs, to identify cost-effective refinancing opportunities.

Status: Action not yet initiated.

Financial Audit: Financial Reporting and Internal Controls at the Air Logistics Centers

AFMD-91-34, 04/05/91 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

GAO reviewed the Air Force Logistics Command's (AFLC) financial management operations related to its five Air Logistics Centers' (ALC) inventories, focusing on internal control and financial reporting improvements.

Findings

GAO found that: (1) as of September 30, 1989, overstatements in ALC inventory records totalled \$1.5 billion and understatements totalled \$0.8 billion; (2) \$7 billion in errors in general ledger inventory accounts showed that inventory records and accounts did not accurately portray either the quantities or values of ALC inventories; (3) improper inventory transaction processing, inadequate accounting and reconciliation procedures, poorly

integrated information collection systems, and limited management attention to data quality caused duplicate inventory reporting of billions of dollars; (4) 34 percent of inventoried items reviewed were not priced in accordance with Air Force policy, resulting in \$464 million worth of overpricing; (5) the stock fund lost from \$30 million to \$60 million in revenues in fiscal year (FY) 1989 due to billing problems, causing the fund to impose a 20 percent surcharge on sales to add about \$180 million to sales revenues to stay solvent; and (6) the fund's poor financial condition was caused by poor cash collection practices, excess inventories, and mistakes in processing accounting transactions.

Open Recommendations to Agencies

Recommendation: The Commander, AFLC, should direct ALC Commanders to increase management emphasis on the identification and correction of the major causes of inaccurate perpetual inventory records.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should direct ALC Commanders to require the thorough and prompt completion of research on known inventory problems.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should direct ALC Commanders to ensure that physical inventories are

not cancelled to avoid high-dollar adjustments.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should direct ALC Commanders to ensure that required recounts are made during the physical inventory process with an emphasis on surveying the area for mislocated material.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should direct ALC Commanders to require reports, based on physical inventory findings, to top management on the amount of reversals made to correct erroneous perpetual inventory records.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should instruct ALC Commanders to reconcile general ledger accounts with subsidiary systems.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should instruct ALC Commanders to research the accuracy of questionable high-dollar transactions identified through regular system edits.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should instruct ALC Commanders to review general ledger accounts for large variances.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should instruct ALC Commanders to disclose in financial reports obsolete and unserviceable inventories along with related costs to repair.

Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should instruct ALC Commanders to review inventory values to ensure that ALC comply with Air Force policy.

Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales, and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for effective internal controls at the source of sales transactions, including testing of source data for accuracy, full documentation of transactions, and computer edits to reject transactions with errors and omissions.

Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales, and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for disclosure of unbillable sales transactions with missing or erroneous information.

Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales, and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for disclosure of write-offs of specific bills or receivable balances, including an explanation of cause.

Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales,

and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for a review of inventory disposals, including an examination of requirements computations for questionable items.

Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales, and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for consolidated written guidance and consistent training on accounting principles and practices for transactions at the ALC level, including detailed illustrations and examples.

Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales, and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for increased analysis and followup on abnormal procurement, inventory, and billing data generated by source computer systems prior to provision of the data to accounting personnel for inclusion in trial balance reports.

Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales,

and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for recording and prompt reporting of data on the value of SSD material actually in transit from procurement sources each month.
Status: Action not yet initiated.

Recommendation: In order to improve the collection of revenues from sales, and thereby reduce stock fund surcharge rates, and to ensure that trial balance reports are accurate, complete, and sufficiently reliable to be useful to stock fund managers, the Commander, AFLC, should direct the Manager, SSD, to revise that organization's policies and procedures to provide for prompt and consistent adjustments to accounts reflecting differences between inventory

account amounts recorded in ALC supply and accounting systems.
Status: Action not yet initiated.

Recommendation: The Commander, AFLC, should direct the Comptroller, AFLC, to establish and maintain consistent billing practices and procedures for SSD.
Status: Action not yet initiated.

Financial Management: Uniform Policies Needed on DOD Financing of Repairable Inventory Items

AFMD-91-40, 06/21/91 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

Pursuant to a congressional request, GAO assessed the Department of Defense's (DOD) plans to expand the military services' use of stock funds to finance repairable items, focusing on whether the services implemented consistent, uniform policies regarding: (1) the prices stock funds charged customers for repairable items; (2) stock fund ownership and control over repairable items at installations; and (3) the dollar value of repairable items on stock fund financial reports.

Findings

GAO found that: (1) DOD directed all three services to finance repairable items through their stock funds in an effort to standardize financial operations; (2) the Navy complied with the uniform DOD policy for pricing repairable items by charging the exchange price for repairable items on the understanding that customers turn in the broken items; (3) DOD allowed the Air Force to charge the standard price

for repairable items to encourage customers to quickly return broken items for credit; (4) DOD authorized the Army to continue to charge the standard price for repairable items until 1993, to allow the Army time to modify its financial systems; (5) none of the services' present stock funds owned or controlled repairable items in the installation-level supply systems, but the Army and the Air Force planned to implement systems central ownership and control; (6) DOD did not have a policy on stock fund ownership and control of repairable items in installation supply systems; (7) the DOD policy for valuing stock fund inventory did not address repairable items; and (8) the Army and the Air Force valued repairable items at standard price, while the Navy developed its own procedures for determining the value of repairable items. GAO believes that the inconsistencies among the services' plans regarding repairable items undermines the DOD Corporate Information Management project to standardize policies, data elements, and systems.

Open Recommendations to Agencies

Recommendation: To ensure that the military services follow standard policies and procedures in the financing of repairable items through their stock funds, the Secretary of Defense should ensure that the military services follow a uniform pricing policy on how the stock funds should charge customers for repairable items.

Status: Action in process. In responding to the draft report, DOD plans to issue, in late 1991, guidance on prices the stock fund charges customers.

Recommendation: To ensure that the military services follow standard policies and procedures in the financing of repairable items through their stock funds, the Secretary of Defense should develop a uniform policy on the stock funds' ownership and control of repairable items in the installation-level supply systems; in this regard, the Navy should modify its ownership policy unless its ongoing study of this issue

demonstrates compelling operational reasons not to centrally own the repairable items.

Status: Action in process. In responding to the draft report, DOD plans to issue, in late 1991, guidance on the ownership of items at installations.

Recommendation: To ensure that the military services follow standard policies and procedures in the financing of repairable items through their stock funds, the Secretary of Defense should develop a uniform accounting policy on how to value repairable items that are usable versus items that need repairs; such policy should specify that: (1) the

value of broken items be reduced by the cost to repair them; and (2) the value of items that cannot be repaired and of obsolete items be written off or reduced to their salvage value.

Status: Action in process. In responding to the draft report, DOD plans to issue, in late 1991, guidance on the valuation of repairables.

Financial Management: Navy Needs to Improve Its Accounting for Ship Fuel Purchases

AFMD-91-54, 07/23/91 GAO Contact: David M. Connor, Jr., (202)275-7095

Background

Pursuant to a congressional request, GAO reviewed the Navy's practices for acquiring ship fuel, focusing on whether the Navy had adequate controls to ensure that its financial management systems accurately accounted for ship fuel purchases.

Findings

GAO found that: (1) since the Atlantic Fleet failed to follow its own procedures for ensuring that fuel purchase accounting records were accurate, it could not detect or correct erroneous fuel purchase records; (2) the Atlantic Fleet either omitted or inaccurately recorded 67 percent of its fuel transactions, totalling \$5.9 million, in its accounting records, since personnel failed to correct processing errors and ships failed to report correctly; (3) unrecorded ship fuel purchases accounted for \$5 million, or 85 percent, of the identified inaccurate transactions; (4) incorrect amounts caused by duplicate transactions reporting and other accounting errors accounted for \$900,000, or 15 percent, of the identified inaccurate balances; (5) the Atlantic

Fleet Comptroller did not know if \$49.5 million of outstanding fiscal year 1989 fuel purchase transactions recorded in the accounting system were correct or had been paid, since the Atlantic Fleet did not promptly review unpaid purchases; (6) although it did not identify any instances in which the Navy paid for unreceived fuel, Fleet Comptroller officials did not monitor related accounts to ensure that this would not occur; (7) Atlantic Fleet Comptroller officials acknowledged that their accounting system did not accurately and promptly record ship fuel purchases; and (8) it was impossible to determine whether the Pacific Fleet Comptroller's office correctly recorded its ship fuel purchases, since it did not maintain detailed information on ship fuel purchases necessary to monitor the accuracy of obligations and expenditures recorded in its accounting system.

Open Recommendations to Agencies

Recommendation: To improve the Pacific Fleet's accounting controls over Navy ship fuel purchases, the Secretary of the Navy should direct the

Commander in Chief, Pacific Fleet, to produce monthly reports for Fleet accounting managers to use in reviewing fuel purchase transactions and resolving accounting errors.

Status: Action in process. The Pacific Fleet is updating its accounting system with historical detailed purchase data. Once updated, it will begin producing monthly reports. Estimated completion is late 1991.

Recommendation: To ensure that timely and reliable data on ship fuel purchases are recorded in the Fleets' accounting records, the Secretary of the Navy should direct the Commanders in Chief, Atlantic and Pacific Fleets, to conduct prompt reviews of the unpaid account balances in accordance with the Defense regulation.

Status: Action in process. The Pacific Fleet is in the process of updating its accounting system with detailed data necessary to perform reviews and reconcile unpaid balances. Estimated completion is late 1991. The Atlantic Fleet began conducting more extensive reviews in October 1990. Action is considered complete.

Financial Management: Actions Needed to Ensure Effective Implementation of NASA's Accounting System

AFMD-91-74, 08/21/91 GAO Contact: Donald R. Wurtz, (202)275-9359

Background

GAO reviewed the National Aeronautics and Space Administration's (NASA) efforts to design and develop the NASA Accounting and Financial Information System (NAFIS), focusing on whether: (1) NASA efforts to develop NAFIS conformed with federal guidance and requirements; (2) NASA adequately planned NAFIS development; and (3) any lack of conformance with system development guidelines would jeopardize successful NAFIS implementation.

Findings

GAO found that: (1) NASA did not initiate the NAFIS project under the framework of an overall financial management plan that would provide a structured, agencywide approach for developing its financial management systems; (2) required 5-year financial system plans for fiscal years 1991 and 1992 did not identify all NAFIS costs and milestones or adequately describe its approach for interfacing with related financial systems as a means for setting priorities and allocating resources; (3) the NAFIS project will not result in a system that meets Office of Management and Budget or legislative requirements to integrate or interface budgeting and accounting systems; (4) NASA did not perform some analyses, or adequately perform other analyses, needed to support NAFIS system design and development decisions; (5) the cost-benefit analysis for NAFIS provided

limited information for determining which of four systems alternatives would be the most cost-beneficial; (6) NASA has not finalized and approved a NAFIS project plan to guide the overall management of the system development effort to completion; (7) because NASA has not identified what the reporting system redevelopment will entail or identified individual NASA centers' conversion needs beyond those of the developmental center, it cannot ensure that the reporting system's implementation will be complete at the time of the centers' implementation of the Installation-Level Accounting System; and (8) due to inadequate NASA planning and analysis, NAFIS will cost significantly more and take longer to fully implement than currently planned.

Open Recommendations to Agencies

Recommendation: The Administrator, NASA, should direct the Comptroller to ensure that the agency's 5-year financial systems plan discloses all project costs and milestones for developing and implementing NAFIS, including those for hardware and software, data cleanup, and data conversion of the Installation-Level Accounting System and the Agencywide Reporting System.
Status: Action not yet initiated.

Recommendation: The Administrator, NASA, should direct the Comptroller to ensure that the agency's 5-year financial

systems plan discloses all costs and milestones for the Control Tracking System project and other financial-related NAFIS system interfaces.
Status: Action not yet initiated.

Recommendation: The Administrator, NASA, should direct the Comptroller to ensure that the agency's 5-year financial systems plan discloses NASA plans to standardize its planning and budgeting systems, and integrate or interface these systems with NAFIS, to achieve the governmentwide mandate for a single, integrated financial management system.
Status: Action not yet initiated.

Recommendation: The Administrator, NASA, should direct the Comptroller to ensure the approval, and subsequent implementation of, a NAFIS project plan which addresses all costs, requirements, and milestones for conversion to and implementation of the Installation-Level Accounting System and the Agencywide Reporting System.
Status: Action not yet initiated.

Recommendation: The Inspector General, NASA, should develop the necessary expertise within the Office of Inspector General staff to ensure the performance of reviews and oversight of the NAFIS development project, as well as reviews of NASA automated financial systems.
Status: Action not yet initiated.

Financial Management: Air Force Systems Command Is Unaware of Status of Negative Unliquidated Obligations

AFMD-91-42, 08/29/91 GAO Contact: Jeffrey C. Steinhoff, (202)275-9454

Background

Pursuant to a congressional request, GAO examined the negative unliquidated obligations (ULO) associated with the purchase of weapon systems and equipment at the Air Force Systems Command (AFSC), focusing on: (1) the magnitude, age, and causes of negative ULO for contracts jointly administered by AFSC product divisions and the related Air Force payment activity handled by the Defense Finance and Accounting Service (DFAS); and (2) the adequacy of controls to ensure that any overpayments that could cause negative ULO are promptly recorded as receivables and collected.

Findings

GAO found that: (1) since the AFSC managers lacked information on the status of negative ULO they were responsible for, they were unable to determine the magnitude, age, and causes of negative ULO and could not

ensure that they were promptly corrected; (2) the product divisions did not have routine reports on the magnitude and age of negative ULO in their accounting records; (3) a GAO analysis of \$126 million in negative ULO disclosed that the causes for \$69 million were unknown, and of the remaining \$57 million, \$54 million of negative ULO were caused by processing errors and \$3 million were related to overpayments; (4) about \$50 million of the \$126 million in negative ULO were at least 2 years old, ranging to over 6 years; (5) since the Air Force did not record identified overpayments as receivables in its accounting records, it could not ensure prompt collection action or that reported receivable balances were accurate; and (6) not aggressively identifying and correcting the cause of negative ULO could result in obligations in excess of available appropriations, result in losses if caused by overpayments, and conceal availability of funds that could be used to meet other Air Force requirements.

Open Recommendations to Agencies

Recommendation: The Secretary of Defense should direct the Secretary of the Air Force and the Director, DFAS, to establish and implement policies and procedures for identifying and reporting, at least quarterly, to AFSC management the magnitude, age, and causes of negative ULO.

Status: Action not yet initiated.

Recommendation: The Secretary of Defense should direct the Secretary of the Air Force and the Director, DFAS, to promptly resolve identified negative ULO.

Status: Action not yet initiated.

Recommendation: The Secretary of Defense should direct the Secretary of the Air Force and the Director, DFAS, to comply with existing accounting requirements for recording and collecting overpayments to contractors.

Status: Action not yet initiated.

Information Management and Technology

Issue Area Summary: Information Management and Technology

Impact of GAO's Work

How information resources—hardware, software, data, and people—are acquired and managed is critical to nearly every government program's mission—from exploring space, to collecting taxes, to providing social security benefits. The government spends about \$20 billion annually acquiring the thousands of telecommunications and computer systems that support these missions.

Responsibility for information management and technology is shared by the central and individual executive agencies. The central agencies—the Office of Management and Budget, the General Services Administration, and the Department of Commerce's National Institute of Standards and Technology—formulate policies, procedures, and standards and monitor individual agency information resources management (IRM) activities. Individual agencies are responsible for acquiring, managing, and using their information resources effectively and efficiently.

We addressed information management and technology issues both governmentwide and as they affect specific agencies. Governmentwide, our recommendations dealing with computer security have had particular impact. We disclosed that many civilian agency security programs lacked the most rudimentary controls, planning for computer security was minimal, and many systems were vulnerable to unauthorized modification and disclosure. On the basis of our recommendations, agencies are providing increased computer security training and some have strengthened their computer security programs. The central agencies also are taking a more active role in helping individual agencies address computer security concerns. With a lack of management commitment in many agencies, however, computer security programs continue to suffer from inadequate resources and limited access to the organization's leadership.

In our agency-specific work, we reviewed issues related to the acquisition and management of computer and telecommunications resources, including development of information systems. Our reviews covered such areas as defense, space, internal revenue, financial services and regulation, medical systems, social security, and federal aviation. We also evaluated agency management of information for increased program effectiveness.

Key Open Recommendations

Presently, all key governmentwide recommendations are being addressed.

Our agency-specific reports and recommendations fall into substantive areas that concern other issue areas. For example, a report on the Department of Justice's automatic data processing (ADP) programs supplements and complements the work of the administration of justice issue area. Because our reports address specific programs, they are included in the appropriate issue area sections of this report. For example, our report on Justice ADP is found in the section on "Administration of Justice."

The following key open agency-specific recommendations relate primarily to design, computer security, acquisition, management, and use of information systems. These recommendations deserve priority consideration and are described both here and in the appropriate substantive issue area sections.

Administration of Justice: ADP Management and Security

In our reviews at the Department of Justice, we found pervasive ineffective information on resources management and recommended that the Attorney General ensure that all Justice components, especially litigative organizations, perform risk analyses and correct identified problems in their management information systems. The Department also needs to develop uniform, accurate, and complete case information and an IRM plan and augment the capabilities of its central IRM office if it is to fully benefit from its IRM expenditures. The Department has not yet acted on our recommendations. (GAO/IMTEC-90-69, see p. 652, and GAO/IMTEC-91-4, see p. 655.)

Recently, the Department of Justice surplused computer equipment that contained extremely sensitive information, including the identification of confidential informants, on the computer's memory. Given these recent breaches in security, the Attorney General should direct all Justice agencies to identify surplused computer equipment to determine whether it contained sensitive data. If it did, Justice should assess the extent to which compromising such data may damage or may have damaged its mission and the lives of witnesses, confidential informants, and undercover agents. (GAO/T-IMTEC-91-6, see p. 660.)

Administration of Justice: War on Drugs

Numerous federal agencies, with different missions and unique ADP and telecommunications systems, are participants in the war on drugs. This diversity heightens the need for central leadership, interoperable information systems, data integrity and security, and interagency coordination of intelligence data. We have recommended that the Director of the Office of National Drug Control Policy establish clear, measurable objectives and specific target dates for meeting each of these needs and report to the Congress on plans and progress. (GAO/IMTEC 91-40, see p. 663.)

**Financial Institutions and Markets:
Financial Institution Reforms**

The Federal Deposit Insurance Corporation (FDIC) acquires loans from failed banks and sells them to individual investors. An investor who purchased \$33 million in failed bank loans from FDIC's Denver Consolidated Office alleged that FDIC inaccurately represented one-third of those loans. We found that basic internal controls were not in place to ensure that the manual and automated records were properly updated to reflect the actual status of the loans. FDIC's Office of the Inspector General found, in its audits of other offices, internal control problems similar to those we found at the Denver office. Recommendations were made that FDIC act to ensure that internal control weaknesses did not exist at other FDIC offices and to correct the internal control weaknesses found at the Denver Consolidated Office. (GAO/IMTEC-91-61, see p. 703.)

**Financial Institutions and Markets:
Securities**

In July 1991, we identified the need for the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC)—the federal regulators who oversee the nation's securities and futures markets—to establish and maintain the technical capabilities to oversee the development and operation of market systems. SEC and CFTC have taken preliminary steps to oversee market systems but agree that they lack the technical capabilities needed to control automation's risks. We recommended that the Chairmen of SEC and CFTC take more aggressive action to establish the technical oversight capabilities to control the risks associated with automation. (GAO/IMTEC-91-21, see p. 695.)

**Education and Employment:
Student Loan Programs**

In December 1990, we identified problems in the Stafford Student Loan program that stemmed from major deficiencies in the program's data base. The Department of Education needs to correct the information in the data base, identify students who have defaulted on loans, and require its guaranty agencies to review the data before guaranteeing new loans. The Department is now working to develop a new National Student Loan Data System, but progress has been limited. (GAO/IMTEC-91-7, see p. 505.)

**Food and Agriculture: Other U.S.
Department of Agriculture (USDA)
Programs**

USDA is responding to key open recommendations in our report on the Forest Service's acquisition of a \$1.2 billion geographic information system. The Forest Service has been working with the MITRE Corporation to reassess the feasibility, costs, benefits, and organizational impact of alternatives and reassess and specify its functional and performance requirements for the system. The reassessments are expected to be completed in late 1991. The Congress should continue to withhold funding of the acquisition pending GAO's review of the Forest Service's reassessments. (GAO/IMTEC-90-31, see p. 377.)

**Transportation: Air Traffic Control
Modernization**

In a report on the Federal Aviation Administration's (FAA) Advanced Automation System, which is intended to modernize air traffic control computer systems, we recommended that FAA conduct an analysis to determine the optimal system alternative for area control facilities and terminal radar approach control facilities. The necessary study, being conducted by an FAA contractor, has not been completed. The Department of Transportation continued to report this recommendation as a material weakness in its 1990 Federal Managers' Financial Integrity Act report. (GAO/IMTEC-89-5, see p. 438.)

Transportation: IRM

Our report on FAA's management of information resources included recommendations that FAA (1) appoint a top executive as the agency's senior IRM official who would spend time solely on information resources activities and (2) implement a senior-level executive IRM steering committee to guide the agency's efforts. The House Government Operations Committee has expressed particular interest in implementation of these recommendations. (GAO/IMTEC-91-43, see p. 477.)

Navy

Our report on the development of an automated combat system for the Seawolf Attack Submarine included recommendations that (1) the Department of Defense determine the impact of the risks we identified on the performance, cost, and schedule for the combat system and (2) the Congress not fund any additional systems until the Secretary of Defense certifies that the initial system is sufficiently developed and testing demonstrates that it meets mission requirements. Key congressional committees are aware of our concerns and recommendations; funding levels for future systems are now the subject of congressional debate. (GAO/IMTEC-91-30, see p. 121.)

**Products With Open Recommendations:
Information Management and Technology**

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	Federal Research: SEMATECH's Efforts to Strengthen the U.S. Semiconductor Industry (RCED-90-236)	882
	ADP Procurement: Better Capacity Planning Needed at Agriculture's National Finance Center (IMTEC-91-14)	883
	Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1989 (RCED-91-74)	884
	Trademark Automation: Search System Improved But Funding for Replacement Should Be Deferred (IMTEC-91-66)	884

**Related Products With Open
Recommendations Under
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Federal Research: The SEMATECH Consortium's Start-up Activities

RCED-90-37, 11/03/89 GAO Contact: John M. Ols, Jr., (202)275-5525

Background

Pursuant to a congressional request, GAO assessed the progress of a consortium of U.S. semiconductor and computer companies (SEMATECH) formed to conduct research and development that will provide the U.S. industry with the domestic capability for world leadership in manufacturing, focusing on: (1) the Department of Defense's (DOD) participation and role; (2) the consortium's approaches and organization for achieving its overall objectives; and (3) initial technology transfer activities.

Findings

GAO found that: (1) the consortium and DOD were satisfied with the Defense Advanced Research Projects Agency's (DARPA) oversight, citing DARPA improvement of the consortium's strategic planning efforts; (2) although 1987 authorizing legislation for continued DOD participation required

the establishment of an advisory council, DOD had not forwarded the names of industry members for presidential appointment; (3) other industries and the Congressional Budget Office proposed the consortium as a model for other government-industry consortia; (4) the consortium's 1990 operating plans revised equipment and material development milestones for its technology achievement goal and established intermediate goals and milestones that will still enable U.S. industry to regain world leadership; (5) the consortium reduced its scope for technology replication so that it could concentrate on tasks it needed to achieve parity with the Japanese industry; (6) the consortium reorganized its operating divisions around project teams, whose members had different experience and expertise, to better advance processes and equipment technology; (7) 181 member-company employees filled consortium management and engineering positions as of September

1989, typically for 2-year assignments; and (8) six member companies planned to replicate transferred technology.

Open Recommendations to Agencies

Recommendation: To give a greater cross section of input and opinion from business leaders and senior federal officials, as provided by the authorizing legislation, the Secretary of Defense should forward to the President the names of seven individuals from industry for appointment to the Advisory Council on Federal Participation in SEMATECH.

Status: Action in process. GAO believes that having an Advisory Council in place to oversee activities is particularly important. Because of the controversy within the Administration over whether to continue funding SEMATECH, DOD is pursuing this recommended action, but progress is slow.

Technology Transfer: Copyright Law Constrains Commercialization of Some Federal Software

RCED-90-145, 06/01/90 GAO Contact: John M. Ols, Jr., (202)275-5525

Background

Pursuant to a congressional request, GAO provided information on federal agencies' efforts to comply with the prohibition on copyrighting government

works, focusing on the: (1) extent to which copyright law has constrained the transfer of federal computer software and other new technologies; and (2) benefits and disadvantages of amending

copyright law to allow federal agencies to copyright software.

Findings

GAO found that: (1) there was no evidence that federal agencies improperly copyrighted government software; (2) top officials at six of the seven agencies GAO reviewed believed software copyrighting and licensing constraints hurt their efforts to transfer computer software for commercial application to U.S. businesses; (3) agency officials said copyright and licensing authorities would stimulate the transfer of federal software with commercial applications to U.S. businesses by providing investment protection; (4) royalty-sharing would also give federal researchers an incentive to further develop and document the software; and (5) industry officials expressed concern that authority to copyright and license software could limit access to federal scientific and demographic data bases.

Open Recommendations to Congress

Recommendation: To effectively transfer and use federal computer software while accommodating concerns about access to federal data bases and shifting federal laboratories' basic research mission,

Congress should consider providing copyright and licensing authorities for federal software with wider commercial applications that needs further investment to be effectively transferred. This change could be accomplished by amending the copyright law (17 U.S.C. 105) to allow federal agencies to copyright and grant nonexclusive, partially exclusive, or exclusive licenses to computer software on a case-by-case basis if such protection would stimulate its effective transfer and use.
Status: Action in process.

Recommendation: To effectively transfer and use federal computer software while accommodating concerns about access to federal data bases and shifting federal laboratories' basic research mission, Congress should consider providing copyright and licensing authorities for federal software with wider commercial applications that needs further investment to be effectively transferred. This change could be accomplished by amending the Federal Technology Transfer Act (15 U.S.C. 3710a) to authorize agencies to copyright and grant licenses to federal software under a cooperative research and development agreement.

Status: Action in process.

Recommendation: To effectively transfer and use federal computer software while accommodating concerns about access to federal data bases and shifting federal laboratories' basic research mission, Congress should consider extending the Federal Technology Transfer Act's royalty-sharing authority (15 U.S.C. 3710c) to include federal software. In addition, if the copyright law is amended, it would be appropriate to include procedures similar to those required for granting patent licenses (35 U.S.C. 209) to ensure fairness in granting an exclusive or partially exclusive license for federal software to a nonfederal entity and diligence by the licensee in commercializing the software.
Status: Action in process.

Congressional Action: Representative Morella has introduced legislation drafted by the Department of Commerce. The Subcommittee on Intellectual Property, House Committee on the Judiciary, held hearings last year and plans to consider limited copyright authority for federal agencies as part of a larger reexamination of copyright law.

Federal Research: SEMATECH's Efforts to Strengthen the U.S. Semiconductor Industry

RCED-90-236, 09/13/90 GAO Contact: John M. Ols, Jr., (202)275-5525

Background

Pursuant to a congressional request, GAO assessed the Semiconductor Manufacturing Technology Consortium's (SEMATECH) efforts to strengthen U.S. suppliers of equipment and materials for the semiconductor manufacturing industry.

Findings

GAO found that: (1) by 1989, Japanese firms had captured 4 of the top 5 semiconductor equipment-supplier positions, while only 4 U.S. companies were among the 10 largest suppliers; (2) many U.S. semiconductor equipment suppliers are faced with a declining

market share and the need to reinvest at a high rate to remain technologically competitive; (3) U.S. materials suppliers' market share declined from 25 percent in 1984 to 17 percent in 1988; (4) surveys indicated that the problems that led to the competitive decline of the U.S. suppliers of semiconductor equipment

and materials were in areas where their Japanese competitors had distinct advantages; (5) the high cost of capital in the United States was the most significant factor diminishing the competitiveness of U.S. suppliers; (6) ineffective relationships between semiconductor manufacturers and their suppliers also contributed to the declining competitiveness of U.S. suppliers; (7) to be competitive internationally, U.S. suppliers need to overcome Japanese trade and cultural barriers, establish a sales network, and offer technologically superior products; (8) SEMATECH increased its efforts to assist U.S. semiconductor equipment and materials suppliers in response to their

declining competitiveness; (9) despite those efforts, a broader range of initiatives, in addition to the SEMATECH program, is needed to significantly strengthen U.S. suppliers; and (10) senior executives from 28 of the 31 U.S. suppliers supported SEMATECH efforts to address their needs, but 16 of the companies were uncertain whether SEMATECH would significantly strengthen the U.S. supplier industry.

Open Recommendations to Congress

Recommendation: Because SEMATECH members will play a critical role in determining whether the U.S.

semiconductor supplier base can be revitalized, Congress may wish to closely monitor the commitment of the SEMATECH members to developing close long-term working relationships with their suppliers and make further federal funding for SEMATECH contingent upon the members' following through with this commitment. **Congressional Action:** The House Committee on Science, Space, and Technology is overseeing the SEMATECH program. It tentatively plans to hold an oversight hearing in late 1991.

ADP Procurement: Better Capacity Planning Needed at Agriculture's National Finance Center

IMTEC-91-14, 02/13/91 GAO Contact: Howard G. Rhile, Jr., (202)275-3455

Background

Pursuant to a congressional request, GAO reviewed the Department of Agriculture's (USDA) National Finance Center's procurements from a computer manufacturer, focusing on whether: (1) USDA circumvented competitive procurement practices in acquiring automatic data processing (ADP) equipment for the Center; and (2) the Center procured ADP equipment that exceeded its needs and entered into cross-servicing agreements with other federal agencies to use the excess capacity.

Findings

GAO found that: (1) in the 4.5 fiscal years ending in March 1990, USDA procured \$51.3 million in ADP equipment for the Center; (2) USDA

spent \$26.2 million for 2 contracts with the computer manufacturer for mainframe computers and storage devices; (3) USDA spent an additional \$900,000 for 59 orders of the computer company's equipment under General Services Administration (GSA) schedule contracts; (4) USDA complied with federal regulations in awarding the mainframe and storage device contracts, and the solicitation specifications for either procurement did not unnecessarily restrict competition; (5) the Center's failure to aggregate \$163,000 in procurements of the contractor's equipment from the GSA schedule resulted in its avoiding a requirement that it advertise orders from the GSA schedule exceeding \$50,000; (6) while the Center acquired excess computer capacity, there was no evidence that it deliberately bought

excess equipment and then sought customers to use the extra capacity; (7) the Center lacked an adequate capacity planning process; and (8) Center officials believed that the use of the underutilized system would improve in fiscal year 1991.

Open Recommendations to Agencies

Recommendation: In order to ensure that early acquisition of unneeded computer capacity does not take place, the Secretary of Agriculture should defer the acquisition of additional processing capability for the National Finance Center until it has implemented an effective capacity management and planning program, as defined by the Federal Information Management Regulation parts 201-16 and 201-30, and

that all future acquisitions include adequate supporting data.

Status: Action in process. Several actions are being implemented, including

conducting user surveys, refining natural forecast units, collecting utilization information, conducting performance evaluations, evaluating

work-load balance, evaluating growth versus projections, and performing analytical modelling. These actions should be completed by the end of 1991.

Federal Research: Assessment of the Financial Audit for SEMATECH's Activities in 1989

RCED-91-74, 04/30/91 GAO Contact: John M. Ols, Jr., (202)275-5525

Background

In response to a legislative requirement, GAO reviewed a certified public accountant's audits of the financial statements of SEMATECH, a consortium of 14 U.S. semiconductor manufacturers and the Department of Defense (DOD).

Findings

GAO found that: (1) at least two SEMATECH member companies have included a portion of their SEMATECH contributions for reimbursement as government contract overhead costs, and while this is in accordance with government cost accounting principles, it indirectly increases the federal government's overall support for SEMATECH research and development

(R&D) activities; (2) SEMATECH declined to disclose that it was making postemployment payments to its former chief operating officer, citing their immateriality to the financial statements; (3) SEMATECH erroneously computed depreciation using the double declining balance method instead of the straight-line method for \$44 million of \$175 million it spent on manufacturing and research facilities; (4) SEMATECH understated depreciation expenses for specialized manufacturing equipment in 1989 because it applied different depreciation methods for the equipment's installation costs, instead of depreciating installation costs in the same manner as the installed capital; and (5) the records presented fairly the financial position of SEMATECH in

conformance with generally accepted accounting principles.

Open Recommendations to Congress

Recommendation: If federal participation in SEMATECH is reauthorized, Congress may wish to take into account, in determining the appropriate level of federal funding, the indirect cost reimbursements that some SEMATECH members receive for their SEMATECH contributions. Congress also may wish to consider this issue for any other jointly funded consortium that includes federal contractors or grantees. **Congressional Action:** S. 1327 was introduced which addresses cost reimbursement for members of the critical technology consortia.

Trademark Automation: Search System Improved But Funding for Replacement Should Be Deferred

IMTEC-91-66, 09/11/91 GAO Contact: JayEtta Z. Hecker, (202)275-9675

Background

Pursuant to a congressional request, GAO provided information on the Patent and Trademark Office's (PTO) actions

and plans to improve and replace T-Search, the automated search and retrieval system used to determine whether an applicant's trademark is

confusingly similar to pending or registered trademarks.

Findings

GAO found that: (1) PTO has acted to address users' complaints by moving T-Search to a different mainframe computer, and improving its access, speed, and availability; (2) in order to improve the quality of information in the data base, PTO instituted standards for data entry and improved the training provided to data entry staff; (3) for fiscal year (FY) 1992, PTO requested \$1.4 million in its budget proposal, but funded the systems upgrade effort during FY 1991 because of the system's age; (4) PTO decided to replace the T-Search system because it believed a new system using modern technology would more effectively and efficiently meet user needs; (5) PTO planned to issue a solicitation for the T-Search

replacement system in FY 1991, but delayed issuance by about 6 months because of schedule slippage for studies needed to justify the procurement; and (6) for FY 1992, the PTO budget proposal included \$3.3 million to develop the replacement system, but PTO will not obligate any of those funds until FY 1993.

Open Recommendations to Agencies

Recommendation: The House Committee on the Judiciary, Subcommittee on Intellectual Property and Judicial Administration, may wish to reduce the PTO budget request for FY 1991 by \$1.4 million, the amount PTO requested to upgrade T-Search. The Committee may also wish to defer the

\$3.3 million requested for the replacement system until PTO provides the Committee with the analyses and studies needed to justify replacing T-Search.

Status: Action not yet initiated.

Recommendation: The Secretary of Commerce should direct the Commissioner of Patents and Trademarks to: (1) ensure that PTO completes the analyses and studies needed to justify T-Search replacement projects; and (2) provide the results of these analyses and studies to the Committee so it will have information on which to evaluate the PTO need for increased computer spending authority for FY 1992 and beyond.

Status: Action not yet initiated.

Legislative Reviews and Audit Oversight

Issue Area Summary: Legislative Reviews and Audit Oversight

Impact of GAO's Work

Auditing is an important control to help ensure that federal programs and operations are properly carried out and potential problems are identified and resolved promptly and effectively. With the growing complexity of the federal government and the problems it faces, including severe fiscal strains, an independent and reliable structure must be in place to ensure adequate audit coverage of federal programs and operations, as well as public sector activities of interest to the government. Our work has focused on improving the quality and the effectiveness of audits of federal expenditures, ensuring the quality of audits performed by nonfederal auditors, and improving the financial management of legislative branch operations through regular financial statement audits.

In our oversight of the Inspectors General (IG) and other audit organizations, our reviews resulted in improved audit coverage, resources, quality, and impact. Also, our reviews of the establishment of the 34 Offices of the Inspector General created under the Inspector General Act Amendments of 1988 resulted in the removal of impairments to IG independence and authority.

In recent years, many changes have taken place in the public accounting profession, and our reports on the quality of audits by certified public accountants (CPA) contributed to the impetus for these changes. As a result of our recommendations on CPA audit quality, the American Institute for Certified Public Accountants revised its process for updating industry audit guides and the Securities and Exchange Commission (SEC) strengthened its requirements for reporting changes of accountants.

Regarding our legislative branch work, our financial statement audits of several legislative entities, such as the House Office of the Sergeant at Arms and the Senate Barber and Beauty Shops, resulted in improved internal controls. In addition, our reviews of other legislative branch operations, such as the Capitol Police, the Government Printing Office, and the Library of Congress, resulted in a significant number of improvements in their internal controls and accounting systems.

Key Open Recommendations

The most important open recommendations are those related to our 1989 report on the need to improve auditing and financial reporting of public companies. During the past several years, well-publicized cases of financial irregularities in many companies and financial institutions, such as those in the savings and loan industry, have raised serious questions about corporate accountability, the effectiveness of corporate governance and regulation, and the adequacy of audit requirements. We have supported congressional efforts to amend banking laws, as well as securities laws, to increase both management's and the auditor's responsibilities for detecting and reporting irregularities.

We have recommended, among other things, that SEC (1) ensure that managers of public companies publicly report on their responsibilities for financial statements and internal controls, (2) require the auditor to review and publicly report on the management report, and (3) adopt a requirement for public companies to establish audit committees. (GAO/AFMD-89-38, see p. 889.)

Products With Open Recommendations: Legislative Reviews and Audit Oversight

Product Title		
CPA Audit Quality: Improved Controls Are Needed To Ensure Quality Audits of Federal Loan Programs (AFMD-88-3)		889
CPA Audit Quality: Status of Actions Taken to Improve Auditing and Financial Reporting of Public Companies (AFMD-89-38)		889
Single Audit Act: Single Audit Quality Has Improved but Some Implementation Problems Remain (AFMD-89-72)		890
Air Force Audit Agency: Opportunities to Improve Internal Auditing (AFMD-90-16)		891
Inspectors General: Staff Resources of VA's Office of Inspector General (AFMD-90-6)		891
Financial Audit: First Audit of the Library of Congress Discloses Significant Problems (AFMD-91-13)		892

Related Products With Open Recommendations Under Other Issue Areas

None.

CPA Audit Quality: Improved Controls Are Needed To Ensure Quality Audits of Federal Loan Programs

AFMD-88-3, 05/02/88 GAO Contact: David L. Clark, Jr., (202)275-9489

Background

GAO reviewed the Department of Agriculture's (USDA), the Department of Housing and Urban Development's (HUD), and the Small Business Administration's (SBA) controls for ensuring that certified public accountants (CPA) conduct high-quality audits of their loan programs.

Findings

GAO found that: (1) 25 percent of loan program audits did not comply with auditing standards; (2) noncompliance with auditing standards included a lack of documentation regarding CPA financial transactions, tests, internal control evaluations, and compliance; and (3) a national professional CPA association made 25 recommendations in the areas of education, engagement, evaluation, enforcement, and

information exchange to improve the quality of government audits. GAO also found that USDA, HUD, and SBA: (1) lacked effective controls for receiving and reviewing CPA audits of their loan program participants; and (2) did not fully address problems involving untimely receipt of audit reports, insufficient audit reviews, and inadequate written guidance for CPA in their internal control improvements.

Open Recommendations to Agencies

Recommendation: The Secretaries of Agriculture and Housing and Urban Development and the Administrator, SBA, should provide CPA with complete and current written audit guidance to use in the conduct of loan audits.

Addressee: Small Business Administration

Status: Action in process. SBA plans to issue written guidance in January 1992.

Recommendation: The Secretary of Agriculture and the Administrator, SBA, should implement procedures to review the quality of CPA audits of loan programs.

Addressee: Department of Agriculture
Status: Action not yet initiated.

Recommendation: The Secretary of Agriculture and the Administrator, SBA, should require that audits of participants in loan programs be performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Addressee: Small Business Administration

Status: Action in process. Estimated completion date: 01/92. SBA plans to issue regulations in January 1992 to require GAGAS audits.

CPA Audit Quality: Status of Actions Taken to Improve Auditing and Financial Reporting of Public Companies

AFMD-89-38, 03/06/89 GAO Contact: David L. Clark, Jr., (202)275-9489

Background

Pursuant to a congressional request, GAO reviewed the implementation of changes to improve auditing and financial reporting of public companies.

Findings

GAO found that the public accounting profession and others have taken positive actions to address concerns about audit quality and the accuracy and reliability of financial disclosures, but have not acted on several proposals.

GAO also found that: (1) the Securities and Exchange Commission (SEC) does not require companies to provide information concerning significant risks and uncertainties in the corporate management discussion and analysis (MD&A) section of annual reports; (2) in July 1988, SEC proposed a rule requiring

public companies' management to report on their responsibilities for the financial statements and on their assessment of the company's internal controls, but SEC never finalized the rule; (3) while endorsing audit committees as an effective force for ensuring auditor independence, SEC decided not to require all public companies to establish audit committees; (4) direct notification by terminated auditors to SEC would serve to alert SEC to possible problems which caused the company to change auditors; (5) SEC has delayed action on mandatory peer review for all public company auditors while it addresses several issues, including the structure of an SEC-sponsored peer review program, the costs and benefits of mandatory peer review, and questions about SEC authority to require peer reviews; (6) the American Institute of Certified Public Accountants' (AICPA) Special Investigations Committee (SIC), which examines allegations of audit failures, has performed its activities in strict confidence, limiting SEC ability to monitor the investigative process; and (7)

although AICPA has made significant progress in improving both professional and auditing standards, it has not updated guidelines for some specialized areas.

Open Recommendations to Agencies

Recommendation: SEC should adopt its proposal to require management of public companies to publicly report on its responsibility for the financial statements and internal controls.

Status: Action in process. SEC staff completed an analysis of comments on its proposal. It is waiting to see whether any congressional action takes place in this area.

Recommendation: SEC should require the auditor to review and publicly report on the management report.

Status: Recommendation valid/action not intended. According to SEC, no action is planned.

Recommendation: SEC should reverse its decision on audit committees and adopt a requirement for public companies to establish audit committees.
Status: Recommendation valid/action not intended. According to SEC, no action is planned.

Recommendation: AICPA, or SEC, if it concludes it has the authority, should require accountants to report directly to SEC when they resign or are terminated. However, if AICPA or SEC does not adopt such a requirement, legislation would be necessary to require direct notification to SEC.

Addressee: Securities and Exchange Commission

Status: Action not yet initiated.

Recommendation: In order for SEC to monitor the effectiveness of SIC activities, the Committee should provide SEC with access to all required information about the cases it investigates.

Status: Action in process. SEC is working with SIC in this area.

Single Audit Act: Single Audit Quality Has Improved but Some Implementation Problems Remain

AFMD-89-72, 07/27/89 GAO Contact: David L. Clark, Jr., (202)275-9489

Background

Pursuant to a congressional request, GAO reviewed the Office of Management and Budget's (OMB) implementation of the Single Audit Act, focusing on the: (1) quality of single audits by determining their compliance with generally accepted government auditing standards; and (2) usefulness of single audits to report recipients.

Findings

GAO found that: (1) certified public accountants (CPA) complied with auditing standards in 35 of the 40 audits reviewed because their audits showed sufficient evidence of studies and evaluations of internal controls and compliance testing; (2) five CPA noted problems with some audits relating to either internal controls, compliance testing, or reporting; (3) federal inspectors general did not provide

consistent oversight, and the degree of monitoring over audit quality varied; and (4) although most report recipients had concerns about the usefulness of single audits, most of the reports included findings and covered the majority of federal funds provided, but did not always identify the programs tested for compliance or the extent of testing.

Open Recommendations to Agencies

Recommendation: The Director, OMB, should amend OMB Circular A-128 to

require auditors to identify in single audits those programs tested for compliance with laws and regulations and to differentiate among those tested as major or nonmajor programs and

those tested in connection with the audit of the general purpose financial statements.

Status: Action not yet initiated.

Air Force Audit Agency: Opportunities to Improve Internal Auditing

AFMD-90-16, 02/20/90 GAO Contact: David L. Clark, Jr., (202)275-9489

Background

Pursuant to a congressional request, GAO reviewed the Air Force Audit Agency's (AFAA): (1) allocation of audit resources; (2) use of military and civilian auditors; (3) audit quality; and (4) independence.

Findings

GAO found that: (1) AFAA provided audit coverage over all significant Air Force procurement areas and major weapons systems during fiscal years 1986 through 1988; (2) AFAA recommendations led to \$339 million in potential monetary benefits during fiscal

year (FY) 1988; (3) audits of major operations resulted in such significant management improvements as improved internal controls, contracting procedures, and financial management systems; and (4) AFAA operated independently in accordance with generally accepted auditing standards. GAO also found that: (1) the Air Force could potentially save \$2 million annually if AFAA replaced military auditor positions with civilian staff; (2) AFAA needs to consider mission criticality, financial integrity, and budget size when allocating audit resources; and (3) AFAA could improve its referencing policy by requiring that

auditors reference written summaries to original working papers.

Open Recommendations to Agencies

Recommendation: To reduce the costs of AFAA operations, the Secretary of the Air Force should replace all military auditor positions with civilian positions.

Status: Action in process. Estimated completion date: 10/94. The first military auditors left AFAA in July 1990. This began a 4-year process agreed upon by the Secretary and the Chairman, House Armed Services Committee.

Inspectors General: Staff Resources of VA's Office of Inspector General

AFMD-90-6, 04/13/90 GAO Contact: David L. Clark, Jr., (202)275-9489

Background

Pursuant to a legislative requirement, GAO reviewed the Department of Veterans Affairs' (VA) Office of Inspector General's (OIG): (1) use of its current staff; (2) planned use of 40

additional staff members; and (3) plans to request further staff increases.

Findings

GAO found that: (1) OIG provided widespread coverage of VA operations through its various audits and

investigations; (2) OIG planned to use the authorized 40 additional staff members to provide more in-depth coverage of VA operations; (3) the additional 40 staff members would increase the OIG staffing level to 417, about the level it requested in fiscal year (FY) 1988 and FY 1989; (4) based on the

results of a January 1989 work-load assessment, the Acting Inspector General submitted a budget request to VA for 80 additional staff members in FY 1991 and planned to request an additional 80 members in each subsequent year through FY 1995; (5) the 1989 work-load assessment concluded that OIG needed a staffing level of 809 to provide maximum coverage of VA operations; and (6) in determining its

staffing requirements, OIG did not establish audit or investigative priorities for VA facilities, programs, and functions.

Open Recommendations to Agencies

Recommendation: To better identify VA OIG staffing requirements, the Inspector General should establish priorities in the

OIG work-load assessment and consider the effect of those priorities and its new audit approach on future staffing needs. **Status:** Action in process. VA OIG has developed priorities for its audit universe, and is in the process of revising its work-load assessment. The revised work-load assessment will be final by late 1991.

Financial Audit: First Audit of the Library of Congress Discloses Significant Problems

AFMD-91-13, 08/22/91 GAO Contact: Brian P. Crowley, (202)275-9450

Background

GAO audited the financial operations of the Library of Congress for the fiscal year ended September 30, 1988, focusing on the Library's: (1) available financial information; (2) internal accounting controls; and (3) compliance with laws and regulations.

Findings

GAO found that: (1) the Library could not substantiate the number or value of items in its collection, support its accounts receivable or its advances from others, or effectively prevent duplicate or incorrect payments; (2) the Library did not follow generally accepted accounting principles; (3) the Library lacked centralized policies and procedures needed to control and integrate its financial management system; (4) the Library lacked policies and procedures requiring routine reconciliation of the general ledger control accounts with subsidiary records; (5) the Library could not identify and correct any errors in the accounts before

they adversely affected the reliability or accuracy of its financial statements and other financial management information; (6) weaknesses in the Library's controls over its Federal Library and Information Network (FEDLINK) adversely affected its ability to achieve intended program objectives, comply with applicable laws and regulations, and ensure proper fund control; (7) the Library used expired funds and amounts in excess of authorized obligation limits to pay for FEDLINK services and obligated FEDLINK funds without proper authorization or documentation; (8) the Library did not satisfy competition requirements before awarding FEDLINK contracts, and could not demonstrate that its automated data processing contract awards under the program were properly authorized; (9) the Library made unauthorized use of revolving gift funds and improperly accepted nonappropriated fund reimbursements as gifts; and (10) since the review, the Library has taken a number of steps to improve the identified weaknesses.

Open Recommendations to Agencies

Recommendation: To help the Library bring about lasting improvements in its internal controls, the Librarian of Congress should designate a chief financial officer to act as the focal point for the Library's accounting and financial management functions. This official should be responsible for developing and implementing internal control and accounting system policies and procedures, and for directing, integrating, and reviewing the operation of financial management systems throughout the Library.

Status: Action not yet initiated.

Recommendation: To help the Library bring about lasting improvements in its internal controls, the Librarian of Congress should establish accounting and internal control policies and procedures to ensure compliance with Title 2 requirements. Those policies and procedures should include provisions to address the specific weaknesses noted in this report, including provisions to:

(1) account for and control assets and liabilities; (2) establish a complete, integrated financial management system; (3) ensure that required reconciliations are performed routinely; and (4) ensure that FEDLINK program obligations are properly authorized.
Status: Action not yet initiated.

Recommendation: To help the Library bring about lasting improvements in its internal controls, the Librarian of Congress should develop an overall financial management improvement plan to: (1) carry out a physical inventory of the Library's national treasure; (2) assist in setting priorities and fixing accountability and responsibility; and (3) specify corrective actions and milestones which will lead to the production of an effective set of internal controls, an integrated financial management system established in accordance with Title 2, and an annual report that includes financial

statements. The plan should provide for periodic reviews of the Library's financial operations by financial managers and for periodic independent financial audits to ensure the continued integrity and reliability of data produced by financial systems.
Status: Action not yet initiated.

Recommendation: To address the compliance issues discussed, the Librarian of Congress should ensure that appropriations transferred to the Library from other federal agencies are expended only for services provided during the fiscal year for which the appropriations are available.
Status: Action not yet initiated.

Recommendation: To address the compliance issues discussed, the Librarian of Congress should seek statutory authority to use gifts for self-sustaining activities as revolving funds.
Status: Action not yet initiated.

Recommendation: To address the compliance issues, the Librarian of Congress should stop accepting nonappropriated funds as reimbursements for FEDLINK services.
Status: Action not yet initiated.

Recommendation: To address the compliance issues discussed, the Librarian of Congress should ensure that prices charged customers under the FEDLINK program reflect the Library's actual costs.
Status: Action not yet initiated.

Recommendation: To address the compliance issues discussed, the Librarian of Congress should ensure that the number of staff positions financed from Economy Act reimbursements complies with the limitation imposed by law.
Status: Action not yet initiated.

Program Evaluation and Methodology

Program Evaluation and Methodology

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Program Evaluation and Methodology

Issue Area Summary: Program Evaluation and Methodology

Impact of GAO's Work

More and more, congressional committees require evaluative information on federal government programs and issues, and they look to the congressional agencies, including GAO, to provide it. Sound program evaluations are also valuable tools for improved management in government. To help improve the quality of evaluative information available to the Congress and agencies carrying out government programs, we conduct specific evaluations of various executive agencies' programs, usually made at the request of relevant congressional committees. These studies are usually categorized into one of four areas (1) determining the intended and unintended effects of an existing program, (2) identifying the potential effects of a proposed program, (3) assessing the quality of information available in a program area for use in congressional decisionmaking, or (4) reviewing executive branch evaluation functions and studies.

In many evaluation reports, we made recommendations to agency officials to (1) correct problems identified in existing programs, (2) increase their awareness of potential effects of proposed programs, (3) improve the quality of information they are collecting and analyzing, and (4) develop more fully their own capacity to perform high-quality program evaluations. Thus, while the initial use of these studies is often by the Congress in its deliberations on specific programs, they are also intended to bring about improvements for agencies involved.

Also, in some cases, our program evaluations provided demonstrations or applications of specific designs and methodologies for measuring the extent of program effectiveness or answering evaluative questions of general interest. The results of this work has frequently helped others in the evaluation field perform their work.

Key Open Recommendations

Our program evaluation and methodology studies fall into substantive areas that concern other issue areas. For example, an evaluation of an Environmental Protection Agency (EPA) program supplements and complements the work of the environmental protection issue area. Because our reports address specific programs, they are included in the appropriate issue area sections of this report. For example, our report on the quality of information on hazardous waste generation and management is found in the section on "Environmental Protection."

The following key open recommendations deserve priority consideration and are described both here and in the appropriate substantive issue area sections.

**Environmental Protection:
Hazardous Waste**

For the past 2 years, we have been investigating EPA's efforts to improve the quality of information on hazardous waste generation and the use of information in management decisions. We focused on how better information could be developed. Our February 1990 report made several recommendations dealing with the internal process for developing information systems. Specifically, GAO recommended that quantitative measures should be used to describe waste characteristics, and a true general classification system should be developed for treatment technologies. (GAO/PEMD-90-3, see p. 277.)

National and Public Health Issues

Our March 1991 report on accidental shootings evaluated the potential of two modifications to firearms for preventing such accidents—child-proof safety devices and loading indicators—and discussed a range of alternatives for dealing with this public health problem. We recommended that the Consumer Product Safety Commission be authorized to regulate firearms as a consumer product. Legislation incorporating our recommended changes to the Consumer Product Safety Act has been introduced but not yet enacted. (GAO/PEMD-91-9, see p. 549.)

Intergovernmental Relations: Long-Term Care Ombudsman

In 1991, we provided testimony on our study of federally mandated state ombudsman programs to investigate and resolve problems involving elderly residents of nursing homes and board and care facilities. We concluded that in some states lack of a clear federal requirement that ombudsmen have access to administrative records of such facilities was impeding the work of ombudsman offices. Legislation currently under consideration includes language that would address this concern. (GAO/T-PEMD-91-11, see p. 635.)

Food and Agriculture: Other U.S. Department of Agriculture (USDA) Activities

During the past few years, we have issued a series of reports on the accuracy of various USDA forecasts used to estimate the outlays of farm support programs. The first of these identified the need for USDA to implement a forecast evaluation program leading to the improvement of the commodity forecasts. More recently, our study of the Farm Crop Insurance Corporation's (FCIC) price forecasts also indicated that important improvements needed to be made. In this review we also came across a particular case regarding some questionable policies relating to the insurance of safflower crops in certain counties in California. We recommended that the FCIC Administrator take appropriate actions to improve internal controls to ensure that county crop insurance programs are actuarially sound. USDA and FCIC agreed to our recommendations; to date, however, they have made only limited progress in implementing them. (GAO/PEMD-91-27, see p. 392.)

Food and Agriculture: Inspections Under Free Trade Agreements

Our recent work for the Senate Committee on Agriculture, Nutrition, and Forestry focused on the comparison of the processes used by EPA and the international organization, Codex, in determining legal standards for pesticide residues on food commodities. We found important differences between U.S. and Codex standards. Opportunities may exist to reconcile some of these differences. But EPA and USDA officials must conduct further analyses to determine the likely impact that differences in standards would have on U.S. trade interests and the likely effects that changes in present standards would have on U.S. health protection policies. (GAO/PEMD-91-22, see p. 396.)

Government Information and Statistics: Voter Registration

In our November 1990 report on state, local, and private efforts to increase voter turnout, we stated that voter registration procedures continued to be a barrier to participation for many Americans. We recommended that the Congress enact federal legislation to make registration more nearly automatic. Such legislation has been introduced but not passed. (GAO/PEMD-91-1, see p. 731.)

Related Products With Open Recommendations Under Other Issue Areas

Product Title		
Hazardous Waste: EPA's Generation and Management Data Need Further Improvement (PEMD-90-3)		277
Waste Minimization: EPA Data Are Severely Flawed (PEMD-91-21)		310
FDA Drug Review: Postapproval Risks 1976-1985 (PEMD-90-15)		375
Plant Germplasm: Improving Data for Management Decisions (PEMD-91-5A)		381
Short-Term Forecasting: Accuracy of USDA's Meat Forecasts and Estimates (PEMD-91-16)		388
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