

GAO

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

February 1999

STATUS OF OPEN RECOMMENDATIONS

Improving Operations of Federal Departments and Agencies





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

**Comptroller General
of the United States**

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The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate

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

The Honorable C.W. Bill Young
Chairman
Committee on Appropriations
House of Representatives

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

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

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

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

David M. Walker
Comptroller General
of the United States

Preface

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

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

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

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

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Abbreviations

ADP	automatic data processing
AFDC	Aid to Families With Dependent Children
AID	Agency for International Development
AIDS	acquired immunodeficiency syndrome
APHIS	Animal and Plant Health Inspection Service
AOUSC	Administrative Office of the U.S. Courts
ASCI	Accelerated Strategic Computer Initiative
ATF	Bureau of Alcohol, Tobacco, and Fire Arms
BIF	Bank Insurance Fund
BOP	Bureau of Prisons
CBO	Congressional Budget Office
CBSX	Continuing Balance System-Expanded
CDC	Centers for Disease Control
CFO	Chief Financial Officer
CIO	Chief Information Officer
COPS	Office of Community Oriented Policing Services
CPA	certified public accountant
CTR	cooperative threat reduction
D.C.	District of Columbia
DEA	Drug Enforcement Agency
DFAS	Defense Finance and Accounting Service

Contents

DI	Disability Insurance
DLA	Defense Logistics Agency
DOD	Department of Defense
DOE	Department of Energy
DOI	Department of the Interior
DOL	Department of Labor
DOT	Department of Transportation
EEOC	Equal Employment Opportunity Commission
EIC	Earned Income Credit
EPA	Environmental Protection Agency
EZ/EC	Empowerment Zone/Enterprise Community
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FASAB	Financial Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FDA	Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FHWA	Federal Highway Administration
FinCEN	Financial Crimes Enforcement Network
FNS	Food and Nutrition Service
FPI	Federal Prison Industries
FRA	Federal Railroad Administration
FRF	Federal Savings and Loan Insurance Resolution Fund
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
FTA	Federal Transit Administration
GAO	General Accounting Office
GNMA	Government National Mortgage Association
GPO	Government Printing Office
GPRA	Government Performance and Results Act
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Control Point
HCFA	Health Care Financing Administration
HIV	human immunodeficiency virus
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
HHS	Department of Health and Human Services
HMO	health maintenance organization

Contents

HUD	Department of Housing and Urban Development
IAEA	International Atomic Energy Agency
IG	Inspector General
INS	Immigration and Naturalization Service
IRM	information resources management
IRS	Internal Revenue Service
IT	Information Technology
JOBS	Job Opportunities and Basic Skills Training Program
JTPA	Job Training Partnership Act
MRI	magnetic resonance imaging
NASA	National Aeronautics and Space Administration
NHSC	National Health Service Corporation
NHTSA	National Highway Traffic Safety Administration
NIH	National Institutes of Health
NPR	National Performance Review
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
NSLDS	National Student Loan Data System
OBRA	Omnibus Budget Reconciliation Act of 1993
OCC	Office of the Controller of the Currency
OCSE	Office of Child Support Enforcement
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
PASS	Plan for Achieving Self-Support
PTO	Patent and Trademark Office
RDT&E	Research, Development, Test and Evaluation
SAIF	Savings Association Insurance Fund
SAMSA	Substance Abuse and Mental Health Services Administration
SBA	Small Business Administration
SBIC	Small Business Investment Company
SEC	Securities and Exchange Commission
SES	Senior Executive Service
SRO	self-regulating organization
SSA	Social Security Administration
SSI	Supplemental Security Income
STARS	Standard Accounting and Reporting System
TANF	Temporary Assistance for Needy Families
TVA	Tennessee Valley Authority

Contents

USDA	United States Department of Agriculture
USEC	United States Enrichment Corporation
USPS	United States Postal Service
USTF	Uniformed Services Treatment Facilities
VA	Department of Veterans Affairs
WIC	Women, Infants, and Children

Improving National Security and International Affairs Programs

Defense Acquisitions Issue Area (Budget Function 050)

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

Impact of GAO's Work

During fiscal year 1998, we reviewed weapons and space programs to determine whether systems (1) are being acquired effectively and efficiently, based on requirements of the national security strategy and national space policy and (2) could benefit from adopting best management practices from the commercial marketplace. We also reviewed these programs to determine whether the Department of Defense (DOD) and the National Aeronautics and Space Administration (NASA) had selected the lowest risk and least costly acquisition strategies consistent with the need for the planned system or modification. Our reviews included systems such as the F/A-18E/F and F-22 aircraft, the theater missile defense program, the evolved expendable launch vehicle, and the space station. We also reviewed plans to automate the battlefield of the future. We also assisted the authorizing and appropriating committees of both the House and Senate by examining DOD's fiscal year 1999 budget and prior years' budgets and identifying opportunities to reduce and rescind DOD's procurement and research, development, testing and evaluation (RDT&E) requests by about \$6.3 billion.

We provided Congress with information to assist in its oversight responsibility on many occasions. For example, we testified that DOD could improve the outcomes of the weapons acquisition process—that is, acquire systems better, cheaper, and faster—if the incentives were changed to encourage and reward program managers for applying best commercial practices. We also testified on the military sensitivity of foreign launches of commercial communications satellites and on the recent shift in export licensing jurisdiction from the State Department to the Commerce Department. In addition, our testimony on the competitive effects of mergers and acquisitions in the defense industry identified approaches DOD can take to ensure the benefits of competition in a more concentrated industry.

Fiscal year 1998 saw the culmination of several years of GAO work on specific weapons systems in terms of actions taken by DOD and the Congress. For example, six GAO products on concurrency and risk in the F-22 program were important influences on DOD actions to decrease concurrency, which included reducing the number of initial production aircraft from eight to six annually—resulting in measurable savings of

about \$1.7 billion. Likewise, we questioned the need for and the affordability of the Navy's F/A-18E/F aircraft in a series of reports, testimonies, and briefings to Members of Congress and their staffs between June 1996 and March 1998. These questions contributed to a decision to reduce the planned procurement almost in half, for a total program savings of almost \$22 billion, or a savings of just over \$1 billion for fiscal years 1998 and 1999.

During the year, our best practices work resulted in reports on reducing unneeded RDT&E infrastructure, transitioning programs from development to production, and improving supplier relationships. In terms of infrastructure, DOD has estimated that 35 percent of its laboratory facilities and over 50 percent of selected test and evaluation centers are unneeded; but its initiatives to reduce capacity, as well as those of other government agencies, have achieved little success. By contrast, the domestic corporations and foreign government organizations GAO examined substantially reduced their research and development infrastructure. In analyzing this disparity, corporate and foreign government personnel identified critical elements in their success that are generally lacking in federal agency efforts.

The best practices work on weapons acquisitions contributed to a greater understanding of the root causes of problems that have been noted year after year in our individual weapons reviews. Important among these are the incentives that force overly optimistic decisions early in the acquisition process. Our review of the transition of programs from development to production identified commercial practices that, conversely, force knowledge-based decisions at critical junctures. We continue to find that culture also plays a large role. DOD agreed with recommendations in this report and also in our report on managing supplier relationships and is incorporating changes in its training programs and electronic reference system for the acquisition workforce.

Our work on the defense industry showed that DOD estimated net savings of over \$3 billion from restructurings after seven business combinations. We also reported that tracing these savings into contracts was extremely difficult given other factors that affect a contractor's operations and costs. However, we were able to trace hundreds of millions of dollars of savings in contractors' costs of operations, which benefited DOD because contract costs were lower than they would have been if the restructuring activities had not occurred.

High-Risk Areas

Defense Acquisitions is responsible for three areas that have been designated as high risk—Defense Weapon Systems Acquisition, Defense Contract Management, and NASA Contract Management.

Defense Weapon Systems Acquisition

In fiscal year 1998, we reported that despite DOD's past and current efforts to reform its acquisition system, wasteful practices still add billions of dollars to defense acquisition costs. Many new weapon systems cost more and do less than anticipated and schedules are often delayed because key decisionmakers do not have adequate information when needed, rush to commit programs to available funding streams before completing adequate testing, or have not put in place appropriate risk management strategies.

Several reports provided illustrations of these problems. For example, we reported that the Army is awarding both hardware and software contracts for various battlefield automation systems despite ongoing and significant software problems, lengthy delays in completion of testing programs, or significant schedule risks because of fielding deadlines set by senior officials. Likewise, we reported on the significant technical challenges in making an airborne laser capable of destroying a missile during its boost phase—challenges that will not be resolved for several years. Consequently, we concluded it is too early to predict whether an airborne laser program will evolve into a viable missile defense system.

Defense Contract Management

Over the past few years, several broad-based changes have been made to DOD contracting processes to improve the way DOD relates to its contractors and the rules governing their relationships. And the changes are by no means complete. Acquisition reform, with its emphasis on widespread reengineering of fundamental processes, continues to receive attention at the highest levels in DOD.

DOD faces a number of areas where risks appear particularly acute. The need for DOD to achieve effective control over its payment process remains an imperative. If it does not, DOD continues to risk erroneously paying contractors millions of dollars and perpetuating other financial management and accounting control problems. We, and the DOD Inspector General, have also found that DOD needs to strengthen the quality of its analyses for commercial purchases. Because DOD has not formulated good procurement and management strategies for commercial parts in the acquisition reform environment, it is paying higher prices for commercial spare parts than necessary. And, there are numerous cases in which limited analysis of commercially offered prices resulted in significantly higher prices than previously paid. DOD's implementation of health care

management programs, particularly the TRICARE Program, further illustrates DOD's difficulty in managing contracts. DOD has incurred added costs, the program was significantly delayed, and change orders have not been processed in a timely manner.

DOD has actions underway to address each of these problems. Whether DOD can successfully solve them remains to be seen.

NASA Contract Management

NASA spends about \$12 billion annually, largely for contractual goods and services. In 1990, when we began to review the adequacy of NASA's contract management process, we found that the agency lacked systems and processes to oversee procurement activities and the ability to routinely produce accurate and reliable management information. As a result, NASA was placed on GAO's high-risk list.

In fiscal year 1998, we again reviewed the agency's procurement and financial management processes. We found that NASA has delayed implementation of its integrated financial management system and has not implemented its procurement metrics initiative. Furthermore, while it has made progress in evaluating its field centers' procurement activities based on international quality standards, NASA has not issued formal requirements for evaluations at the centers. We concluded that it is premature to remove NASA contract management from the high-risk list.

Key Open Recommendations

Our work on best practices concluded that there were several actions DOD could take to improve outcomes for weapon acquisition programs. To improve the transition from development to production, we recommended that DOD (1) take steps to ensure that sound standards for the timing and quality of production-related knowledge are applied to individual weapon systems and used as a basis for assessing production risks and for making tradeoffs, (2) redefine the point for launching programs as the point at which technology development ends and product development begins, and (3) send the signals that create incentives for acquisition managers to identify unknowns and ameliorate their risks early in development. To improve supplier relationships on acquisition programs, we recommended that DOD (1) develop a policy that promotes productive supplier relationships and emphasizes the importance of suppliers in improving program outcomes and (2) communicate this policy throughout the acquisition workforce and the defense industry through training and other means. We also recommended specific steps DOD should take to ensure that weapon system program managers provide leadership and incentives

for optimizing supplier relations on their programs. (GAO/NSIAD-98-56, GAO/NSIAD-98-87)

Our work on the New Attack Submarine resulted in a recommendation that DOD assess the impact on ship survivability of reducing the capabilities of various subsystems. This recommendation is a theme of our weapons acquisition work. In major acquisitions, it is important for decisionmakers to have as complete information as possible in trading off threat assessments, system capability, and developmental risks. We have observed previous instances where backfits were needed to bring early production models up to required performance levels. The types of analyses we recommended, based on survivability modeling, would allow changes in development schedules and funding profiles at a much lower cost than if problems were identified later. (GAO/NSIAD-98-87)

With regard to the Army's program to automate information exchange at the battle command, brigade, and below levels, we recommended that this top priority program be moved to category I—projected to require in excess of \$355 million (fiscal year 1996 constant dollars) in development or procurement of more than \$2.1 billion (fiscal year 1996 constant dollars)—management to increase top-level oversight of its costs and risk. (GAO/NSIAD-98-140)

Our work on the services' efforts to reduce risk in the development of the AIM-9X missile system led to concerns about subsequent discovery of technical and operational problems because of plans to start low-rate initial production about 1 year before completing development flight testing and before operational testing of production-representative missiles. It also led to concerns about development of a helmet-mounted cuing system under a separate program although pilots need both the missile and the cuing system to prevail in combat. Consequently, we recommended that DOD revise AIM-9X acquisition strategy to allow for enough operational testing of the missile and helmet, using production-representative items, to demonstrate that the missile can meet minimum performance requirements before low-rate production begins. (GAO/NSIAD-98-45)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Defense Management
Issue Area (Budget
Function 050)

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

Impact of GAO's Work

DOD's managers face many challenges as they strive to improve business operations by streamlining operations, reducing infrastructures, improving management of remaining facilities, and enhancing effectiveness and efficiency of the defense supply chain.

Our overall strategy for the Defense Management Issue Area is to identify innovative, efficient, and cost-effective approaches for improving DOD's management and reducing costs. It focuses on the implementation and effectiveness of DOD's cost-reduction initiatives that relate to support infrastructure activities. It places special emphasis on logistics functions such as maintenance of depots; purchase, storage, and disposal of inventory parts and supplies; and transportation. Our work encourages the reengineering and streamlining of operations through new processes, best management practices, and privatization or outsourcing of activities where appropriate.

Logistics-related business and infrastructure activities consume a major share of DOD's budget. DOD recognizes the need to cut these costs and is seeking reductions to help fund a planned \$20 billion increase in its weapon systems procurement budget. Actions to achieve reductions include privatization, acquisition reform, technology insertion, organizational streamlining and consolidation, management process reengineering, base and facility closures, personnel reductions, inventory reductions, and private sector use of DOD facilities.

Key areas we focused on in fiscal year 1998 included transition of former bases to civilian use, potential for future base-closure legislation, depot maintenance, inventory purchases and storage, property disposal, and transportation of material and personal items. We also addressed environmental costs and programs and problems associated with the disposal of the chemical weapons stockpile.

High-Risk Areas

GAO's Defense Management Issue Area is the point of contact for the following two high-risk areas: Defense Inventory Management and Defense Infrastructure.

Defense Inventory Management

DOD manages inventories with a reported value of about \$65 billion. It also purchases at least \$8 billion of new inventory annually to support its weapon systems and equipment. DOD has had longstanding problems in achieving economic and efficient inventory practices. While working to correct them, it has not yet succeeded in developing the management tools needed to solve these problems on a long-term basis. In the near term, DOD needs to emphasize the efficient operation of its existing inventory systems. In the long term, DOD must establish goals, objectives, and milestones for changing its culture and adopting new management tools and practices. Further, DOD must continue to explore other alternatives such as using business-case analyses to identify opportunities for outsourcing logistics functions and for implementing best management practices.

Defense Infrastructure

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

Key Open
Recommendations

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

The Secretary of Defense should direct that the defense transportation reengineering efforts simultaneously address process and organizational structure improvements. Specifically, the reengineering efforts should confront, at a minimum:

- the need for separate traffic management component command headquarters staff;
- the consolidation of separate field subordinate command traffic management staff; and
- the elimination of all remaining duplicative field-based subordinate command support staff. (GAO/NSIAD-96-60)

Whether or not Congress authorizes future Base Realignment and Closure rounds, DOD needs to improve its periodic updating and reporting of savings projected from prior Base Realignment and Closure decisions. This information is needed to strengthen DOD's budgeting process and ensure that correct assumptions are being made regarding expected reductions in base operating costs. Accordingly, the Secretary of Defense should provide guidance to ensure that its components have and follow a clear and consistent process for updating savings estimates associated with prior Base Realignment and Closure decisions. (GAO/NSIAD-97-151)

If Congress authorizes future Base Realignment and Closure rounds, the Secretary of Defense should:

- work with the Task Force on Defense Reform and the National Defense Panel to address, in advance of any future Base Realignment and Closure round, the important organizational and policy issues in the various cross-service areas discussed to facilitate the process of making further infrastructure reductions;
- convene a DOD joint working group, as soon as practical, to develop policy guidance, improve Base Realignment and Closure processes and decision-making tools, and ensure greater consistency among the services' processes; and
- ensure full audit access to all parts of DOD's Base Realignment and Closure process. (GAO/NSIAD-97-151)

If Congress considers legislation for future Base Realignment and Closure rounds, it may wish:

- to model it on the 1990 Base Realignment and Closure legislation as a starting point;
- to pass such legislation early to allow the lead time needed for DOD and the Commission to organize their processes; and
- to consider the relationship between new Base Realignment and Closure authority and section 277 of the National Defense Authorization Act for Fiscal Year 1996 pertaining to laboratories and test and evaluation facilities. (GAO/NSIAD-97-151)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

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

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

Impact of GAO's Work

Given the changes that are taking place throughout the world, the Congress is continuing to rethink the U.S. role in international affairs, including the level of resources devoted to and the effectiveness of current programs in advancing U.S. economic, security, and political interests. Our work focuses on the relevancy, priority, and effectiveness of international affairs activities to contribute to the congressional debate on key issues of current national concern, such as the Dayton Peace Accords and developments in the Balkans. We have conducted assessments of (1) how the integration of states and expansion of institutions in Europe, such as NATO, may affect U.S. interests; (2) how effective the United States has been in managing the transfer of critical, defense-related technology to other nations; (3) whether U.S. participation in the United Nations, World Bank, and International Monetary Fund has efficiently and effectively served U.S. interests; (4) how well the government is representing U.S. foreign trade interests and promoting economic stability; and (5) how the government is carrying out its overseas roles and missions, including the broad range of programs designed to enhance U.S. security and reduce the flow of illegal drugs into the United States. We used the analytical framework (relevancy, priority, and efficiency) highlighted in our October 30, 1997 testimony to guide these assessments.

Our June 1998 report on the implementation of the Dayton Peace Accords in Bosnia assessed progress toward the Accord's goals of establishing a unified, democratic government that respects the rule of law. We reported to the Congress that the goal of a self-sustaining peace process remains elusive primarily due to the continued intransigence of Bosnia's political leaders. We also issued a report concluding that the International Criminal Tribunal for the former Yugoslavia did not have the capacity to prosecute war criminals in accordance with rules and procedures established by the U.N. Security Council. Earlier in the year, during a crucial period when the future U.S. role in Bosnia was being debated, we briefed staff from congressional committees and the National Security Council on our work. Regarding NATO expansion, our assessments showed that U.S. and other NATO member countries' programs are helping former Eastern Bloc countries prepare for possible membership in NATO. We also provided

information on NATO expansion cost issues. In October 1997 testimony, we addressed congressional concerns about the impact of NATO expansion on DOD's budget and noted that the ultimate cost of this expansion will be contingent on several undetermined factors. We also reported to Congress how NATO apportions costs among its members. Our international security work also included an assessment of trends in conventional military exports to China and information about the decision to revise export controls on high-performance computers that could have military or nuclear proliferation applications.

The Congress continued to rely on our examinations of multilateral institutions in seeking to determine whether they are advancing U.S. interests and whether there are opportunities to reduce their costs. Our reviews examined the rationale, structure, and reform agenda of these institutions that receive U.S. funding and efforts to introduce greater accountability and transparency into their operations. Our review of World Bank operations identified concrete steps that the Bank could take to improve the transparency of its public consultations regarding the environmental impact of its projects. Our assessments of the financial status of the International Monetary Fund and nature of U.S. financial obligations to the United Nations contributed to a greater public understanding of these complicated issues. Our November 1997 review of the U.N. internal audit function showed that its Office of Internal Oversight Services is in a position to be operationally independent but that more changes are needed to enhance future operations. This report is being used in debates over U.S. arrears and the broader issue of U.N. reform.

During fiscal year 1998, we continued to be an important source of objective information and analyses concerning U.S. bilateral assistance programs. During the year, we issued a series of reports and testimonies concerning the operations and effectiveness of U.S. counternarcotics programs. For example, our reports on Caribbean, Colombian, and Mexican drug control programs continue to show that despite long-standing efforts and expenditures of billions of dollars, these efforts have not materially reduced the availability of drugs in the United States. Our assessments of the U.S. Agency for International Development's and the U.N.'s response to the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) epidemic in the developing world provided important input to the debate over whether the Congress should provide additional support for these programs.

Regarding the performance of the U.S. foreign affairs apparatus, our work at the Department of State identified ways to improve service and save millions of dollars in potential costs. Our reports on the Department of State's overseas relocation and housing process concluded that State could control the growing costs of this function and provide quality service to employees by reengineering its processes using best practices. Our review of the Department of State's program to modernize its antiquated information technology infrastructure concluded that full implementation of widely accepted best practices did not appear to be a top management priority. Without full implementation of key best practices, there is substantial risk that State's program will not achieve intended results, will cost more than anticipated, and will take longer to put in place. Our review of visa processing operations revealed that processing backlogs continue to be a problem for some posts, including the one in Sao Paulo, Brazil.

We reported on a variety of international trade issues. For example, our report on the potential threat posed by agricultural sanitary and phytosanitary trade barriers described weaknesses in the executive branch's system for monitoring these barriers and provided insights on how the executive branch could strengthen its response strategy. Our report on worker rights in Caribbean Basin nations showed that although efforts to improve worker rights are continuing in the region, there is some validity to allegations of worker rights violations. Our report on the Customs Service's and the Census Bureau's new, \$42 million automated export monitoring system, concluded that the system was not an effective tool for enforcing export laws because few exporters used it and because the system was not linked to other law enforcement systems. In response to our recommendations, Customs and Census have taken measures to correct these problems. We also reported and briefed Committee staff on African trade issues associated with pending legislation and trade agreements. We outlined the many issues and concerns raised by the Executive Branch's request for fast track authority to negotiate new trade agreements and helped the staff prepare for the contentious debate on this issue.

**Key Open
Recommendations**

In 1996, we recommended that the Secretary of the Treasury monitor and periodically report to the Congress measurable indicators of the World Bank's progress in reforming its operations to improve its effectiveness. Although the Treasury has developed indicators as we recommended, it does not plan to report to the Congress on World Bank reforms based on

these indicators until 1999. Our recommendation will remain open until the Treasury submits its report. (GAO/NSIAD-96-212)

In 1997, we recommended that the Secretary of Commerce effectively monitor export trends in controlled items to Hong Kong and China after Hong Kong's reversion to Chinese sovereignty. Commerce has not yet provided specifics on what actions it plans or has taken. (GAO/NSIAD-97-149)

In 1997, we made recommendations to the Secretaries of Agriculture, State, Defense, and Commerce and to the U.S. Trade Representative on various issues involving international relations and trade. We recommended that the U.S. Trade Representative and the Secretary of Agriculture, in consultation with other agencies, coordinate goals, objectives, and performance measures for addressing foreign sanitary and phytosanitary issues to avoid unfairly blocking U.S. agricultural exports. In response, the U.S. Trade Representative and the Department of Agriculture formed a senior-level interagency Steering Group, and the Department of Agriculture formed a management group to coordinate policy among its multiple agencies. These groups are developing (1) guidance on how to approach sanitary and phytosanitary issues and determine priorities for federal efforts, and (2) goals, objectives, and performance measures for determining progress. Full implementation of our recommendations will take time and require continued management attention and commitment. Therefore, the recommendations will remain open until the agencies have had time to make more progress. (GAO/NSIAD-98-32)

We recommended that the Secretary of State establish a pilot program for improving the leasing and furnishing of overseas residences. We also recommended that if pilot tests confirm cost advantages, the Secretary should establish a plan to rollout a broad-based implementation plan. State has asked overseas posts for preliminary information on housing options before initiating a pilot program. (GAO/NSIAD-98-128)

We recommended that the Secretary of State act to fully implement the Department's information technology (IT) planning and investment process to help ensure that almost \$600 million dollars in annual on-going support and modernization funds are spent in a rational, planned manner consistent with federal requirements and guidance. In response, State has (1) reconstituted and reconvened its Information Resource Management Technical Review Committee, (2) launched plans to convene an Information Resource Management Configuration Control Board,

(3) developed an Information Resource Management vision paper in anticipation of preparing a comprehensive information technology architecture to guide funding decisions, and (4) committed to preparing a revised “cost model” to update estimated funding needs and incorporate actual and potential cost savings resulting from the modernization program. (GAO/NSIAD-98-242)

We recommended that the Secretary of State, working with other International Atomic Energy Agency member states, request the Director General to develop a plan for implementing parts of the Strengthened Safeguards System. Although the State Department recognizes the value of improved planning, it does not agree with our recommendation. It believes that a published plan could be used by some member states to push for the phasing out of existing safeguards measures before the new measures are proven to be effective and that a little ambiguity may serve U.S. interests. Although we agree that it would be unwise to drop existing measures before new measures are proven effective, a plan is necessary for the International Atomic Energy Agency and its member states to develop a clearer understanding of the implementation costs of the new system. (GAO/NSIAD/RCED-98-184)

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

We recommended that the Secretary of Defense assess and report on the national security threat and proliferation impact of U.S. exports of high performance computers to countries of national security and proliferation concern. DOD said that it had taken national security issues “into account” in a study conducted three years ago. We believe such a study is still necessary because DOD did not assess how countries of concern would use high performance computers to enhance their military programs. In mid-1998, the House National Security Committee required that such a study be conducted. We also recommended that the Secretary of Commerce, with the support of other agencies in the export licensing community, jointly evaluate and report on options to safeguard U.S. national security interests that may be threatened due to the export of computers as the technology advances in areas of scaleability and clustering. Commerce has not yet indicated how it will respond to this recommendation. (GAO/NSIAD-98-196)

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

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

Impact of GAO's Work

DOD faces unprecedented challenges as it strives to plan and budget for a broad array of military operations that can range from humanitarian assistance and peace operations to international terrorism and high-intensity warfare in geographic hotspots like the Persian Gulf and the Korean peninsula. To effectively meet these multiple missions, DOD must maintain a high readiness level and quality personnel.

Our overall strategy to assist Congress with military operations and capabilities issues is to: (1) evaluate the accuracy of DOD budget requests and recommend ways to improve planning for military operations; (2) assess whether U.S. forces are ready to arrive where they are needed, on time, with sufficient forces and equipment to effectively conduct and sustain their assigned missions; and (3) evaluate the effectiveness of DOD's ability to recruit, train, and retain a high-quality active, reserve, and civilian workforce, while maintaining quality of life programs.

In fiscal year 1998, the Congress and DOD took action on a number of our recommendations related to the three areas listed above. For example, the House and Senate Committees on Appropriations conferees reduced DOD's fiscal year 1998 operations and maintenance request by \$199.3 million, based on funds we identified to be in excess of requirements. Likewise, the conferees reduced DOD's request for active military pay by \$356 million, based on our recommended reductions.

Our review of DOD's efforts to improve its readiness assessment and reporting process showed, among other things, that DOD's quarterly readiness reports to Congress provided only a vague description of readiness problems and planned remedial actions. We concluded that in their present form these reports were not effective as a congressional oversight tool. We recommended that the Secretary of Defense take steps to better fulfill legislative reporting requirements by providing supporting data on key readiness deficiencies and more specific information on planned remedial actions. Based on our work, DOD's Senior Readiness Oversight Council has begun to focus more attention on recruiting and retention, personnel tempo, readiness funding, and aviation readiness.

Also, DOD submitted to Congress a plan for expanding its readiness reporting, which is scheduled for implementation in fiscal year 1999.

Our assessment of the Army's multibillion-dollar weapon systems modification program showed that Army officials no longer had the information they needed to effectively oversee and manage this program, due to the discontinuation of the centralized database used to track installation and funding. As a result, Army officials do not have an adequate overview of the status of equipment modifications across the force, funding requirements, logistical support requirements, and information needed for deployment decisions. Based on our recommendations, the Army is developing a new information system to improve management and provide better oversight of the program. Army officials told us that the new information system will have increased readiness implications and cost avoidances once the system becomes accessible to all program managers.

In 1996, the United States and Japan agreed on recommendations for reducing the impact of U.S. military operations in Okinawa. We reported that, while the United States expects to encounter few problems in implementing most of the recommendations, replacing the Marine Corps Air Station Futenma with a sea-based facility will be a major challenge. The United States has established requirements that Japan must meet before Futenma is closed and operations are moved to the sea-based facility. However, such a facility has never been built and operated. This report has led to considerable debate over the advisability of proceeding with such a facility.

During our testimony before the House National Security Committee, we discussed personnel readiness in the Army's five later-deploying divisions. These later-deploying divisions, which constitute almost half of the Army's active combat forces, are expected to deploy in the event of a second simultaneous major theater war or as reinforcements to earlier deploying divisions. We testified that, in the aggregate, the later-deploying divisions had an average of 93 percent of their personnel on board between August 1997 and January 1998. However, the aggregate data did not fully reflect the shortages of combat troops, technical specialists, and experienced officers that existed in these divisions. If these divisions had to deploy for a high-intensity conflict, the Army would fill their ranks with Individual Ready Reserve soldiers, retired servicemembers and newly recruited soldiers. Our testimony contributed significantly to the debate over the

readiness of U.S. forces and identified pockets of readiness problems that, if improved, should bolster military readiness.

We testified before the Senate Committee on Veterans' Affairs about DOD's continuing efforts to protect U.S. military forces against chemical and biological weapons, including its plan to inoculate all U.S. forces against the biological agent anthrax. Regarding DOD's anthrax program, we testified that to ensure that millions of active and reserve members receive the prescribed vaccinations in the proper time sequence will be a challenge. However, DOD could improve its prospects for a successful program if it considers lessons learned from previous immunization programs and from the medical record-keeping errors in the Gulf War and in Bosnia. The Army has subsequently developed a detailed implementation plan for inoculating personnel and for tracking the status of inoculations in medical records.

Our assessment of DOD's telemedicine projects (the use of communications technology to help deliver medical care without regard to the distance that separates the participants) showed that DOD invested more than the eight other federal departments and independent agencies involved in telemedicine. We recommended that a federal strategy be developed to ensure the cost-effective development and use of telemedicine, and that DOD, since it is a major federal investor and manages one of the nation's largest health care systems, should develop and submit to Congress an overarching telemedicine research and development and operational strategy. In early fiscal year 1998, DOD submitted to Congress its overall telemedicine strategy, which contained all four components specified in our recommendation.

In our report on personnel who leave the military during the first 6 months of enlistment, we made several recommendations that could reduce attrition and save DOD millions of dollars. The Congress adopted all but one of GAO's recommendations in the National Defense Authorization Act for Fiscal Year 1998. The one recommendation not included in the Act—to move all drug testing of recruits to the preenlistment stage—had already been implemented by DOD. In our March 1998 testimonies before both the House and Senate Subcommittees on Military Personnel, we reported that DOD had taken action on five of eight recommendations and was forming a joint service working group to address our other recommendations.

Key Open
Recommendations

Military medical personnel have almost no chance during peacetime to practice their battlefield trauma care skills. In response to this concern,

the Congress required DOD to implement, and GAO to evaluate, a demonstration program that would provide trauma care training for military medical personnel at a civilian center not later than April 1996. Due to the program's delayed start in November 1997, it was too early to assess its effectiveness. As of March 1, 1998, only four surgeons had completed their training rotations. We recommended, among other things, that the Secretary of Defense expedite efforts to establish an evaluation tool to assist in an assessment of the feasibility of training military personnel in civilian trauma centers. (GAO/NSIAD-98-75)

DOD has estimated that over \$20 billion and 30 to 40 years would be required to upgrade or replace existing military family housing. To improve housing faster and more economically, the Congress, in fiscal year 1996, approved DOD's Military Housing Privatization Initiative, which allows private sector financing, ownership, operation, and maintenance of military housing. In the two years since the Congress approved the program, no new agreements have been finalized to build or renovate military housing. We recommended that the Secretary of Defense direct the services to, among other things, prepare detailed, integrated housing plans that will describe their plans for addressing long-standing weaknesses in their housing requirements determination processes. (GAO/NSIAD-98-178)

Each year the military services recruit hundreds of thousands of new enlistees, who sign first-term contracts that are typically for 4 years. Many enlistees fail to complete their contracts, which has been a long-standing and costly problem for the services. Between fiscal years 1982-93, 31.7 percent of all enlistees did not complete their first terms. Using fiscal year 1993 cost estimates, we calculated that the services spent \$1.3 billion on the 72,670 enlistees who entered the services in fiscal year 1993 and departed prematurely. We recommended that the Secretary of Defense direct the service secretaries to, among other things, continually emphasize to all officers the cost of first-term attrition, and to use quality-of-life surveys to collect information on the factors contributing to first-term separation, and identify quality-of-life initiatives aimed at reducing first-term attrition. (GAO/NSIAD-97-39)

DOD sent approximately 2.2 million recruits to basic training between fiscal years 1987 and 1996. However, over 700,000 of those recruits failed to complete their initial service obligations, with about 200,000 failing to complete even 90 days of service. Given the concern in Congress about this matter, we reviewed the services' processes to screen, select, and

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

train recruiters and to measure and reward recruiter performance. To enhance the performance of DOD's approximately 12,000 recruiters and the retention of recruits, we recommended that the Secretary of Defense direct the services to, among other things, link recruiter awards more closely to recruits' successful completion of basic training and develop or procure personality screening tests that can aid in the selection of high quality recruiters. (GAO/NSIAD-98-58)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

National Security
Analysis Issue Area
(Budget Function 050)

GAO Contact: Henry L. Hinton, Jr., 202/512-4300

Impact of GAO's Work

This is our first full year of reporting since DOD reassessed its strategy and forces as part of the congressionally mandated Quadrennial Defense Review. DOD views the Quadrennial Defense Review as a blueprint for a strategy-based, balanced, and affordable program to meet defense needs from 1997 to 2015. Our reports and testimonies on DOD's budget, force structure, and strategy implementation have assisted the Congress to better understand the thoroughness of DOD's review, as well as the progress it has made in carrying out its plans. Our work also addresses Presidential Decision Directives 39 (June 1995) and 62 (May 1998), which provide the blueprint for a national strategy to combat terrorism. Over the past year, we have expanded our analysis of the Federal Government's efforts to combat terrorism, and have provided important information to the Congress on the U.S. Government's policy, strategy, and numerous programs and initiatives to combat terrorism, including the cost to the government of funding these initiatives.

Budget Analysis

Although DOD has reduced military and civilian personnel, force structure, and facilities, we have reported over the last few years that DOD has been unable to shift funds from infrastructure to modernization. This is the fifth straight year that DOD's proposed program was inverse to its goals of reducing its infrastructure costs and increasing funds for weapons modernization. DOD acknowledged in its report on the Quadrennial Defense Review that it has postponed procurement plans because funds were redirected to pay for underestimated operating costs and new program demands, and projected savings from outsourcing and other initiatives had not materialized. Although DOD's 1999 program, its first since the Quadrennial Defense Review, made adjustments to the 1998 program to decrease risks, we reported in July 1998 that we continue to see risks that the 1999 program may not be executable as planned.

Contingency operations, principally those in Bosnia and Southwest Asia, continue to cost billions of dollars. We reported in February 1998 that budget-quality estimates would not be available until key decisions were made and that the services were considering ways to reduce costs now that the Bosnia mission has been extended. We also provided analysis of the President's request for supplemental funding for fiscal year 1998 and amended budget for fiscal year 1999 for the defense appropriations

subcommittees. As a result of our May 1996 report on the accuracy of reported costs, the services have improved their reporting of costs and, hence, funding needs.

Force Structure

This year we continued our assessment of Army force structure issues, as directed by the Fiscal Year 1996 National Defense Authorization Act. Previously we had criticized the Army for its lack of an analytical basis for determining its institutional personnel requirements. Based on our recommendation, the Army agreed to report this long standing problem as a material weakness under the Federal Managers' Financial Integrity Act and develop a corrective action plan with milestones for completion. This year we reported that while the Army had developed the corrective action plan, two critical subplans had not been developed—one that implemented a new costing system and another to develop a new computer based-methodology for depots and arsenals. Further, we reported that the Army's institutional redesign efforts had not resulted in a reduction in major command headquarters, and the dollar and position savings identified for the effort had been overstated. For example, our analysis showed that the Army anticipated \$1.7 billion in savings from phase I redesign efforts, but the savings will be at least \$405 million less. In response to our previous work assessing how the Army determined its support force requirements, and the results of its biennial process for allocating support forces, the Army implemented several of our recommendations. For example, to take better advantage of capability that already existed in the force, we recommended that the Army determine how support units resident within the eight National Guard divisions could be used to fill some of the Army's support force requirements. In response, the Army has agreed to dual mission two National Guard Strategic Reserve Aviation Branch assault companies against warfighting requirements.

We also assessed force structure requirements for operations other than war. We reported in April 1998 that the military services had successfully provided needed capabilities for the Bosnia mission since its inception. With the decision to extend the Bosnia mission indefinitely, we reported that the Army and the Air Force, while filling the vast majority of the ground-based combat support and the aviation-related requirements, were encountering resourcing challenges for a small number of capabilities that are primarily in the reserves and have already been used. These challenges have since been met, but underscore how the mix of capabilities needed for a long-term mission like the one in Bosnia may not always match current force structure.

Last, we examined the force structure issue from the standpoint of the cost and operational implications if the Air Force were to assign more B-1 bomber aircraft to the reserve component. During the course of this work, we developed several options that the Air Force should consider to reduce overall B-1 operating costs without adversely affecting day-to-day peacetime training or critical wartime missions or closing any B-1 operating bases. In commenting on our report, DOD agreed that the matter should be studied, and committed the Air Force to conduct a thorough review of the bomber force structure. This information was then to be incorporated into the upcoming programming and budgeting guidance.

Strategy Implementation

In our review of the Quadrennial Defense Review, we reported that the value of the next review could be enhanced by early preparation and recommended that the Secretary of Defense assign responsibility for overall oversight and coordination of DOD preparation efforts. We also suggested that, if the Congress chooses to establish another panel of experts to provide an independent review of defense needs, it may wish to require the panel to complete its work prior to the next Quadrennial Review. The Senate Armed Services Committee, in the DOD Authorization bill for fiscal year 1999 (S. 2060, sec. 905), established a permanent requirement for the Department to conduct a comprehensive assessment of strategy, force structure, modernization plans, infrastructure, budget, and other elements each year in which a President is inaugurated. The Committee also established that the Secretary of Defense appoint a nonpartisan, independent panel by January 1 of the year preceding a presidential inauguration to conduct a similar comprehensive assessment. This panel is to provide two reports: an interim report by July 1 and a final report by December 1.

In our review of the personnel cuts recommended in the Quadrennial Defense Review, we found that service officials believe the majority of the cuts will not impact the services ability to implement the national military strategy. The cuts are primarily focused on reducing personnel associated with infrastructure activities or combat forces that are not critical to meeting war-fighting requirements. For example, the Air Force military personnel cuts will focus primarily on replacing military personnel in infrastructure functions with less costly civilians or contractors rather than eliminating functions. Because some aspects of DOD's plan to reduce personnel will not occur or will be delayed, we believe it is critical that the Office of the Secretary of Defense monitor the services' progress in achieving the personnel cuts and associated savings.

Last, our audit of DOD's accounting of its management headquarters and headquarters support activities assisted the House National Security Committee, which cited our work in its reports on the Fiscal Year 1998 and Fiscal Year 1999 National Defense Authorization Acts. Our work helped make the case that DOD should revise its headquarters accounting and reporting system, because DOD's reports to Congress significantly understated the costs and personnel involved.

Combating Terrorism

In recent years, the threat of terrorism has clearly been of increasing concern, prompting the Administration to issue expanded U.S. policy, strategy, and guidance on combating terrorism both at home and abroad. Our work over the past 2 years has highlighted the need for governmentwide priorities to be set, and for focus, coordination, and efficiencies in federal agencies' roles, missions, programs, activities, and spending to combat terrorism. In the past year, we reported on spending to combat terrorism at several key federal agencies, noting that the Office of Management and Budget (OMB) did not perform crosscutting reviews of the many involved agencies' and offices' proposed programs and budgets to avoid duplication and gaps in coverage. In the National Defense Authorization Act for Fiscal Year 1998, the Congress required OMB to establish a governmentwide reporting mechanism to report expenditures to combat terrorism, and, in March 1998, OMB submitted its first annual report to the Congress. In addition, we testified about the growth in the number of agencies and offices involved in programs and activities to combat terrorism and the increasing challenges to coordinate them. We have also performed analyses and evaluations of interagency counterterrorism preparedness and how DOD and other agencies are implementing legislation requiring training of local first responders to better deal with the early hours of terrorist incidents involving weapons of mass destruction. Our work on DOD's training program for local first responders highlighted the need to perform threat and risk assessments to provide local jurisdictions a sound analytical basis for making decisions about training and equipment requirements. A provision in the Fiscal Year 1999 Defense Authorization Act requires that these assessments be incorporated in the program. We also noted problems with the way in which DOD selected cities for training and implemented the program without consideration of existing state and local emergency response structures and training institutions.

Key Open Recommendations

In our report assessing Air Force aircraft, we recommended that the Secretary of Defense, in his efforts to reduce DOD's infrastructure costs,

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

After assessing key combat air power missions, we recommended that the Secretary of Defense conduct comprehensive cross-service assessments of overall joint close support mission needs, existing close support systems, and planned enhancements on a routine basis to determine whether and which proposed enhancements to close support systems should be funded, and in what quantities and priority. Such assessments might be made within the context of the joint warfighting capabilities assessment process although alternative mechanisms might be explored. (GAO/NSIAD-96-45)

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

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

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Special Studies and
Evaluations (Budget
Function 090)

GAO Contact: Kwaicheung Chan, 202/512-3092

Impact of GAO's Work

Congressional committees continue to raise important questions about national security and international affairs issues that are best answered using applied social science research and analytic methods. In fiscal year 1998, we conducted a broad range of congressionally requested studies and evaluations that examined (1) the intended and unintended effects of key programs, policies, and investments, such as DOD's animal research activities, (2) the reliability and validity of data and measures used in policy decision-making, such as the quality of economic and trade data for Southeast Asian countries, and (3) the conditions and outcomes across different programs and activities, such as the relationship between quality of life issues and military retention.

Our work on the effectiveness of government research to address Persian Gulf War veterans' illnesses generated substantial congressional and public interest. Since the conclusion of the war in 1991 more than 100,000 veterans have complained of various illnesses, however, we found that DOD and the Veterans Administration (VA) have no effective means to monitor whether these veterans are any better or worse today than when they first started reporting their illnesses. In addition, we found that not only have federal research efforts been delayed but many ongoing studies are unlikely to provide answers about the causes of Gulf War illnesses. We testified before the House Government Reform and Oversight Committee and the House Veterans' Affairs Committee during 1998 on these findings and results. Our recommendations to improve the monitoring of veterans' health conditions and to reexamine research priorities were subsequently adopted into the National Defense Authorization Act for fiscal year 1998 and the Persian Gulf War Veterans Health Care and Research Act of 1998.

Congressional concern about the problems associated with Gulf War illnesses has remained high, resulting in several requests for us to conduct follow-up studies. One concern raised is whether Gulf War veterans have a higher risk of developing certain cancers and tumors because of their exposure to hazards in the Persian Gulf. In examining this issue, we found that none of the data sources that provide information on the health characteristics of Gulf War veterans can be used to reliably estimate the incidence of tumors. Existing federal and state data systems are generally limited by poor coverage of the Gulf War veteran population and problems

of reporting accuracy and completeness. As a result it is not known how many veterans have tumors and whether they have a higher incidence of them than other veterans. We conducted additional work to determine the number of tumors among Gulf War veterans by merging data from different sources. Based on this analysis, we found a much larger number of cases exist than previously reported in other government studies of Gulf War veterans. We presented the results of our work on tumors among Gulf War veterans before the House Government Reform and Oversight Committee.

The possible exposure of U.S. troops to low levels of chemical warfare agents in Iraq in the weeks after the Gulf War is suspected to be one of the contributing factors in the unexplained illnesses that have plagued many Gulf War veterans. In another report, we examined the extent to which DOD doctrine addresses exposure to low levels of chemical warfare agents on the battlefield and the extent to which existing research addresses the performance and health effects of exposures to low levels of chemical warfare agents, either in isolation or combination with other agents and contaminants that may be present on the battlefield. We found that DOD does not have an integrated strategy, policy, or doctrine to address low-level exposures to chemical warfare agents. We also found that research indicates that low-level exposure to some chemical warfare agents results in adverse short-term performance and long-term health effects. Our recommendations that DOD develop an integrated strategy for addressing force protection issues resulting from low-level chemical warfare agent exposures were incorporated into the Conference Report of the DOD Authorization Bill for Fiscal Year 1999.

Our work in other defense areas also provided important information to congressional decision-makers. We completed a study on the impacts of federal defense spending and found that existing government data systems are severely limited in terms of tracking the distribution and types of spending and employment that occurs at the state and local level. While the data have some value, particularly at the aggregate level for the nation, it is important for budget and policy decision-makers who rely on the data to be alert to data limitations and exercise discretion when using them. In addition, we reviewed DOD's operations and organizational structure for overseeing the operational testing of new weapon systems. We found that the Office of the Director for Operational Test and Evaluation has contributed to improved testing of weapons systems. However, several factors have limited the Office from doing more to ensure that weapons systems are safe, suitable, and effective when fielded. These include

conflicts with the services regarding oversight authority, a decline in resources, and an expansion of duties into areas other than testing.

**Key Open
Recommendations**

We recommended that DOD and VA give greater priority to research on effective treatments for Gulf War veterans who are ill and set up a plan for monitoring their clinical progress. The House passed a bill requiring that VA fund the National Academy of Sciences to conduct a study to determine an appropriate method for implementing GAO's recommendations. Although VA subsequently contracted with the National Academy of Sciences in 1998, they have not yet developed and implemented a plan to monitor the progress of the Gulf War veterans. (GAO/NSIAD-97-163)

In order to more effectively evaluate the incidence of tumors and other Gulf War illnesses over time, we also recommended that the Secretaries of DOD and VA strengthen existing capabilities to track the nature and extent of illnesses affecting Gulf War veterans. DOD and VA are beginning to work on initiatives to enhance the utility of existing data systems, including the transfer of health information and the joint development of a computerized patient record system. In addition, DOD and VA recently funded a few studies to provide information on illnesses in the future. (GAO/NSIAD-98-89)

To address the lack of doctrine and research on low-level chemical warfare agent exposures, we recommended that DOD modify its existing policies to address low-level chemical threats and establish a research program for determining the effects of exposures to low-level chemical agents. DOD has not yet indicated how it will respond to these recommendations. (GAO/NSIAD-98-228)

See Chapter 3, Improving Human Services Programs, Veterans' Affairs and Military Health Care Issue Area. See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Improving Resources, Community, and Economic Development Programs

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

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

Impact of GAO's Work

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

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

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

- implement the Government Performance and Results Act, focusing on the goals and missions of DOE, NRC, DOI, NSF, and the Forest Service and holding them more accountable for their performance and results;
- enact legislation requiring DOE to use competitive contracting practices and follow the Federal Acquisition Regulation;
- reduce DOE's budget request for its privatization cleanup initiative by \$775 million after we questioned the accuracy of DOE's projected cost savings and the need for some of their projects;
- continue its search for an acceptable alternative for disposing of nuclear waste and in assessing the safety, reliability, and security of our nation's nuclear arsenal;
- develop legislation to prevent U.S. funding to the United Nations from supporting the development of Cuban reactors;
- deliberate on the U.S./North Korean nuclear reactor agreement;
- use "carry-over" balances and other means to reduce DOE's, NRC's, Bureau of Reclamation's, and Commerce's budgets;
- estimate savings to the federal government if electricity deregulation legislation is implemented;
- continue its deliberations on the potential privatization of DOE's four power marketing administrations;
- require the Bureau of Indian Affairs to identify Indian tribes that have relatively higher economic needs and target Tribal Priority Allocation funds to those tribes;
- introduce legislation providing for additional funding to restore historic properties at historically black colleges and universities after we provided information on the universe of such properties and the cost to restore them; and
- enact legislation allowing the Copyright Office to become self-sustaining through fees, which should ultimately generate budget savings of more than \$10 million a year.

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

- DOE developed a more effective approach for identifying carryover funding balances that exceed the requirements of its programs and, as a result, has reduced its carryover balances by \$2.3 billion since fiscal year 1995.
- DOE renegotiated its contracts with the University of California for managing three national laboratories, giving DOE greater authority and eliminating many of the non-standard clauses found in earlier contracts.
- DOE revised its acquisition guidance to require that contract performance and expectations be consistent with DOE's strategic goals and objectives.

- DOE has realized savings of close to \$100 million as a result of implementing our recommendation to consolidate the purchase of laboratory analysis associated with cleaning up its nuclear facilities.
- The National Park Service embarked on a top-to-bottom revamping of its construction practices after we disclosed a “\$300,000 outhouse” at one of the national parks.
- The Corps of Engineers has improved its planning and budgeting systems for maintaining its hydroelectric power plants and increased their availability to generate electricity and resultant revenues.
- The Bureau of Reclamation reduced its funding for an ecosystem project in California by over \$58 million after we pointed out that not all the money requested for the project was needed.
- TVA, although originally disagreeing with our assessment of TVA’s financial position, has recently recognized the problems we highlighted and stated its intention to more directly address them through various means, such as rate increases and debt reductions.
- The Forest Service developed and implemented (1) a benefit-analysis process for funding research projects carried out by different Forest Service organizations, and (2) a system for limiting the amount of support costs that can be used from the Knutson-Vandenberg Fund.
- The Bureau of Indian Affairs has taken steps to identify Indian tribes that have relatively higher economic needs and to target Tribal Priority Allocation funds to those tribes.
- The Minerals Management Service developed and implemented a program to verify reported gas production from offshore leases.
- The Small Business Administration developed a central database to provide inter-agency access to information on Small Business Innovation Research awards being made by 11 Small Business Innovation Research agencies, reducing the risk of duplicate funding of similar research.
- The National Institute of Standards and Technology now requires applicants for financial assistance under the Advanced Technology Program to describe what efforts they made to secure private capital to support their projects before applying for federal funding.
- The Patent and Trademark Office (PTO) has begun tracking the actual time it spends examining patent applications, greatly enhancing its ability to establish fees commensurate with these costs.
- The Copyright Office raised its fees for special copyright services, adding an additional \$1 million a year in revenues.

Key Open
Recommendations

National Laboratories

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

DOE's Laboratory Operations Board, created to provide focus and direction for DOE's laboratories, has developed a strategic plan for the laboratories and is taking steps to implement the recommendations made by the Galvin Task Force, an independent panel created by DOE to recommend better ways to manage the national labs. Many of the Task Force's recommendations address issues raised in our report, and DOE has many initiatives in process addressing the Galvin Task Force recommendations. Meanwhile, various bills have been introduced in the Congress calling for restructuring the laboratories. (GAO/RCED-95-10)

Nuclear Regulation

In May 1994, we recommended that the NRC—in order to ensure the health and safety of workers and the public—establish acceptable limits for radioactivity in sludge, ash, and related by-products at sewage treatment plants that receive radioactive materials from NRC licensees. NRC has been working with the Environmental Protection Agency (EPA) and other interested parties to develop a national approach to ensuring the protection of treatment workers and the public. Among other things, they are conducting a national survey to assess the extent of radioactive contamination in sludge, ash, and by-products. They are also developing guidance on radioactive materials in sewer sludge, ash, and by-products and, once results of the national survey are available—expected in August 2000—will determine whether a revision to radiation standards is needed. (GAO/RCED-94-133)

In another report—in May 1997—we recommended that NRC develop strategies to more aggressively act on safety deficiencies they discover in commercial nuclear power plants. To achieve this goal, we recommended that NRC require inspection reports to fully document for all plants the

status of the licensees' actions to address identified problems, including timetables for the completion of corrective actions and how NRC will respond to nonconformance with planned actions. In response, NRC has reported that it is strengthening its processes for assessing the effectiveness of a licensee's corrective action program by focusing on what a licensee has done as opposed to what it plans to do. In addition, NRC reported that it plans to provide inspectors with more guidance for closing out issues identified in inspection reports and is developing ways to better identify and track licensing commitments and to verify their implementation. While NRC intends to follow more closely the corrective actions taken by a licensee, it does not plan to track and document in the inspection reports the status of corrective actions for all licensee-identified issues, including how NRC would respond to nonconformances with planned actions. (GAO/RCED-97-145)

International Nuclear Technical Assistance

In September 1997, we recommended that the Secretary of State direct the U.S. inter-agency group on technical assistance, in consultation with the U.S. representative to the International Atomic Energy Agency (IAEA), to systematically review all proposed technical assistance projects in countries of concern, as covered by section 307(a) of the Foreign Assistance Act of 1961 and related appropriations provisions, before the projects are approved by IAEA's Board of Governors, to determine whether the proposed projects are consistent with U.S. nuclear nonproliferation and safety goals. If U.S. officials find that any of the projects are inconsistent with these goals, we recommended that the U.S. representative to IAEA make the U.S. objections known to IAEA and monitor the projects in these countries. We also suggested that the Congress (1) may wish to require the Secretary of State to periodically report to it on any inconsistency between IAEA's technical assistance projects and U.S. nuclear nonproliferation and safety goals, and (2) could explicitly require the State Department to withhold a proportional share of its voluntary funds to IAEA that would otherwise go to these countries.

In a June 1998 response to our report, the Department of State indicated concurrence with our recommendation and reported that it had reformed an interagency committee which evaluates proposed technical assistance projects by IAEA member states. In addition, legislation was passed in the House of Representatives in August 1998 to require the Secretary of State to report on any inconsistency between IAEA's technical assistance projects and U.S. nuclear nonproliferation and safety goals. (GAO/RCED-97-192)

Plutonium Disposition

Because of uncertainties about Russia's commitment to implement a long-term program—similar to the U.S. program—to reduce plutonium stockpiles, we suggested that the Congress may wish to consider linking DOE's future funding requests for large-scale projects to design and construct plutonium disposition facilities in the United States and Russia to progress in negotiating and signing a bilateral agreement. We also suggested that the Congress may wish to consider requesting that the Department of State, and other appropriate agencies, report periodically on efforts to conclude a plutonium disposition agreement between the United States and Russia. Both the House and Senate Appropriations Committee reports stipulate that DOE should not go forward with plutonium disposition efforts with Russia unless an agreement is signed. DOE believes this is reasonable as well and plans to continue working with Russia on negotiating and signing a comprehensive agreement on various aspects pertaining to plutonium disposition. In addition, DOE plans to report periodically to the Congress on its progress in reaching such an agreement. (GAO/RCED-98-46)

Nuclear Waste

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

In April 1998, DOE issued a three-phased plan for integrated study of vadose and groundwater zone issues that, among other things, establishes a site-wide management function responsible for identifying and coordinating activities that pose a potential impact to the Site's soil and groundwater and to the Columbia River; and provides for identifying data gaps; defining needs, goals, objectives, and near-and long-term priorities. According to DOE, integration of vadose zone and groundwater activities within the plan is necessary to understand how pending major cleanup decisions, such as retrieving waste from tanks, can be most effectively accomplished with the least possible environmental impact. In addition,

based on experience with injection of pressurized water into waste tanks, alternative technology demonstration, and additional insights on the behavior of wastes in the zone, decisions will be made on retrieval of wastes from single-shell tanks that will allow for final tank closure.

(GAO/RCED-98-80)

External Regulation of DOE Facilities

Although DOE leadership has recognized since 1993 the need for having its research and nuclear facilities inspected and licensed by independent (external) regulators to help ensure safe operations, it has wavered in its position and still does not have a clear strategy for accomplishing it. Therefore, we recommended that the Secretary of Energy (1) clarify the Department's position on the external regulation of worker and nuclear facility safety at DOE's facilities, and (2) develop a strategy to implement it that is consistent with the Department's position. This strategy should include specific goals, objectives, and milestones and show how the information from the pilot projects, and other techniques, will meet the strategy's goals and objectives. (GAO/RCED-98-163)

Contract Management

In August 1994, we recommended that DOE, in conjunction with its University of California contracts for the management of three national laboratories, ensure that fees paid to contractors for increased financial risks are cost-effective by developing criteria for measuring their costs and benefits. DOE is in the process of finalizing a new fee policy for profit and nonprofit management and operating contractors and anticipates that it will be completed by the end of 1998. (GAO/RCED-94-202)

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

Strategic Management

In April 1998, we recommended, among other things, that DOE (1) review its organizational structure and seek opportunities to better align the organization with its strategic plan's business lines, (2) develop specific procedures that state how subordinate strategic and multiyear plans are to relate to the departmental strategic plan, (3) work with its various programs to develop integrated management systems that directly link

required budgetary resources to the level of performance that is identified in the annual performance plans, and (4) modify the agency's contracting performance goals and fees in contracts for the start of the fiscal year's work. DOE agrees with these recommendations and is in the process of developing implementing procedures. (GAO/RCED-98-94)

Nuclear Waste Disposal

In September 1991, we recommended that DOE plan for the increasing likelihood that it might not be able to accept utilities' nuclear waste for storage or disposal beginning in 1998. We also suggested that the Congress explore whether additional legislation is desirable to address the likelihood that DOE will be unable to begin accepting the waste by that year. In July 1996, a federal circuit court of appeals ruled that DOE was obligated to begin accepting nuclear waste by January 31, 1998. However, because DOE was not going to be able to begin accepting the waste by the deadline, the court, in November 1997, directed DOE to begin pursuing contractual remedies. Also, the Congress has been considering legislative proposals that would, among other things, authorize and require DOE to store utilities' nuclear waste at a federal facility until DOE completes a facility for permanent disposal of the waste. (GAO/RCED-91-194)

Technology Investment

In June 1996, we recommended that the Secretary of Energy develop and implement a Department-wide policy for requiring repayment of the federal investment in successfully commercialized cost-shared technologies. We said the policy should provide criteria and flexibility for determining which programs and projects are appropriate for repayment. DOE officials agree with this recommendation and DOE is conducting a comprehensive review of its existing authorities, the experiences of other agencies, and other matters as a basis for adopting a new policy to accommodate it. (GAO/RCED-96-141)

Supercomputers

In a July 1998 report, we noted that given the number and cost of DOE's existing supercomputers, the unused capacity that exists, and future planned acquisitions, it is increasingly important that DOE better manage the acquisition and use of these systems. We recommended that the Secretary adopt an approach to information technology investment and oversight that meets the criteria set out in the Clinger-Cohen Act. Under such an approach, DOE should adopt a process for acquiring scientific information technology that (1) pertains to all Department-funded supercomputers; (2) ensures, prior to providing funds for the acquisition of any new supercomputers, that a written justification clearly demonstrates the need, addresses the benefits of acquiring the subject supercomputer, and allows for meaningful comparison with alternative

investments; and (3) includes a laboratory-specific analysis of the utilization of existing supercomputers and an analysis of the potential to share supercomputers with other sites and/or programs. We further recommended that the Secretary designate the Department's most ambitious acquisitions of supercomputer systems—such as those in the Accelerated Strategic Computer Initiative (ASCI) program—as strategic systems warranting oversight at the highest departmental level.

(GAO/RCED-98-208)

Intellectual Property Fees

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

Fair Market Value

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

National Park Service Employee Housing

While the Park Service has a long-standing tradition of providing housing to some of its employees, the backlog of housing repair, rehabilitation, and replacement needs, currently estimated at more than \$300 million, and a tight federal budget dictate that the Park Service examine options to deal with its housing needs. In an August 1994 report, we made

recommendations that, if implemented, would (1) better define the Park Service's housing needs and identify opportunities for reducing its inventory and (2) obtain nonfederal funds to help the Park Service meet its housing needs. In November 1996, the Congress passed Public Law 104-333 that, among other things, requires the Park Service to (1) review and revise its criteria for providing employees housing, and (2) assess the conditions of, and need for, its employee housing units. The Park Service is currently reviewing the scope of its employee housing program and is exploring ways to increase private sector involvement in helping to address the housing need. (GAO/RCED-94-284)

Wetlands

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

To ensure improvements to such data, we recommended that the Secretary of the Department of Agriculture and the Secretary of the Department of the Interior, in consultation with the Chairman of the White House's Interagency Wetlands Working Group, develop and implement a strategy for ensuring that all actions contained in the Clean Water Action Plan relating to wetlands data are adopted governmentwide. Such actions, we said, should include, in addition to the ongoing effort to develop a single set of accurate, reliable figures on the status of trends of the nation's wetlands, the development of consistent, understandable definitions and reporting standards that are used by all federal agencies in reporting their wetlands-related activities and the changes to wetlands that result from such activities. (GAO/RCED-98-150).

Federal Water Subsidies

Water subsidies, in which rights to use water are bought and sold, are seen by many resource economists as a mechanism for reallocating scarce water to new users by allowing those who place the highest economic value on the water to purchase it. At the same time, such transactions may allow DOI's Bureau of Reclamation to share in the profits, thereby reducing the costs to the government of providing the subsidized water. In a

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May 1994 report, we (1) identified several matters for the Congress to consider if it decides to further encourage water transfers and (2) recommended several actions that the Secretaries of the Army and the Interior could take to clarify guidance on approving water transfers to more clearly outline the requirements that must be met. The Bureau of Reclamation has taken various actions to implement these recommendations and the Army Corps of Engineers is coordinating with the Bureau to take others. (GAO/RCED-94-35)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Environmental
Protection Issue Area
(Budget Function 300)

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

Impact of GAO's Work

In response to various laws over the years addressing environmental and human health threats, the Environmental Protection Agency (EPA) has established a comprehensive set of regulations aimed largely at controlling the most obvious risks, such as pollution from large industries. This system of setting national environmental standards; issuing permits for discharges to the air, land, and water; monitoring compliance with the permits; and taking enforcement action, if necessary, has been the means for the nation to make substantial improvements in the environment. However, the system is costly and some important limitations have become increasingly clear. The nation spent \$122 billion in 1994 (the government's last national estimate) to comply with environmental regulations and standards, and regulatory requirements that are not sufficiently flexible can impose additional costs with only incremental levels of return. In addition, controls that are overly prescriptive can discourage technological innovation that could help lower these costs. Furthermore, a system focused largely on "end-of-pipe" pollution is not effective in addressing a number of emerging issues, such as nonpoint source pollution (polluted runoff), stratospheric ozone depletion, and global climate change. The prescriptive approach has also at times strained EPA's working relationship with the states, who generally implement national environmental programs. At a time of high public expectations for environmental protection and continuing concerns about the costs and the economic impact of government regulations, EPA must operate its programs in an efficient and effective manner, address the limitations in the current regulatory system, and prepare to manage new risks as they emerge.

During the past year, we have assisted the Congress and EPA by providing information on these challenges and assessing EPA's efforts to meet them. For example, we

- reported how certain requirements of the Resource Conservation and Recovery Act can have negative effects on hazardous waste cleanups by unnecessarily increasing cleanup costs and completion times,
- testified on EPA's and the states' roles and efforts to "reinvent" environmental regulation through innovative methods aimed at achieving

“the very best protection of public health and the environment at the least cost,”

- identified ways to improve the clarity and credibility of the economic analyses performed to support regulatory decision-making,
- analyzed the pace and costs of cleanup of hazardous waste sites under the Superfund program,
- reported on EPA’s and the states’ efforts to focus enforcement programs on achieving environmental results,
- analyzed the administration’s global climate change proposal in support of the Kyoto Protocol, an international agreement to reduce greenhouse gas emissions, and
- provided our observations on the major management issues facing EPA and how the agency can improve its strategic and annual performance plans, cornerstones of its efforts to effectively direct its resources and assess its performance in carrying out its mission.

Furthermore, the work we have performed in past years has influenced the Congress and EPA to take actions during fiscal year 1998 that will result in financial benefits and program improvements. For example, the following occurred as a result of our work:

- The Congress stipulated that \$650 million of the Superfund program’s appropriations for fiscal year 1998 depended upon reauthorization of the program because of issues we raised about EPA’s estimate of its funding needs and management of the program. Reauthorization did not occur.
- EPA took several actions to improve public communications in the Superfund and Safe Drinking Water programs, which should enable citizens to be better informed and more involved in environmental decisions affecting them.
- EPA improved management and oversight of its initiatives to “reinvent” environmental regulation by establishing a management process to oversee development and implementation of reinvention across the agency and to improve how it sets and communicates its reinvention priorities.
- EPA issued a directive and a plan to enhance the role of states in the Superfund program.
- EPA improved its use of peer review to enhance the quality, credibility, and acceptability of the scientific and technical products that may ultimately form the basis of regulations and other key agency decisions.

**Key Open
Recommendations**

Although the Congress and EPA have taken many actions in response to our work, some important recommendations remain and warrant priority attention for implementation.

Air Quality

The Clean Air Act Amendments of 1990 required EPA to issue a series of regulations—many with ambitious milestones—to address some of the more serious air pollution problems facing the nation. Since 1971, a series of executive orders and OMB directives have required EPA and other federal agencies to consider the benefits and costs associated with individual regulations. We found that EPA needed to improve the presentation and clarity of the information contained in these regulatory impact analyses to enhance their value to both agency decisionmakers and the Congress in assessing the benefits and costs of proposed regulations. For example, many of the regulatory impact analyses that we reviewed did not clearly identify key economic assumptions, the rationale for using these assumptions, the degree of uncertainty associated with both the data and the assumptions used, or the alternatives considered. EPA is addressing these needed improvements in new guidance on preparing economic analyses. The agency anticipates issuing the guidance document in early fiscal year 1999. (GAO/RCED-97-38)

Hazardous Waste Management

EPA's Superfund program began in 1980 as a relatively short-term project to clean up abandoned hazardous waste sites. At that time, the country's hazardous waste problems were thought to be limited. Since then, thousands of waste sites have been discovered, and cleaning them up has proved to be far more complicated and costly than anticipated. Recent estimates show that cleaning up these sites could amount to over \$300 billion in federal costs and many billions more in private expenditures. Under the Superfund law, EPA can compel the private parties responsible for contamination at hazardous waste sites to clean them up, or it can conduct the cleanup and demand reimbursement of its costs from the responsible parties. To pay for its cleanups, EPA draws on a legislatively established trust fund that has been primarily financed by a tax on crude oil and certain chemicals and by an environmental tax on corporations. (In December 1995, the authority to collect these taxes expired. However, the trust fund still has an unappropriated balance and is continuing to be used to finance the Superfund program.) Federal agencies generally use their annual appropriations to finance cleanup of the facilities under their jurisdiction.

Given the large number of hazardous waste sites to be cleaned up and the tremendous costs involved, we recommended that the Congress consider

amending the Superfund legislation to underscore the importance of ranking hazardous waste sites so that resources are targeted to cleaning up the worst sites first. We also suggested that the Congress encourage efforts to recover cleanup costs from responsible parties by requiring EPA to define more broadly which indirect costs are recoverable. We have also recommended that EPA expedite the issuance of a regulation that would more broadly define recoverable indirect costs. (GAO/T-RCED-94-274, GAO/RCED-94-196)

Although one reauthorization bill would have required EPA to place more emphasis on considering the relative risk of sites when setting cleanup priorities, the bill did not pass and reauthorization of the Superfund program is still being debated. EPA has created a panel that uses criteria, including health and environmental risks, to score and rank sites for cleanup during the next fiscal year. Other federal agencies have also made progress in developing processes to rank their sites for funding. However, not all the agencies have completed inventories of their sites and consistently implemented their ranking processes. In implementing new accounting standards, EPA is changing how it defines its indirect costs and may adopt a new indirect cost rate that would result in the agency charging more of its costs to responsible parties. However, EPA's office responsible for Superfund cost recovery has not yet decided if it will use the new rate in negotiating the recovery of costs from responsible parties.

EPA relies heavily on contracts and assistance agreements to accomplish the work of the Superfund program. When EPA awards a contract or enters into an assistance agreement, it obligates federal funds to cover the cost of the planned work. As work progresses according to work orders for individual contracts or work plans for assistance agreements, the agency makes payments and liquidates its obligations. In April 1997, we reported that EPA had \$249 million in unspent obligated funds available for deobligation on Superfund contract work orders and assistance agreements completed prior to calendar year 1997. In response to our report, EPA began a systematic process to identify funds available for deobligation by using automated data files. Using this new process, the agency recovered or had detailed plans to recover all of the funds we identified as available for recovery. In July 1998, we recommended that EPA recover unspent obligated funds faster by modifying its analysis of completed contracts to include a separate analysis in December in addition to June of each calendar year. EPA officials disagreed with our recommendation, stating that very little would be gained with an additional review in December. We have retained our recommendation

because a significant number of contracts typically expire in September of each year. For example, an additional review in December 1997 would have identified \$115 million for recovery in fiscal year 1998.

(GAO/RCED-98-232)

Toxic Substances

To obtain a better understanding of the risks posed by chemicals, EPA is planning to develop a Chemical Use Inventory. Debate on this effort has focused on certain key issues, such as the chemicals to be included. Although EPA had not made final plans, the agency considered collecting data on up to 12,000 chemicals. Because our past work has shown that EPA does not have the resources to effectively compile and analyze data on such a large number of chemicals, we recommended that EPA begin its inventory with a smaller number of chemicals—such as those suspected of presenting the greatest risk to human health and the environment—and then expand the inventory as appropriate. EPA is taking our recommendation into account as it develops its proposal to establish an inventory. The agency anticipates publishing the proposal in the Federal Register during the second quarter of fiscal year 1999. (GAO/RCED-95-165)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Food and Agriculture
Issue Area (Budget
Function 350)

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

Impact of GAO's Work

GAO conducts evaluations and audits which assess the domestic food and agriculture programs at the Department of Agriculture (USDA), the third largest civilian agency with a budget of about \$55 billion. USDA, and the food and agriculture industry it supports, is a vital part of the lives of millions of Americans. Approximately two-thirds of USDA's budget, or about \$36 billion, is spent on federal food and nutrition assistance programs for needy citizens. Each year, American agriculture accounts for about 13.5 percent of the gross domestic product and for about 9 percent of all exports. In addition, about 23 million Americans have jobs related to the food and agriculture economy.

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

In 1998, USDA continued to implement many of the changes mandated by Congress in 1994 and 1996, which reflect a body of work produced by the Food and Agriculture Issue Area, particularly in the farm commodity program, farm credit, and food safety areas. Specifically, USDA moved forward in implementing the provisions of the 1996 Farm Bill, which, among other things, pushed farm assistance programs to a more market-oriented approach and strengthened the integrity of the farm lending programs. USDA also continued to implement the provisions of Hazard Analysis and Critical Control Point (HACCP), which fundamentally changes the approach to food safety inspections. Additionally, USDA's Food Stamp Program has changed significantly as a result of major changes to federal welfare programs. While these program changes are occurring,

USDA continues to undergo the most massive streamlining efforts in its history.

During 1998, we have also assisted the Congress and USDA in assessing USDA's implementation of these changes. For example, we

- reported that the federal government's piecemeal approach to food safety is not an effective means of assuring the safety of the nation's food supply and reiterated the need to establish a uniform, risk-based inspection system under a single food safety agency to fully achieve an effective food safety system;
- identified hundreds of millions of dollars in the federal food safety budget that could be better spent if USDA applied risk-based principles to its meat and poultry inspections;
- testified on major weaknesses in the nation's imported food safety system that allows unsafe food to enter U.S. commerce;
- evaluated USDA's progress in implementing its massive reorganization and the provisions of the 1996 Farm Bill including the impacts these changes are having on federal services to farmers;
- identified millions of dollars in overpayments to food stamp households who included deceased individuals as well as other ineligible individuals in their households;
- highlighted serious weaknesses in the Forest Service's multimillion dollar contracting efforts and recommended a series of actions to decrease the agency's vulnerability to fraud, waste, and abuse; and
- testified on international and interstate cigarette smuggling as part of the congressional debate on the proposed National Tobacco Settlement.

Furthermore, during 1998, a number of our prior recommendations have been implemented by USDA. For example, as a result of our work, USDA

- lowered its commissions paid to private insurance companies for selling federal crop insurance which will save the federal government \$27 million dollars in fiscal years 1998 and 1999.
- reduced underwriting profits paid to private insurance companies which results in a savings of \$72 million annually.
- improved oversight of its multimillion dollar rural Empowerment Zones (EZ) and Enterprise Communities (EC) program, which will allow it to better assure that the program is accomplishing its legislative purposes.

Key Open
Recommendations

Food Safety

Our past work has been instrumental in the implementation of the new HACCP approach to food safety. This new program may address many of the problems we identified in our reports, and we will monitor the progress USDA and FDA make in implementing the HACCP regulations. In addition, however, we identified some shortcomings in the federal food safety program that still need solutions beyond a HACCP-based food inspection program. Specifically, we identified the need for Congress to (1) create a uniform set of food safety laws that are administered by a single food safety agency, (2) provide that agency with the flexibility to target its inspection resources to the most serious food safety risks, and (3) consider extending the Food Safety and Inspection Service's (FSIS) discretionary inspection authority and requiring FSIS to implement a discretionary inspection program for meat and poultry processors. In response to these recommendations, Congress continues to urge the Administration to proceed with the development of a single-food safety agency. Furthermore, in August 1998, the President issued an executive order establishing an executive council to oversee federal safety activities. Finally, congressional and agency officials have stated that discretionary inspection authority will be considered once the new HACCP regulations have been fully implemented and evaluated. (GAO/RCED-92-152, GAO/RCED-94-192, GAO/RCED-94-110)

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

Foreign Pests and Diseases

Foreign pests and diseases entering the United States cost an estimated \$41 billion annually in lost production and expenses for prevention and control. USDA's Animal and Plant Health Inspection Service (APHIS) is

responsible for minimizing the risks of infestation and disease and protecting the health of U.S. agriculture. On the basis of our review, we recommended several actions to better ensure that APHIS identifies harmful pests and diseases through the inspections it conducts. APHIS agreed with problems noted in our report and has begun implementing actions to address our recommendations. (GAO/RCED-97-102)

Food Assistance

USDA spends about two-thirds of its budget, or about \$36 billion in fiscal year 1998, on 15 separate food assistance programs. Our reviews of two of these programs, the Food Stamp Program—about \$22 billion in food benefits in fiscal year 1996—and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)—about \$2.7 billion in food benefits in fiscal year 1996—have identified potential areas of fraud, waste, and abuse and opportunities to reduce program costs.

Our most recent reviews of the Food Stamp Program identified large numbers of ineligible individuals included in households receiving food stamp benefits. In one report we identified nearly 26,000 deceased individuals in four states who were included in households receiving food stamps for the 2-year period 1995 through 1996. These households improperly collected an estimated \$8.5 million in food stamp benefits. In order to ensure the integrity of the Food Stamp Program by preventing deceased individuals from being counted as household members, we recommended that Congress enact legislation to enable the Social Security Administration (SSA) to disclose all information from its Death Master File to the states administering the Food Stamp Program. Legislation has been enacted that would require the states to enter into arrangements with SSA to share information in its Death Master File and to use this information to preclude deceased individuals from being included in households receiving benefits. In another review, we found that duplicate participation by members of food stamp households in more than one state results in millions of dollars of overpayments. To resolve this problem, we recommended that the Food and Nutrition Service (FNS), within USDA, consider establishing a central system to help ensure that individuals participating in the Food Stamp Program are not being improperly included as household members in more than one state concurrently. As part of this effort, FNS should conduct a feasibility study to identify options and provide a cost-benefit estimate for each option. FNS agreed to conduct this feasibility study. (GAO/RCED-98-53, GAO/RCED-98-228)

Based on our review of the states' implementation of the WIC program, we recommended that FNS work with the states to identify and implement cost

containment initiatives, including policy and regulatory and legislative revisions, to reduce or eliminate the obstacles that may discourage such initiatives. We also recommended that FNS take the necessary steps to ensure that the state agencies are requiring WIC participants to provide evidence that they reside in the states where they receive WIC benefits and to provide identification when their eligibility is certified and when they receive food or food vouchers. USDA has begun implementing actions to address our recommendations. (GAO/RCED-97-225)

Farm Programs

The Federal Agriculture Improvement and Reform Act of 1996 significantly changed many of USDA farm programs. This act promotes the transition of the agriculture sector from programs funded by government subsidies to ones that are more market oriented. Based on our review of USDA's efficiency in delivering program services to farmers under the revamped farm programs, we recommended that USDA study the costs and benefits of using alternative delivery methods to deliver services to farmers more efficiently thereby reducing federal expenditures. USDA generally agreed with the intent of this recommendation and is in the process of preparing a summary of actions it plans or has already taken in response to this recommendation. (GAO/RCED-98-98)

Through its farm credit programs, USDA provides loans and loan guarantees to financially troubled farmers. In 1994, responsibility for the farm credit programs was transferred within USDA to the Farm Service Agency (FSA), which was newly formed from several USDA activities. The potential for conflicts of interest in this program increased by adding individuals to the consolidated FSA agency who had not been previously subject to conflict of interest restrictions on farm loans. We reported that as of March 1997, FSA had identified 1,767 cases in which its employees or county committee members had loans or relationships with borrowers that required action to avoid conflicts of interest. Based on this review, we recommended that FSA clarify its policy and guidance defining situations constituting potential conflicts of interest and actions that are needed for addressing such cases. FSA is in the process of amending its personnel handbook for federal employees to clarify requirements for avoiding conflicts of interest. (GAO/RCED-97-104)

Forest Service Procurement Practices

The Forest Service, within USDA, awarded \$443 million on 6,475 contract actions in fiscal year 1996 for a wide variety of goods and services, such as building construction, tree planting, research studies, and aircraft and helicopters for suppressing fires. Our review of the Forest Service's contracting practices revealed that the Forest Service is highly vulnerable

to fraud, waste, and abuse because it does not have an effective system of internal controls for its contracting activities. To address these weaknesses, we recommended several actions to improve the agency's compliance with the Federal Managers Financial Integrity Act and GAO's standards for internal control. In response to these recommendations, the Forest Service has committed to developing an internal control plan, which addresses needed improvements in the areas of contract file documentation, routine supervisory review of contracting activities, and contract management information. The Forest Service also plans to ensure contracting officers' representatives are trained and certified in accordance with USDA policy. They also plan to develop a system to periodically monitor and assess compliance with internal control standards. (GAO/RCED-98-88)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

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

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

Impact of GAO's Work

More than 300 federal programs and activities, scattered among 28 agencies, are aimed at providing decent, affordable housing and healthy, vibrant communities. Created in 1965, the Department of Housing and Urban Development (HUD), including the Federal Housing Administration (FHA), is the principal federal agency responsible for about 240 of these programs and activities. Other key agencies with housing or community development programs include the Department of Veterans Affairs (VA), the Rural Housing Service, the Small Business Administration (SBA), and the Federal Emergency Management Agency (FEMA).

The Congress continues to deliberate how the federal government should address the housing needs of its citizens—including first time homebuyers, families with low income, the elderly, persons with disabilities, and the homeless. Our work has significantly added to congressional debate and decision-making on the future of housing and community development at the federal and state levels. Highlights of some of our work and the actions that the Congress, HUD, and its agencies have taken as a result are described below.

- Our work on HUD's financial management of its Section 8 assisted housing programs identified substantial weaknesses in HUD's oversight of and budgeting for the project-based and tenant-based programs. We found nearly \$11 billion of excess unexpended budget authority, much of which the Congress has since rescinded. In our 1998 budget reviews, we found flaws in HUD's budget process that led HUD to significantly overestimate program needs. HUD has already implemented our recommendations.
- We reported that HUD could improve its administration of the Performance Funding System, which provides \$2.8 billion in subsidies each year to public housing agencies. Among other things, we found that the subsidies are not sufficient to adequately supplement some housing agencies' budgets. In recently enacted legislation—Public law 105-276, section 519, Congress created two new funds—the Capital Fund and the Operating Fund—for providing subsidies to public housing agencies. Under this new

authority, HUD must develop a formula for determining the amount of assistance to be provided to public housing agencies.

- Our work on HUD's HOPE VI Program (a program to help revitalize severely distressed public housing) provided the Congress with critical information that the federal government's 5-year, \$3 billion investment is beginning to produce results; and pointed out barriers that delay or prevent improvements. To ensure that federal expenditures are producing results, we recommended that HUD develop performance measures for the community and support services at HOPE VI sites. HUD is developing such performance measures.
- HUD is improving its oversight procedures of real estate asset management contractors, as a result of the substantial problems we reported. These contractors are responsible for maintaining and safeguarding HUD's inventory of foreclosed single family properties—about 55,000 properties per year. We found that the oversight weaknesses had contributed to poor conditions at some properties.
- HUD is implementing recommendations we made for improving its administration of FHA's Risk Sharing Demonstration Programs, which are designed to expand the production of rental housing affordable to lower income families.
- Based on our recommendation, HUD has increased its communications with its field offices and housing agencies and has attempted to clarify its role in welfare reform. This action is critical because public housing agencies and HUD field offices lack information needed to help residents move from welfare to work.
- Our report on Native American homeownership opportunities on trust lands provided the Congress with evidence that few Native Americans have purchased homes on trust lands by using private, conventional financing. This report will assist congressional decisionmakers when expanding housing opportunities for Native Americans because it pinpoints the barriers to private mortgage financing.
- As a result of our limited work on FHA home loan appraisals, HUD announced several reforms designed to protect FHA home buyers against bad appraisals and removed seven FHA appraisers from FHA's roster of approved appraisers.
- In response to our report that identified weaknesses in HUD's management and oversight of its home improvement loan program, HUD plans to: ensure that information on the types of loans made is accurate; increase the number of claims subject to an underwriting review; and, monitor and target lenders for review.
- In line with our recommendations, FEMA established new policy guidance concerning its use of an expedited process for providing temporary

housing assistance to disaster victims. This guidance will help ensure equitable treatment of disaster victims and provide for temporary housing assistance when warranted.

The work we have performed in past years has also resulted in program improvements during 1998. Examples of these improvements are shown below.

- The Congress terminated funding for HUD's Low-Income Housing Preservation Program. Continuing the program would have cost about \$2 billion over the next several years.
- HUD has taken steps to improve the accuracy of its public housing management assessment program by, among other things, establishing a national real estate assessment center that will evaluate housing agency performance based on independent information, relying less on information provided by the housing agencies.
- HUD instituted a system to track annual progress reports submitted by Housing Opportunities for Persons With AIDS Program grantees. As a result, HUD can determine if the agency has complete fund use data and better assess the program's overall accomplishments. HUD has also reviewed the formula used to distribute program funds, per our recommendation.
- HUD strengthened its credit subsidy estimates for its Nursing Home Program, which will enable HUD to better measure the outcomes of this program.
- HUD reestablished a requirement that its field offices review a specific percentage of completed FHA single-family home appraisals, which will provide some assurance that appraisals comply with statutory, regulatory, and administrative requirements and will help monitor the quality of appraisers.

Key Open Recommendations

Low-Income Housing

In an April 1998 report, we recommended that the Secretary of HUD direct the Commissioner of the Federal Housing Administration to explore the feasibility of amending current program regulations to authorize the reinsurance demonstration program's use with 18-year balloon mortgages and with loan pools. By allowing wider program use, the program would encourage greater production of affordable rental housing. We also recommended that HUD correct current flaws in information systems used

to support and monitor both the reinsurance and credit enhancement demonstration programs. HUD needs better data to accurately evaluate the overall performance of individual projects and to ensure that its risk-sharing partners are complying with the demonstration programs' procedures and regulations. HUD plans, but has not begun, to take corrective action. (GAO/RCED-98-117)

In a July 1994 testimony, we said that we had found deplorable conditions in various low income project-based properties and recommended that the Secretary of HUD (1) promptly identify all properties with severe physical problems and offer affected tenants temporary assistance to relocate to safe and decent housing, (2) systematically notify owners of the problems, and (3) take appropriate enforcement actions against owners not bringing their properties into compliance with housing quality standards. HUD's 2020 Management Reform Plan contains a strategy to address the very poor physical conditions at properties supported by HUD's project-based assistance. Under its reform plan, HUD has created a Department-wide Real Estate Assessment Center, which is responsible for reviewing projects' physical inspection results and financial performance data to identify problem properties early. Several regional Multifamily Hubs and Program Centers have also been created to provide improved asset management. Finally, an Enforcement Center with field offices has been established to take remedial action of noncompliance persists. If HUD's strategy is successfully implemented, it would meet the intent of our recommendations. However, since HUD has only recently taken these new initiatives, it is premature for us to assess their effectiveness. (GAO/T-RCED-94-273)

In a February 1989 report, we recommended that the Congress establish one low-income rental assistance subsidy program that would provide a unified approach to delivering housing assistance, equalize the benefits to program recipients, and quiet the debate over which program is preferable. Legislation authorizing HUD to merge the two rental assistance programs was enacted as part of Public Law 105-276, section 545. (GAO/RCED-89-20)

Welfare Reform

Because many of the people that HUD serves depend on federal cash assistance for some or all of their income, welfare reforms are likely to affect HUD's programs. HUD's role in welfare reform is driven, in part, by the large numbers of tenants who currently receive welfare benefits whose incomes will decline if they do not find jobs or other sources of income within the time limits now placed on federal assistance. HUD's own

financial status depends, to some extent, on these tenants' success in replacing welfare benefits with earnings. In our June 1998 report, we made several recommendations to HUD that we believe are critical in assisting public housing authorities in their efforts to help residents move from welfare to work. Per our recommendation, HUD has increased its communications with its field offices and housing agencies and has attempted to clarify its role in welfare reform. However, HUD has yet to fully implement our recommendation to (1) provide technical assistance and data on tenants' characteristics along with guidance that would help housing agencies manage their units and determine the potential impact of welfare reform, and (2) develop a comprehensive strategy to help link field office and housing agency staff with federal, state and local welfare reform efforts. (GAO/RCED-98-148)

Lead-Based Paint Hazards

The risk of poisoning from lead-based paint continues to threaten the lives of young children living in low-income housing that was constructed before the sale of such paint was banned in 1978. Exposure to lead, even at low levels may cause serious health, learning, and behavioral problems in children—especially those under the age of 7. In 1993, we issued a report that found (1) public housing authorities were not complying with emergency abatement or relocation regulations for children with elevated blood lead levels and (2) HUD was not complying with 1988 legislative requirements aimed at abating lead-based paint hazards from public housing nor ensuring that public housing authorities were complying with its testing, abatement, and notification requirements. In the June 7, 1996, Federal Register, HUD published a proposed rule covering notification, evaluation, and reduction of lead-based paint in federally-owned and assisted housing. However, HUD has not yet finalized the regulations and thus, the regulations have not yet been sent to OMB for approval. (GAO/RCED-93-138)

Telecommunications

The Telecommunications Act of 1996, among other things, extended universal service support to schools and libraries. The general purpose of the program is to improve the access of schools and libraries to modern telecommunications services. To administer the program, the Federal Communications Commission (FCC) directed the establishment of the Schools and Libraries Corporation. As a start up operation, the Corporation developed operating procedures and internal controls to implement FCC's orders guiding the program. Since January 1998, the Corporation has received over 32,000 applications from schools and libraries requesting funding for up to \$2.5 billion in discounts on telecommunications, Internet access and internal connection services. In

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July 1998, we recommended that the FCC Chairman direct the Corporation to complete specific actions to strengthen weaknesses we found in the Corporation's internal controls before issuing any funding commitment letters to schools and libraries. In addition, we recommended the Chairman direct the development of goals, measures, and performance targets for the program that are consistent with the requirements of the Results Act. On July 16, 1998, the FCC Chairman directed the Corporation to adopt all of our recommendations. As of December 1998, the Corporation had implemented most of our recommendations and had begun to issue commitment letters to schools and libraries.

(GAO/T-RCED-98-243)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Transportation Issue
Area (Budget
Function 400)

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

Impact of GAO's Work

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

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

Aviation and Coast Guard
Issues

During 1998, FAA implemented two of our key recommendations dealing with aviation infrastructure and aviation safety. FAA

- finalized an integrated Global Positioning System augmentation plan that includes a schedule, cost estimates and the probability of meeting them; and
- formed a national certification team to assist its district offices in reviewing the safety of new airlines during their first year of operation and to focus inspections on airlines that experience elevated rates of safety-related problems.

Also, based on our recommendations, the Congress took actions that resulted in \$181 million in measurable savings. Specifically, the Congress

- reduced FAA's facilities and equipment funding by nearly \$97 million; and
- terminated the Coast Guard's Vessel Traffic System program, resulting in a two-year savings of nearly \$84 million.

Finally, we saw action taken on a number of other recommendations that will benefit consumers, improve government efficiency, and make air travel safer. During fiscal year 1998,

- to remove some barriers to competition that new entrant and other airlines face, DOT granted authority to Chicago's O'Hare and New York's La Guardia airports to create 31 landing/takeoff spaces, known as slots, for airlines to serve small and medium-sized communities that were experiencing a decline in air service;
- to improve aviation security, the FAA, in conjunction with the Federal Bureau of Investigation (FBI), began developing security threat information and plans to conduct joint threat assessments at 31 major airports designated as high-risk; and
- to better address its impending funding shortfall, the Coast Guard began quantifying the anticipated cost savings from its actions to reduce its future funding needs and implemented procedures to ensure that appropriated staffing funds for acquisition, construction, and improvement projects are used in accordance with annual appropriations acts.

Surface Transportation and Other Issues

DOT took action on one of our key recommendations concerning Boston's \$11 billion Central Artery/Tunnel project—one of the largest, most complex, and most expensive highway construction projects ever undertaken. In July, 1997, we questioned whether the project's finance plan would be sufficient to meet its financing needs. Subsequently, the State of Massachusetts provided its updated financing plans and a contingency funding plan to complete the project if less than the expected federal dollars were directed to the project.

We also had significant legislative impact. On September 30, 1997, when the existing surface transportation authorizing legislation, the Intermodal Surface Transportation Efficiency Act of 1991, expired, the Congress had not reached agreement on reauthorizing legislation. Based on our analysis of the adverse impact that a lack of authorization would have on states' surface transportation programs, the Congress passed short-term legislation that provided additional funding and added flexibility for states' use of existing funds.

Also, as a result of our recommendations on the impact of the North American Free Trade Agreement, DOT now requires border states to use performance-based criteria as part of their grant requests for funding to

improve the safety of commercial vehicles entering the United States from Mexico.

Finally, in response to our recommendations, DOT made a number of significant changes on its Draft Strategic Plan, which was required by the Government Performance and Results Act of 1993.

**Key Open
Recommendations**

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

**Fees for Registering and
Certifying Aircraft**

A potential option for dealing with limited FAA resources is to increase existing fees for the services it provides, taking into consideration the government's costs, the value of the services to the user, and the public policy or interest served. In 1993, we reported that FAA is not fully recovering the cost of processing aircraft registration applications and estimated, that, by not increasing fees since 1968 to recover costs, FAA had foregone about \$6.5 million in additional revenue. In accordance with our recommendations, DOT has been processing a Notice of Proposed Rulemaking to increase aircraft registration fees. DOT has been modifying the proposed rule to include provisions of the Federal Aviation Administration Drug Enforcement Assistance Act, which also deal with fees associated with aircraft registration. Because of the substantial changes required, DOT anticipates publishing a Supplemental Notice of Proposed Rulemaking. (GAO/RCED-93-135)

**FAA's Wide Area Augmentation
System**

As a part of FAA's multi-billion dollar modernization effort, the agency plans to field a network of ground stations and geostationary satellites which would use DOD's Global Positioning System to locate and track aircraft. FAA expects that this network, known as the Wide Area Augmentation System, will permit the agency to phase out existing ground-based navigation aids and achieve considerable savings. However, we found that a high degree of uncertainty exists in FAA's ability to meet its implementation milestones and find a vendor to field a system of geostationary satellites by FAA's target date of October, 2001. Additionally, we found that if small increments of passenger time savings were considered in FAA's benefit-cost analysis for its Wide Area Augmentation System, the projected benefits would exceed costs, but not to the extent that FAA officials had originally reported. In April, 1998, we recommended that the Secretary of Transportation direct the FAA Administrator to report to the Congress on (1) the range of milestones for initial and full Wide

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Area Augmentation System operations and the probabilities of meeting them; (2) the agency's detailed strategy for leasing geostationary satellites, and (3) an updated benefit-cost analysis, including a comparison with alternative investments and the impact of small increments of passenger time savings on the analysis. FAA has initiated work to respond to these recommendations and expects to complete the work in mid 1999.
(GAO/RCED-98-79)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Improving Human Services Programs

Education and Employment Issue Area (Budget Function 500)

GAO Contact: Carlotta C. Joyner, 202/512-7002

Impact of GAO's Work

The quality of life in this country and our ability to compete in the international marketplace are heavily influenced by the nation's investment in educational and employment programs. The Departments of Education and Labor are the federal agencies with primary responsibility for overseeing this investment. Working with state and local governments, the federal government invests over \$60 billion annually to promote access to quality education and to advance opportunities for productive employment under safe and equitable conditions.

Our work on elementary and secondary education issues has been used to improve students' access to appropriate education nationwide as well as within the District of Columbia (D.C.) public schools, for which the Congress has special oversight responsibility. Development of Individual Education Programs for children with disabilities is a crucial, statutorily required part of ensuring that they receive appropriate educational and other services. We reported, however, that the deadline (July 1, 1998) Education had set for updating all students' Individual Education Programs for them to be in compliance with the 1997 amendments to the Individuals with Disabilities Education Act was so difficult for school districts to meet that they were concerned about the quality of the Individual Education Programs' process. Based in part on our work, Education changed its position. The Department requires only that Individual Education Programs developed on or after that date must meet the new standards; Individual Education Programs developed before that time need no longer be revised before July 1.

We also provided information to Congress identifying problems faced by new charter schools getting access to federal funds because they lack the historical enrollment data often required by program applications. In response, Education's 1998 appropriations bill directed Education to issue guidance that clarified the options available to states and school districts in the distribution of federal funds to new charter schools. Within D.C., our work led to better assurance that only students eligible to attend school do so and that the reported school enrollment is accurate—improvements that can help avoid overpayment of federal funds to the schools. D.C. Public

Schools implemented a policy to clarify, document, and enforce residency verification requirements for students and their parents. Under this policy, nonresident students would be identified and allowed to enroll only if they paid tuition. D.C. also, as we recommended, provided for an independent audit of student enrollment.

Our resources for work in higher education have been focused primarily on the multi-billion dollar federal student financial aid programs—one of the high-risk areas that GAO has identified as being vulnerable to waste, fraud, abuse, and mismanagement. Although some progress has been made (see discussion below), problems continue to develop in Education’s management of these programs. Our work during this year led to correction of one new set of problems that was interfering with timely and accurate consolidation of multiple student loans into a single loan so that borrowers could more easily pay off their loans and avoid defaulting on them. The Department’s actions should prevent such problems as identifying which loans a borrower has and the correct amount of the loans.

The focus of our work in the area of workforce skills and jobs has been on identifying ways in which federal programs can better assist workers to acquire the skills they need to become economically self-sufficient and help employers recruit and hire qualified employees. Our multi-year program of work on the multiple employment training programs funded by the federal government identified many problems associated with this fragmented, overlapping system. The Workforce Investment Act of 1998—major legislation to overhaul and streamline the nation’s federally funded employment training system—implements many actions we had recommended. These include restructuring multiple programs into three block grants (adult training, youth training, and dislocated worker assistance), which eliminates many separate funding streams and set-asides; standardizing definitions; and establishing common performance measures. In addition, all states and localities are now required to establish one-stop career centers to facilitate job seekers’ and employers’ access to services. The Act also requires that Job Corps participants be assigned to the closest center, which—we pointed out—will allow the center to better link training to local labor market needs and increase the prospects of participants getting jobs.

With respect to worker protection, our work has focused on the maintenance of workplace protections for employees while minimizing the regulatory compliance burden on employers. Two agencies within

Labor—the Occupational Safety and Health Administration (OSHA) and the Employment Standards Administration’s Wage and Hour Division—took important actions in response to our recommendations. OSHA improved in three areas. First, OSHA changed its approach in assessing the effectiveness of state-operated programs (which operate in lieu of OSHA if OSHA approves them to do so). It now emphasizes program outcomes and evaluation in its reviews rather than focusing primarily on what the states are doing and how they are doing it. Second, OSHA has also encouraged states to enter into voluntary performance agreements that define objective performance goals that could be used as an alternative to routine monitoring by OSHA. Third, OSHA also made a significant improvement in protecting the safety of workers at construction sites. We had recommended that OSHA revise its policies so that, if the hazard would still be present in a new location, construction employers had to correct the condition, equipment, or procedure that created the hazard found in an inspection instead of just moving the unsafe equipment to another location or closing the site as a way to abate the hazard. OSHA issued directives that not only documented general procedures employers must follow to abate hazards but also specifically implemented these two recommendations.

In addition, OSHA improved its Integrated Management Information System, a publicly accessible database that tracks OSHA inspection activity, to correct a problem we identified. We reported that its Integrated Management Information System may contain inaccurate information on the results of certain types of inspections and recommended that OSHA immediately review the adequacy of this database. OSHA reviewed the past 3 years’ data and clarified its procedures regarding the use of this information. Our work also played a major role in the Wage and Hour Division’s efforts to improve the wage data used to determine prevailing wage rates under the Davis-Bacon Act. In response to our recommendation, the Wage and Hour Division implemented a process to verify, through telephone calls and on-site visits, the accuracy of the wage data employers submit.

Another agency, the Consumer Product Safety Commission, is taking actions that will affect not only workers but all consumers. Our recommendations would improve the commission’s ability to collect data on potential product hazards, analyze this information, and manage ongoing agency projects to reduce consumer product hazards. The commission developed a new database to better manage its projects and improved its cost-benefit analysis procedures.

Finally, we reviewed several drafts and the final strategic plans as well as the fiscal year 1999 annual performance plans produced by the Departments of Education and Labor. We provided Congress our overall assessments of these plans and suggested areas where the plans could be improved. Both departments have used our suggestions in revising their plans. For example, Labor has revised its strategic goals to be more mission focused and improved the discussion of its coordination activities and use of program evaluations.

High-Risk Area

We have designated student financial aid as a high-risk area. Our latest high-risk series report summarizes and updates both our continuing concerns about the Department of Education's vulnerabilities in managing and overseeing the student aid programs as well as progress in strengthening the program's fiscal and management control systems. Although the Department of Education has shown a commitment to improving its management of the student aid programs, the financial risk to U.S. taxpayers remains substantial. The major student aid programs—the Federal Family Education Loan Program, Federal Direct Loan Program, and Pell Grants program—employ complex and cumbersome processes with many participants, as they provide over \$43 billion of aid for postsecondary education students. The addition of the Federal Direct Loan Program made the management of the student aid programs an even greater challenge for the Department. Also, to maximize access to aid funds, the Higher Education Act placed nearly all the financial risk of loan defaults (which totals over \$3.3 billion in 1997) on the federal government.

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

The Department has generally been responsive to addressing problems in its student aid programs, and many of those actions appear to be achieving some results. For example, annual collections on defaulted loans have increased over the 5 years ending in fiscal year 1996, from \$1 billion to

\$2.8 billion, although they totaled only \$2 billion in 1997. The Department is also continuing a major reengineering effort that it expects will resolve problems with data reliability and communication among programs in the next several years. It is envisioned as a student-based, integrated data system through which all management and control functions will be conducted.

Key Open Recommendations

Department of Education Management

In our 1992 transition series report, we recommended that the Department of Education have information and financial management systems that provide needed data and protect the federal government's financial interests from waste, fraud, and mismanagement. We recognized that corrective actions would require new systems and revised regulations, or legislation or both. The Department is continuing the redesign of its core financial management systems. However, during 1998, the Department has had to focus much of its management information systems resources on solving the Year 2000 problem—the inability of many computer programs to correctly process dates after January 1, 2000. Although the Department has made progress in implementing our recommendation, even without the need to refocus resources on the year 2000 problem, its initiatives are long term efforts that will require more time to complete (GAO/OCG-93-18TR).

Head Start

In our April 1997 report on research studies of the impact of the current Head Start program, we reported that although research has been conducted, it does not provide information on whether today's Head Start is making a positive difference in the lives of participants. While we acknowledged the difficulties of conducting impact studies of programs such as Head Start, we concluded that research could be done that would allow the Congress and the Department of Health and Human Services (HHS) to know with more certainty whether the \$4 billion annual investment in Head Start is making a difference. We recommended that the HHS secretary include in HHS' research plan an assessment of the impact of Head Start programs. The Department has begun action to improve its approach to conducting impact studies such as we recommended; however, their actions to date are insufficient. In a June 1998 report we also recommended that the Department should develop and implement a plan for assessing individual Head Start grantee's performance based on outcomes, such as their ability to show improvement in children's

cognitive skills, literacy, and gross motor skills. (GAO/HEHS-97-59, GAO/HEHS-98-186)

U.S. Commission on Civil Rights

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

Job Corps

In a series of reports and testimonies on the \$1 billion Job Corps program for severely disadvantaged youth we identified a number of issues that need to be addressed. We recommended that Labor improve the guidance provided to its outreach contractors to better focus on those youth most appropriate for Job Corps' intensive services. We recommended that Labor improve the measures it uses to assess the performance of its placement contractors. In addition, in July 1998, we testified that 2 of Job Corps' performance measures are misleading and overstate the program's success. We noted that Labor and the Congress need meaningful and accurate information if they are to effectively manage and oversee the Job Corps program. (GAO/HEHS-98-1, GAO/T-HEHS-98-218)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

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

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

Impact of GAO's Work

GAO conducts evaluations of health care provided directly to over 34 million military beneficiaries and veterans by DOD and VA through their \$32 billion systems of hospitals, clinics, and managed care contracts. We also evaluate VA nonhealth benefits, such as disability compensation and vocational rehabilitation, provided to over 3 million veterans at an annual cost of about \$18 billion.

The high costs of health care and budget constraints underscore congressional concerns about whether VA and DOD are delivering quality health care to their beneficiaries as efficiently and cost-effectively as possible. The downsizing of the military forces and the declining but aging veteran population prompt related concerns about the structure of their health delivery systems and VA's benefits systems. Our recent work on these and related matters resulted in DOD savings of more than \$180 million and VA savings exceeding \$273 million.

For VA and DOD programs, our objectives are to (1) identify opportunities to improve management and accountability of health care systems; (2) assess structural reforms intended to better accomplish their missions; (3) evaluate implementation of and lessons learned from managed care strategies; and (4) determine whether the unique health care needs of special populations, such as those with high-cost, chronic conditions, are effectively served.

DOD Programs

In fiscal year 1998, we continued to focus on the reform and restructuring of the military health care system, particularly TRICARE, DOD's managed care program being phased in across the country since 1995. To supplement beneficiary satisfaction information on TRICARE access, DOD now collects data on appointment timeliness at military treatment facilities, as we recommended. Moreover, DOD is developing survey instruments to obtain feedback from beneficiaries about their inpatient and outpatient care and to track complaints.

DOD is also acting on our recommendations to manage its health care system more efficiently. For instance, DOD developed a methodology to more accurately portray TRICARE's full costs by estimating the costs associated with contract modifications, which it included in its fiscal year 1999 budget. DOD also improved procedures for modifying contracts to better ensure their necessity and to streamline processing. With its contractors, DOD has also accelerated resource sharing efforts to minimize the costs of delivering health care. In addition, in collaboration with the Army, Navy, and Air Force, DOD is developing guidance for sizing their graduate medical education programs to determine whether and at which sites reductions could be made.

Our comprehensive review of DOD's pharmacy benefit resulted in legislation aimed at better controlling costs and improving effectiveness by using best business practices and changing existing methods for contracting and distributing medical supplies and services. In response to our recommendation, the Congress directed DOD to implement a demonstration program of a DOD-wide pharmacy benefit for Medicare-eligible retirees. Moreover, DOD is taking action to invest in a computerized drug utilization review system that would help prevent adverse drug interactions and save millions of dollars by reducing unnecessary utilization.

VA Programs

In our work last year, we examined the challenges VA faces in running its hospitals, increasing the efficiency of and access to its health care system in a managed care environment, and maintaining its service to special populations, including Persian Gulf War veterans and millions of veterans with chronic health care needs.

Our extensive analysis and comparison of the evolution of VA and community hospitals in the 20th century, including factors contributing to declining demand and the extent of excess capacity, provided a valuable tool for helping VA develop and refine its strategic initiatives to improve efficiency and provide seamless health care services for veterans. Illustrating the principles of this work, we reported that VA could reduce expenditures, improve access to care, and still meet its medical education, training, and research missions by operating three hospitals instead of four in Chicago. As we recommended, VA issued a guidebook prescribing a public process for integrating facilities, and we reported on the successful use of this process in central Alabama. We continue to examine other ways in which VA could operate its hospital system more cost-effectively.

Our reports on implementation of the Veterans Equitable Resource Allocation system indicate that the major reorganization from four large health care regions to 22 Veterans Integrated Service Networks shows promise for correcting long-standing regional funding imbalances that have impeded equity of access for veterans in different locations. We continue to find, however, that monitoring and oversight need to be improved to realize the Veterans Equitable Resource Allocation system's potential. For instance, based on our work, VA is establishing a rate to reimburse the networks for single-visit patients, whose costs vary from the current basic and special rates. Additional monitoring and more refined data collection could lead to additional improvements.

Our work on programs for special populations has assisted the Congress in overseeing VA's key role in providing health care for these veterans. For instance, the Congress authorized a \$5 million grant program to test new approaches for treating Persian Gulf War veterans with undiagnosed illnesses. To correct deficiencies we noted in the claims adjudication process, VA is doing a better job of informing veterans and helping them obtain the evidence needed to support claims for undiagnosed illnesses. The Congress also extended expiring authority for the spouses and children of Persian Gulf veterans to get medical examinations through VA for health problems potentially related to the Gulf War. We also testified that VA needs to collect better data to demonstrate that it is maintaining service for veterans with costly chronic conditions, such as spinal cord injury and serious mental illness. As a result, the Congress created job performance standards for VA employees responsible for allocating and managing resources for specialized treatment and rehabilitative programs. VA also implemented our recommendations to improve general and gender-specific health care services for women veterans, and the Congress extended VA's authority to counsel and treat veterans for sexual trauma.

In fiscal year 1998, we also examined VA's strategic planning efforts. Based on our work, VA made substantive changes in its strategic plan and fiscal year 1999 performance plan, clarifying goals and objectives and emphasizing results rather than process. This should provide a more meaningful framework for Congressional oversight.

We are continuing to monitor VA's efforts to improve its adjudication and processing of disability claims, a subject of continuing concern to the Congress. VA is making progress in developing a new quality assurance system, but our ongoing review indicates that more needs to be done.

In relation to our work on burial benefits and the National Cemetery System, VA completed a document that outlines how it plans to address veterans' long-term burial demand through the year 2010, when the need for burial services will be the greatest, and is also planning a national survey in the year 2000 of veterans' burial preferences, as we recommended. We also suggested options for addressing problems that arose over the perceived unfairness of the waiver process for burial at Arlington National Cemetery, which is operated by the Department of the Army.

**Key Open
Recommendations**

DOD

We recommended that DOD determine whether resource sharing between TRICARE support contractors and military treatment facilities would still work under its new revised contracts, but also seek effective alternatives to resource sharing. Moreover, DOD should apply the lessons of resource sharing, such as the need for clear policies and incentives, as it plans and implements the next wave of military treatment facility and contract management initiatives. We are also concerned about the high volume of TRICARE contract modifications that have not been settled, although DOD has begun to improve its management and processing in this area. The importance of controlling overall costs requires DOD to persevere in its efforts to fix this process. (GAO/HEHS-97-141)

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

VA

Difficulties in working with VA's data cast doubt on whether VA can perform timely and effective oversight to monitor progress under its

Veterans Equitable Resource Allocation system. VA needs more uniform and timely reporting of changes in access to health care, including the number and eligibility priority of patients served, waiting times for care, and patient satisfaction for specific services. In addition, we recommended that VA establish criteria for networks to use in more equitably allocating resources to facilities and monitor any resultant improvements in equity of access. (GAO/HEHS-98-226)

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

VA has deferred action on several items that would improve its administration of disability and pension benefits, pending completion of its Business Process Reengineering project. As part of this project, VA plans to modernize its computer system, which should position it to save millions of dollars in overpayments and improve claims processing, including analyzing information on denied claims. (GAO/HRD-92-88, GAO/HEHS-95-25, GAO/HEHS-94-179)

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

Health Financing and Systems Issue Area (Budget Function 550)

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

Impact of GAO's Work

Our work on the nation's public and private health insurance programs encompasses some of the most important and expensive issues facing the country. Medicare and Medicaid are the primary insurers for more than 70 million people, and on their behalf the federal government will spend an estimated \$338 billion in fiscal year 1999, with the states contributing an additional \$74 billion to Medicaid. Although no longer facing imminent depletion, the Medicare Hospital Insurance Trust Fund is expected to face longer term problems when the aging baby boom generation begins turning 65 in 2010. Similarly, Medicaid—as the principal public insurer of long-term care—will also face increased costs as the number of those over 85 substantially increases.

Notably, the Health Care Financing Administration (HCFA), which administers Medicare and Medicaid, accounts for about two-thirds of the HHS budget. There is significant interplay between federal programs, such as Medicare and Medicaid, and the private insurance market: that is, changes to public programs and laws affect private payers' provision of health insurance, while private sector innovations have led to public program transformations. Major legislation enacted by the 104th and 105th Congresses will have implications for public and private payers of health care for years to come.

Medicare

For Medicare, the Balanced Budget Act of 1997 represented landmark legislation and with the Health Insurance Portability and Accountability Act of 1996, incorporated more than a decade of GAO's recommendations aimed at improving Medicare payment safeguards as well as payment and pricing methods. In the spirit of these reforms, HCFA acted this year on several of our recommendations, and together these actions are expected to produce several billion dollars in savings over the next few years. For example:

- In 1997, we issued two reports on Medicare's pricing of home oxygen showing that Medicare paid over a third more than the Veterans Administration for oxygen provided to beneficiaries in their homes. As a direct result of this work, the Congress included provisions in the Balanced Budget Act of 1997 for reducing home oxygen prices incrementally. The Congressional Budget Office estimates that the

reductions will save \$6.6 billion in Medicare expenditures between 1998 and 2007.

- For many years GAO has taken the position that the Medicare indirect medical education teaching adjustment was too high. The Balanced Budget Act of 1997 provided that this adjustment factor be gradually reduced through fiscal year 2001, with \$5.6 billion in estimated savings over 5 years.
- In 1995, we reported on providers' exploitation of regulatory ambiguities to overcharge Medicare for rehabilitation therapy provided to residents in skilled nursing facilities. By 1998, consistent with a recommendation in our 1995 report, HCFA-proposed salary equivalency guidelines for physical, speech, and occupational therapists were finalized. HCFA estimates that, in 1998 and 1999, the salary guidelines will result in \$240 million of savings in Medicare payments for rehabilitation therapy services.

Beyond realizing these savings, we testified this year on the challenges HCFA faces in implementing the Balanced Budget Act of 1997 provisions in the coming years, particularly those associated with developing several separate prospective payment systems and conducting the Medicare+Choice program. We also reported on such hotly debated health care issues as payments made to physicians at teaching hospitals, the government's use of the False Claims Act to penalize health care providers who bill Medicare inappropriately, and changes to Medicare fee schedule payments for physician practice expenses.

We have been especially active this year in the debate on paying for Medicare's \$17-billion home health benefit. During a 4-month moratorium on admitting agencies to Medicare that were newly seeking to serve the program's beneficiaries, HCFA strengthened numerous procedures designed to screen out unqualified providers. One such procedure—a requirement under the Balanced Budget Act of 1997 for all home health agencies to obtain a surety bond—remains controversial, and the Congress asked GAO specifically to assess the mechanics of implementing this requirement before having HCFA promulgate a regulation.

At the request of the Congress, we also quickly reported on the highly contentious "interim payment system," so called because it serves as a transition from the existing cost-based reimbursement method to a new prospective payment system to be designed for home health services. The Congress sought our information before considering what action, if any, it would take in response to strong industry concerns over the interim system's new cost controls. In congressional testimony, we have also

advised on certain features of the future prospective payment system for home health services and will continue to do additional in-depth work in this area.

Long-Term Care, Medicaid

In the area of long-term care—for which Medicaid is the primary public payer—we testified and reported on serious quality of care problems in California nursing homes. Our findings on homes with repeated violations involving harm to residents had nationwide implications and prompted immediate action by the Administration as well as hearings by the Senate Special Committee on Aging. This and other testimony on the long-term care needs of the baby boom generation and the physically fragile, low-income seniors eligible for both Medicare and Medicaid have built a foundation for continued work on the role of financing in quality nursing home care and the financing of chronic care for the elderly and individuals with disabilities. We are continuing to assess aspects of managed care for Medicaid beneficiaries, focusing on access to services for people with severe mental illness. In 1998 we also reported on welfare reform's effect on the enrollment and continued coverage of Medicaid beneficiaries and have work underway to determine the effect on Medicaid of the newly created State Children's Health Insurance Program.

Private Health Insurance

The enactment of Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act expanded our examination of private sector coverage issues. Our prior work on uninsured children contributed to the public debate that led to the creation of the State Children's Health Insurance Program. We also reported and testified on the near elderly—those aged 55 to 64—who are not yet eligible for Medicare but who, following retirement, may no longer be covered for insurance through their employer. In addition, we examined the implementation of the Health Insurance Portability and Accountability Act's access, portability, and renewability standards, noting that despite important new provisions, significant affordability issues remain unresolved. We also reported on the long-debated issue of consumers' ability to seek recourse against managed care organizations and other consumer protection issues affected by provisions in the Employee Retirement Income Security Act of 1974.

HCFA Management

Because the recent statutory reforms related to Medicare, Medicaid, and private insurance are many and complex, the Congress is increasingly concerned about HCFA's ability to manage their implementation effectively. In addition to developing and monitoring Medicare's individual prospective payment systems for skilled nursing facilities, home health

agencies, and rehabilitation hospitals, HCFA must oversee the implementation of the new State Children's Health Insurance Programs and serve as de facto insurance commissioner for those states that have not implemented the Health Insurance Portability and Accountability Act's private insurance provisions. In 1998, our testimony on HCFA's capacity to carry out its new and existing Medicare functions generated keen interest by the agency itself. HCFA's Administrator asked us to assess again the agency's performance of its many Medicare payer and purchaser functions as well as its Medicaid and private insurance oversight responsibilities.

Key Open Recommendations

Safeguarding Payments for Medicare's Home Health Benefit

Until recently, Medicare outlays for home health care—services provided to beneficiaries who are homebound and need skilled care—had been growing in the 1990s on average by more than 30 percent a year. We reported that the increase was largely due to increased usage that had followed a change in service coverage guidelines. It also coincided with a deterioration in program controls.

In one study, we tested 80 high-dollar claims for home health services that Medicare had paid. Subsequently, Medicare's claims-processing contractor, after examining each claim, denied more than \$135,000 in charges for 46 of the claims. While productive, these claims reviews are expensive. Thus, we proposed that, to help finance Medicare's follow-up audits of claims, HCFA assess the home health agencies found to be abusive billers for the cost of performing the follow-up audit work. The home health agency could choose whether to have a review based on the universe of its claims for a particular period or on a statistically valid sample. HCFA would estimate the costs and withhold some percentage of the home health agency's current Medicare payments, unless the agency negotiated an alternative payment method, to ensure that the audit costs (as well as any assessed overpayment) could be recovered from the agency. The monies assessed for the audit costs could be earmarked for HCFA's payment safeguard activities. Because this approach would require authorizing legislation (under current law, monies recovered are returned to the general Treasury), we asked that the Congress consider legislation directing HCFA to carry out this approach as a pilot demonstration.

(GAO/HEHS-97-108)

**Controls to Keep Medicare
From Paying Twice for Medical
Supplies**

Medicare law divides coverage for health care services into two parts: part A covers services and supplies provided largely by hospitals and other institutions, whereas part B covers services and supplies provided largely by physicians and other noninstitutional providers. Often coverage for a service or supply could reasonably be billed either under part A or part B. In fiscal year 1994, Medicare was billed over \$6.8 billion for medical supplies, including surgical dressings. In a review of Medicare's payments for surgical dressings, we reported, among several findings, that many Medicare contractors lacked the internal controls that would reliably identify suspicious medical supply claims before payment. As a result, we recommended, among other things, that the HHS Secretary direct HCFA's Administrator to establish procedures to prevent duplicate payments when providers have billed parts A and B both for the same medical supply. HCFA is not likely to address the program's exposure to the problem of duplicate payments until it completes its year 2000 computer initiatives. (GAO/HEHS-95-171).

**Disseminating User-Friendly
Consumer Information on
Medicare+choice Plans**

In 1996, we reported that HCFA did not provide Medicare beneficiaries any of the comparative consumer guides that the federal government and many employer-based health insurance programs routinely distribute to their employees and retirees. We noted, however, that HCFA amasses volumes of information that could be packaged and distributed to help consumers choose among Medicare health maintenance organizations (HMO). We made several recommendations to address this issue, which the Congress embodied in the Balanced Budget Act. In addition, HCFA has begun to address others. For example, HCFA has produced benefit and cost comparison charts of Medicare options in each market area; however, it has not distributed voluntary disenrollment rates or rates of inquiries and complaints against Medicare HMOs.

As for dissimilarities in the marketing materials produced by the health plans themselves, we recommended that HCFA require the plans to produce key aspects of these materials using standard formats and terminology. Currently, the materials are produced in widely different formats and contain various definitions for similar benefits, making beneficiaries' efforts to compare benefits and premiums across plans difficult, if not impossible. This dissimilarity also unduly burdens HCFA, as reviewer of a new plan's marketing materials for compliance with Medicare standards. HCFA officials have agreed to implement this recommendation but have not yet taken significant action to do so. (GAO/HEHS-97-23)

**Enforcing Federal Care
Requirements to Protect
Nursing Homes Residents**

Nursing homes play an important role in the health care system of the United States, and the federal government paid the homes nearly \$28 billion for services under Medicare and Medicaid in 1997. We reported that despite a federal and state oversight infrastructure currently in place, some California nursing homes have not been sufficiently monitored to guarantee the safety and welfare of their residents. Federal and state surveyors sometimes missed problems that could have affected the safety and health of nursing home residents. Even when such problems were identified, enforcement actions did not ensure that the problems were corrected and did not recur. Some of the key problems in the California homes indicated systemic problems nationwide.

As a result, we made several recommendations for revising federal guidance, which included reducing the predictability of surveyors' visits and requiring surveyors to conduct all reviews of problem homes with recurring serious violations on site. HCFA took immediate steps to address these recommendations. We also recommended:

- revising federal survey procedures to instruct surveyors to take stratified random samples of resident cases and review sufficient numbers and types of resident cases so that surveyors can better detect problems and assess their prevalence; and
- eliminating the grace period for homes cited for repeated serious violations and impose sanctions promptly, as permitted under existing regulations.

HCFA has developed a timeline, ending April 30, 1999, for fully implementing all of our recommendations. (GAO/HEHS-98-202)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

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

GAO Contact: Bernice Steinhardt, 202/512-7119

Impact of GAO's Work

GAO conducts evaluations focused on federal efforts to ensure individuals' access to high quality care in a changing health care environment and on measuring the outcomes and effectiveness of federally funded programs, research, and regulatory activities. Within HHS, this focus leads to the eight major Public Health Service agencies—including the Food and Drug Administration (FDA), the National Institutes of Health (NIH), the Health Resources and Services Administration, the Substance Abuse and Mental Health Services Administration, and the Centers for Disease Control and Prevention. Collectively, Public Health Service agencies represent a substantial public investment, with a total fiscal year 1998 budget of \$25 billion, or 60 percent of the department's discretionary budget. Further, products regulated by federal public health agencies, including drugs and medical devices, account for one-fifth of all consumer spending in the U.S., or one trillion dollars annually.

Our work on health services quality and public health issues generally includes these issues:

- Determining whether the public health agencies are ensuring the public's health and safety efficiently and effectively,
- Identifying opportunities for improving the quality of health care under fee-for-service and managed care payment arrangements,
- Identifying opportunities for improving the nation's access to health care, and
- Assessing the implications of emerging health care technologies.

Access to Health Care

Residents of some areas in the United States have difficulties accessing health care services because of a shortage of health care providers in their communities. The National Health Service Corps is the federal government's main program for placing physicians and other health care providers in locations with identified shortages of health professionals. The National Health Service Corps includes a scholarship program for students who agree to serve in shortage areas after their health professions training is completed, and a loan repayment program that

repays a set amount of educational loan debt for each year of service in a shortage area. We found the loan repayment program costs the federal government less than the scholarship program for a year of promised service, while also showing a higher rate of retention after providers complete their service obligation and a lower rate of breach of contract.

We also identified problems with allocating National Health Service Corps providers to areas requesting them. We recommended that the Secretary of HHS take several actions to better target limited resources, including (1) using the loan repayment program to the maximum extent allowed by law, (2) expanding technical assistance and other efforts to address potential barriers to accessing this program, and (3) modifying placement criteria to, among other things, count non-physician providers and National Health Service Corps providers currently in service. In response to our recommendations, HHS has used the loan repayment program to the maximum extent allowed by law, taken steps to provide technical assistance through a contract and by working with state agencies, and initiated measures to count both non-physician providers and National Health Service Corps physicians as providers currently in service when making National Health Service Corps provider placements.

Safety Issues Related to Blood and Tissue Banking

FDA has responsibility for overseeing the safety of biological products, including blood for transfusion and human tissues for transplant. In two separate reports, we reviewed safety issues related to these products and made recommendations for improvement. While the U.S. blood supply is safer today than at any time in recent history, we reported that FDA can strengthen the safety of the blood supply in some areas. For example, unlicensed facilities—those that do not sell or exchange blood products across state lines—are not required to report errors and accidents; confirmatory tests to identify those donors who were truly infected with a virus (and not those who just had a false-positive screening test result) were not always performed, so that donors to be deferred from future donations could be appropriately notified and counseled; recipients of blood from a donor who subsequently tested positive for a virus were not always notified so that they could seek testing and treatment, if needed; guidance documents that the agency used to quickly disseminate its expectations for best practices to the industry were often ambiguous and subject to misinterpretation; and FDA inspections of blood facilities appeared inconsistent in focus, scope, and documentation.

In response to our recommendations, FDA has proposed a rule to require unlicensed blood facilities to report all errors and accidents, has issued

guidance to require confirmatory testing for hepatitis C, has issued guidance to blood establishments directing them to notify recipients of blood products from donors who tested positive for hepatitis C, and has published “Good Guidance Practices” to clarify the appropriate uses of guidance documents. In addition, the agency has established a cadre of specialized investigators with the goals of improving consistency, timeliness, and quality in inspections of blood facilities.

Approximately 600,000 Americans receive human tissue transplants each year. Recipients include burn victims, the visually impaired, and persons living with cancer and heart defects. With respect to human tissue banking, we found that FDA was just beginning to exercise its authority to improve tissue-banking safeguards in the growing field of tissue-based therapy. We identified several safety problems, including the lack of a registry of tissue facilities to allow for inspection by the FDA or dissemination to tissue banks of information related to public health emergencies. In response to our recommendation, FDA has proposed a rule requiring all human tissue banking facilities to register with the agency.

Hospital Construction

FHA’s Hospital Mortgage Insurance Program insures loans to finance hospital renovation and construction. Its mortgage insurance protects lenders against losses they might incur if hospitals fail to make their mortgage payments. However, we found that the lack of portfolio geographic diversification and the large individual unpaid loan balances in New York pose a risk to the program. A single default of a large loan could lead to insurance claims that could significantly burden the program, since FHA does not limit the number of projects in a particular state nor does it cap individual loan amounts it insures as a means of controlling risks to the program.

A 1992 HUD report stated that the concentration of FHA-insured projects in a single state and large loan amounts are major controllable risks to the program that should be avoided or minimized. To minimize potential financial losses from future projects, we recommended that the Secretary of HUD pursue risk-sharing arrangements in which a private or public entity would share in potential financial losses from hospital defaults on future FHA-insured projects after a thorough evaluation of the benefits and drawbacks of risk-sharing ventures. FHA is in the process of revising draft regulations for risk-sharing of mortgage insurance to finance the new construction or rehabilitation of or improvements to hospitals.

Key Open Recommendations

Health Professional Shortage Areas

A growing number of programs for alleviating access problems use the health professional shortage areas and Medically Underserved Areas designations to determine who can receive federal assistance. In 1995, we reported that these designation systems do not effectively identify areas with primary care shortages or help target federal resources to benefit those who are underserved. As a result, there is little assurance that the \$1 billion spent annually on programs using these designations is used where most needed. We found widespread data and methodology problems that severely limit the systems' ability to pinpoint the extent of need in underserved areas. In addition, the systems often do not provide the information needed to decide which programs are best suited to the area's particular need.

In order to better match federal program resources with needy communities, and to eliminate funding where there is not a demonstrated need for federal assistance, we recommended that the Congress (1) remove legislative requirements for health professional shortage areas or Medically Underserved Areas designations as a condition of participation in federal programs, (2) direct the Secretary of HHS to develop and use program-specific criteria to match the program strategy with the type of access barrier, and (3) direct the Secretary to suspend funding for one program, the Medicare Incentive Payment program, until HHS can ensure that the program's funding is better targeted. In September 1998, acknowledging the flaws we brought to the Department's attention, HHS proposed changes that would address a number of the problems we identified, including revising the requirements for counting health professionals and for providing more timely updates of shortage designations. (GAO/HEHS-95-200)

Health Professions Education

During the past decade, the supply of nearly all health professionals has increased faster than has the population. For most health professions, however, data are unavailable to show whether this increased supply has translated into more access to care in rural and underserved areas. Specifically, regarding minority recruitment, although the number of minority health professionals is increasing, data are inconclusive about whether further increases will improve access to health care for underserved populations. Although nearly \$2 billion has been provided to 30 programs under title VII and VIII of the Public Health Service Act during the last 10 years, HHS has not gathered the information necessary to

evaluate whether these programs have had a significant effect on changes in the national supply, distribution, and minority representation of health professionals, or their impact on access to care.

The effectiveness of these programs will remain difficult to measure as long as they are authorized to support a broad range of health care objectives without common goals, outcome measures and reporting requirements. We recommended that Congress establish, or direct the Secretary of HHS to establish, more specific goals, outcome measures, and funding criteria. Our work was used as the basis for proposed legislation (currently under consideration) for reauthorizing the programs. (GAO/HEHS-94-164)

Mammography Quality Standards

Quality mammography services are a key tool in the early detection of breast cancer, significantly increasing the possibility of survival for the estimated 180,000 women who are diagnosed with this devastating disease each year. The Mammography Quality Standards Act of 1992 was enacted in response to the growing incidence of breast cancer and its associated mortality rates. The Act established minimum national quality standards for the nation's approximately 10,000 mammography facilities, as well as an accreditation and inspection program to help ensure that these standards are met. In October 1997 and in subsequent testimony, we reported that the Act had a positive impact on improving the quality of mammography services. During congressional hearings on reauthorizing the Act, we recommended that Congress consider these positive impacts in its deliberations; legislation to reauthorize the Act is pending in the Senate. (GAO/HEHS-96-17, GAO/HEHS-97-25)

Inspections of Foreign Pharmaceutical Plants

According to FDA, as much as 80 percent of the bulk pharmaceutical chemicals used by U.S. manufacturers to produce prescription drugs are imported. Moreover, the number of finished drug products manufactured abroad for the U.S. market is increasing. FDA inspects foreign manufacturers to help ensure that pharmaceutical products entering the United States are safe, pure, and high in quality. Over the last 10 years, two FDA evaluations have identified serious problems with its foreign inspection program. While FDA has taken several actions to address these problems, we found indications that certain aspects of the program still need improvement. FDA continues to experience problems in ensuring that inspection reports are submitted in a timely manner, and that necessary enforcement actions are promptly initiated to prevent contaminated and adulterated pharmaceutical products from entering the United States. Moreover, in some instances, FDA is not conducting reinspections to verify

the corrective actions that foreign manufacturers have promised to take to resolve serious manufacturing deficiencies.

While FDA has implemented a risk-based inspection strategy aimed at increasing the frequency of routine inspections, foreign inspections continue to be driven by new drug applications, and FDA acknowledges that it may never inspect most foreign manufacturers exporting pharmaceuticals to the United States. We recommended that FDA's inspection strategy include, at a minimum, timely follow-up inspections of all foreign manufacturers that have promised to correct serious manufacturing deficiencies and periodic inspections of all foreign manufacturers, not just high-risk manufacturers. (GAO/HEHS-98-21)

Medical Device Tracking

FDA is responsible for reviewing, approving, and monitoring medical devices to ensure that they are safe and effective for human use. Among the more than 65,000 different types of medical devices on the market today are those that FDA characterizes as critical—such as heart valves, pacemakers, and other permanently implantable devices—because they are used to support life. The Safe Medical Devices Act of 1990 requires manufacturers of certain critical devices to establish and maintain systems capable of tracking devices through the manufacturing and distribution networks to patients so that in the event of a device failure, manufacturers and FDA can expeditiously conduct recalls and patient notifications. FDA ensures compliance with the tracking requirements through good manufacturing practice inspections of device manufacturers' facilities. FDA also oversees manufacturers' efforts to recall problem medical devices to ensure that unsafe and ineffective medical devices are promptly removed from the market.

We found several weaknesses in FDA's approach for determining whether device manufacturers are operating tracking systems capable of quickly locating and removing defective devices from the market and notifying patients who use them, which threatens the agency's ability to adequately protect the public. We made recommendations to the FDA Commissioner to improve the agency's ability to monitor manufacturer compliance with the medical device tracking regulation and conduct recalls of tracked devices in a timely manner. FDA has several actions underway to address our recommendations, among them are steps to complete and close all outstanding recalls initiated from 1994 through 1996, and to update its recall database with current information on the status of all recalls. (GAO/HEHS-98-211)

Emerging Drug Problems

In the mid-1980s, when crack cocaine use in the U.S. was reported to have reached epidemic proportions, Congress raised questions about the public health agencies' ability to detect and respond to the problem. In response to these concerns, new drug detection mechanisms were added and new agencies were created at the federal level, including the Substance Abuse and Mental Health Services Administration and the Office of National Drug Control Policy. Despite these changes, we found that concerns still remain about the adequacy of the nation's drug detection systems and the lack of a strategy for determining when and how to best respond to changes in patterns of drug use. We recommended that the Director of the Office of National Drug Control Policy implement changes that would further improve the accuracy and usefulness of systems for analyzing and disseminating information; and develop a defined strategy for determining the timing, magnitude, and nature of actions needed to appropriately respond to potential drug crises or epidemics. In response, the Office reports that its Data Subcommittee has begun identifying and supporting several improvements to the federal drug data system and has inventoried existing data. The Office is considering developing a strategy for appropriately responding to potential drug crises. (GAO/HEHS-98-130)

Methadone Maintenance

Methadone maintenance is the most commonly used treatment for heroin addiction. Many methadone programs are established by private not-for-profit organizations, while others are private for-profit or public programs. In looking at a number of different programs, we found wide variation among program policies with respect to urine testing, dismissing patients, counselor staffing levels, and methadone dosage levels. For example, in the 24 programs we visited, average methadone dosage levels ranged from 21 to 67 milligrams. Nearly one-half of the programs we visited did not successfully provide the full benefits of methadone maintenance. We recommended that the Secretary of HHS direct FDA or the National Institute on Drug Abuse to monitor and assess methadone maintenance programs. The National Institute on Drug Abuse is testing the feasibility and utility of implementing a performance evaluation system for narcotic addiction treatment programs and anticipates issuing a report in January 1999. (GAO/HRD-90-104)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Income Security Issue Area (Budget Functions 600, 650)

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

Impact of GAO's Work

Millions of Americans rely on income security programs for support. Programs designed to assist our most vulnerable citizens, such as Social Security, Disability Insurance, Supplemental Security Income, and foster care, have been and will be the subject of increased scrutiny. The Social Security and disability programs, in particular, face continued financial pressures and are the subject of considerable public debate. Moreover, congressional concern about the effect of major legislative changes in the principal welfare program for families and children—Temporary Assistance for Needy Families—will continue.

Our work provided information and recommendations directed at (1) ensuring that public funds for income security programs are spent efficiently and protected from fraud and abuse, (2) improving SSA's service to the public with constrained resources, (3) evaluating the adequacy of Social Security and public and private pension systems for future retirees, (4) redesigning the nation's disability programs to ensure the validity of the needs determination process and to encourage work, (5) monitoring implementation of the 1996 welfare reform legislation, and (6) assessing government efforts to protect children's welfare.

Areas of major emphasis in 1998 have included Social Security reform, the management of the Supplemental Security Income program, and evaluations of the Temporary Assistance for Needy Families program.

Social Security Reform

Our nation's aging population is placing serious pressure on Social Security and other forms of retirement income. Without a change in current policies, the Old-Age and Survivor's Trust Fund assets will be insufficient to pay all benefits by 2032. Because Social Security affects so many Americans and their planning for the long-term future, the President and the Congress are considering approaches to reforming the program's financing. We have completed work that provides information on the potential impacts of different reform choices. For example, we issued a report identifying and discussing the issues and relationships among the various sources of retirement income in the United States, reported and testified on the potential effects of financing reform on women, and testified three times on the elements to consider in evaluating possible changes to Social Security.

**Management of the
Supplemental Security Income
Program**

Over the years, our work has shown that the Supplemental Security Income program has experienced several long-standing problems that have affected SSA's ability to protect the financial integrity of the program and provide effective management direction. We recently completed a review to look at the underlying causes of these long-standing problems and found that to a great extent, SSA's inability to address its most significant Supplemental Security Income problems is attributable to two underlying causes: an organizational culture or value system that places a greater priority on processing and paying claims than on controlling program expenditures, and a management approach characterized by SSA's reluctance to fulfill its policy development and planning role in advance of major program crises. We made several recommendations to the SSA Commissioner, which, if implemented, should result in a change in SSA's organizational culture and enhance the financial integrity of the Supplemental Security Income program, as well as facilitate a change in SSA's management approach and improve the Supplemental Security Income program direction.

**Evaluations of Temporary
Assistance for Needy Families**

In one of the most significant federal policy changes of the last 30 years, the Temporary Assistance for Needy Families program is being implemented across the nation, passing responsibility for welfare program design and funding levels from the federal government to the states. In 1998 we issued a report on welfare reform implementation in seven states. We found that states are (1) moving away from a welfare system focused on entitlement to assistance to one that emphasizes finding employment as quickly as possible and becoming more self-sufficient, and (2) enhancing support services for recipients. While welfare dependence has decreased, we noted that it is too early to draw definitive conclusions about the success of states' programs. Moreover, little is known about program impacts, such as the effect the programs have had on the well-being of children and families.

Results

Many of our recommendations have been implemented and, thus, our work has contributed significantly to legislative and executive actions that will result in financial savings and improvements in program efficiency and cost effectiveness. For example, based on our work related to SSA's disability programs, SSA decided to increase the number of continuing disability reviews in the Disability Insurance and Supplemental Security Income programs. The reviews resulted in savings of \$446 million in 1996 and \$957 million in 1997 by removing from the rolls persons who had become ineligible. In addition, influenced by continuing GAO work on such continuing disability reviews, the Congress enacted legislation that further

increased the number of such reviews. These changes, combined with the fact that SSA has changed its estimates of savings for each termination and the costs of each disability review, resulted in savings in 1996 and 1997 of \$1.52 billion.

Our work also resulted in better protection for retirees who receive pension plan benefits in the form of insurance annuities. We had recommended that the Pension Benefit Guaranty Corporation require plan administrators, who are terminating their plans and purchasing annuities, to provide participants with detailed information about the state guarantees that apply to these annuities. As a result of that recommendation, the Corporation promulgated a regulation to require that administrators of terminating plans provide participants with general information on state guarantee coverage of annuities and instructions on how to contact the applicable state guaranty association offices.

Our work has also resulted in several actions taken to improve agency operations. For example, we had recommended that the Secretary of HHS direct the Office of Child Support Enforcement to develop its own long-term strategies in support of the national program's goals and prioritize its own roles and responsibilities. In response to our recommendation, the office began to strengthen the linkage between its own roles and responsibilities and national goals contained in the strategic plan by focusing its oversight and technical assistance on strengthening and improving child support enforcement in the eight states with the largest child support enforcement caseloads. These actions put the Office of Child Support Enforcement in a better position to foster improved program results.

HHS also acted on recommendations we made to improve child protective services. Based on our recommendations, HHS developed new strategies for disseminating and delivering the results of local efforts on child protective services reforms. In addition, HHS took several actions in response to our recommendation that it develop specific techniques to promote community-based approaches to child protective services.

SSA has taken action on two of our recommendations related to better service the public via its 800 number. For example, it established additional performance measures to more fully assess the promptness and completeness of its 800-number service and took steps to expand its automated services.

In response to our recommendation that SSA acquire information systems based on a thorough analysis of mission, needs, costs, and benefits, SSA began work on an accountability methodology and has recently incorporated this methodology into its fiscal year 1999 budget cycle. This new process requires SSA to clarify how proposed initiatives conform to its core mission and priorities, as well as assess the costs, benefits and risks of alternatives.

Key Open Recommendations

Social Security

In April 1998, we reported that SSA needed to upgrade the payment controls it uses for administering certain benefit reduction provisions. The Social Security Act requires SSA to reduce benefits payable to persons who also receive a pension from non-covered employment. However, we found that SSA did not have sufficient ways to verify, in a timely or complete manner, whether beneficiaries are receiving pensions earned through non-covered employment. The absence of such verifications had resulted in overpayments between 1978 and 1995 that we estimated to have ranged from \$160 to \$355 million.

We recommended that SSA (1) make better use of available information on pensions being paid to federal retirees to verify that proper reductions are made and (2) work with the Internal Revenue Service (IRS) to revise the reporting of pension income for tax purposes so that persons receiving pensions from non-covered employment can be identified and the accuracy of its benefit payments can be verified. SSA agreed with our recommendations and advised us that it will establish a post-eligibility matching program for federal retirees by early 1999. It has also been working with IRS to revise the reporting of pension income. IRS has advised SSA, however, that it needs a technical amendment to the Tax Code to implement our recommendation and is seeking such an amendment. SSA has stated that it will keep abreast of IRS efforts. (GAO/HEHS-98-76)

Disability Programs

SSA's Plan for Achieving Self-Support (PASS) program was established in 1972 as a Supplemental Security Income work incentive program to help Supplemental Security Income and Disability Insurance recipients achieve self-support, thus reducing or eliminating future benefit costs. However, very few recipients have left the federal disability rolls by returning to work. In February 1996, we reported that SSA has done a poor job implementing and managing the PASS program. We found that, among other

things, the impact of the program on employment is unknown because SSA lacks basic data on program participation and outcomes. We recommended that SSA gather additional management data on program participation and impact and use these data to evaluate the impact of program participation on employment. SSA has experienced many technical problems establishing such a database and does not consider the data to be reliable. SSA officials, however, are continuing efforts to obtain customized software that would provide needed data for managing the PASS program. In addition, we recommended that the Congress consider legislation to eliminate Disability Income beneficiary eligibility for Supplemental Security Income benefits through the use of the PASS program. While SSA has proposed such legislation, no action has been taken to date. (GAO/HEHS-96-51)

In April 1996, we reported that weaknesses in the design and implementation of Disability Insurance and Supplemental Security Income program components have limited SSA's capacity to identify and assist in expanding beneficiaries' productive capacities. We noted that eligibility requirements and the application process encourage people to focus on their inabilities, not their abilities; work incentives offered by the programs do not overcome the risk of returning to work for many beneficiaries, and the complexities of work incentives can make them difficult to understand and challenging to implement; and beneficiaries receive little encouragement to use rehabilitation services, which are relatively inaccessible to beneficiaries seeking them. We recommended that SSA take immediate action to place greater priority on return to work, including (1) designing more effective means to more accurately identify and expand beneficiaries' work capacities and (2) better implementing existing return-to-work mechanisms.

Similarly, in July 1996, we reported return-to-work strategies and practices employed by the private sector in the United States and by social insurance programs in Germany and Sweden may hold the potential for improving federal disability programs by helping people with disabilities return to productive activity in the workplace and at the same time reduce program costs. We recommended that, in line with placing greater emphasis on return to work, SSA should develop a comprehensive return-to-work strategy that integrates, as appropriate, earlier intervention, earlier identification and provision of necessary return-to-work assistance for applicants and beneficiaries, and changes in the structure of cash and medical benefits. In both reports, we also recommended that SSA identify legislation needed to implement the recommended program changes.

SSA noted that it is currently placing a high priority on return to work, citing its expansion of the pool of vocational rehabilitation providers, training of state vocational rehabilitation agencies in SSA disability program work incentives and reimbursement procedures, forthcoming contracts with state agencies to research ways to improve service integration for beneficiaries attempting to return to work, and its proposed “tickets to independence” (vouchers for vocational rehabilitation) as a new demonstration to attempt to improve return-to-work outcomes. In addition, SSA has affirmed its interest in determining whether return-to-work practices of other systems could help improve the return-to-work rate in its disability programs.

These steps indicate that SSA has placed greater priority on return to work as it moves to expand the pool of vocational rehabilitation providers beyond state vocational rehabilitation agencies and give providers greater incentive to employ beneficiaries. However, these efforts would have greater impact if (1) cash and medical benefits were structured to give beneficiaries greater impetus to use vocational rehabilitation services and attempt work and (2) return-to-work assistance was provided earlier in the decisionmaking process. Finally, SSA emphasized that efforts to improve the return-to-work rate in its disability programs can be fruitful only if all parties affecting federal disability policy are involved. While we agree that all relevant parties must be involved, we believe that, as the primary manager of the disability programs and the entity with fiduciary responsibility for the trust funds, SSA must take the lead in forging the partnerships and cooperation needed to redesign federal disability programs. (GAO/HEHS-96-62, GAO/HEHS-96-133)

In August 1996, we reported that for many years, SSA has lacked an effective program to detect Supplemental Security Income recipients in county and local jails. It has relied primarily on (1) recipients or their representative payees to voluntarily report incarceration and (2) redetermination. Neither of these mechanisms has been completely effective; as a result, SSA has erroneously paid millions of dollars to thousands of prisoners in county and local jails. While SSA had initiated action to obtain better information on Supplemental Security Income recipients currently in jail, it had not attempted to develop information on similar recipients who may have been incarcerated and received payments in prior years. We recommended that SSA obtain information on former prisoners from county and local facilities and identify and attempt to recover any erroneous payments. SSA has initiated a pilot project to

determine the feasibility and cost benefit of implementing our recommendations. (GAO/HEHS-96-152)

In June 1997, we reported that although benefits paid to persons receiving Supplemental Security Income must be reduced when they enter nursing homes covered by Medicaid, SSA is not always notified of the change and full benefits continue to be paid. These overpayments may exceed approximately \$100 million annually. We recommended that SSA electronically obtain nursing home admissions data directly from states. In lieu of obtaining nursing home admissions directly from states, in the fall of 1998, SSA will begin semiannual computer matching with data from HCFA's Resident Assessment Instrument System. However, SSA's plans for semiannual matching fall short of the objectives of our recommendation to obtain state data as soon as possible to prevent overpayments or detect them sooner. We believe SSA should obtain the Resident Assessment Instrument System data monthly to further reduce overpayments.

We further recommended that SSA determine the reliability of state data for implementing an automated computer interface to automatically adjust the benefits of Supplemental Security Income recipients admitted to nursing homes. SSA plans to assess the reliability of HCFA's Resident Assessment Instrument System data to determine whether it can be used for automatic benefit reductions. Based on this assessment and advice from its General Counsel, SSA will determine by the end of 1999 whether to initiate a study on the feasibility of automatically reducing benefits for Supplemental Security Income recipients in nursing homes. (GAO/HEHS-97-62)

We reported in March 1998 that approximately 40 percent of the overpayments that SSA identified in fiscal year 1996 were caused by Supplemental Security Income clients either not reporting or underreporting their earnings and financial accounts. Specifically, about \$380 million in overpayments resulted from the nondisclosure of earnings, and about \$268 million resulted from the nondisclosure of financial accounts. Many of these overpayments could be prevented if SSA were able to obtain more current and comprehensive information than it does now. Two new data bases managed by SSA for the Office of Child Support Enforcement contain more up-to-date earnings information. SSA plans to use one of these data bases in computer matches to more quickly and efficiently detect the undisclosed earnings of recipients already on the rolls. The agency is also in the beginning stages of providing its field offices with direct access to these data bases. Such access would prevent

overpayments by allowing field staff to check during the application process for earnings that applicants neglected to report.

Both of these actions are steps toward implementing our recommendation that SSA develop computerized interfaces necessary to access the Office of Child Support Enforcement's data bases to detect undisclosed earnings during initial and subsequent determinations of eligibility. SSA may also be able to obtain more up-to-date information on the financial accounts of Supplemental Security Income clients from financial institutions by accessing the nationwide telecommunication network, which links all financial institutions. Accordingly, we also recommended that SSA study the feasibility of obtaining computerized information from financial institutions to detect financial accounts that Supplemental Security Income clients do not report during the application process and during subsequent determinations of eligibility. SSA has submitted a legislative proposal to Congress that would facilitate its acquiring financial account information and has drafted an implementation plan for obtaining computerized information on the bank accounts of recipients.

(GAO/HEHS-98-75)

In May 1998, we reported that SSA was not assessing children's eligibility for Supplemental Security Income disability benefits against a uniform standard of severity. Welfare reform, enacted in August 1996, defined childhood disability as an impairment that results in "marked and severe functional limitations," which SSA regulations, in turn, defined as an impairment that meets or medically or functionally equals one of its medical listings. Under the regulation to be considered "marked and severe," an impairment must generally result in "two marked or one extreme" functional limitation.

SSA identified 28 listings which are set below the "two marked or one extreme" threshold, and these listings are used to adjudicate cases as well as the listings set at the "two marked or one extreme" threshold. We recommended that SSA act immediately to update and modify its medical listings to incorporate advances in medicine and science and to reflect a uniform standard of severity. SSA agreed that it should periodically update its medical listings and is developing a schedule to do so. It estimates that it would take several years to complete the update, which it describes as a complex task requiring significant research and analysis to ensure that the update reflects state-of-the-art medical practice. SSA has not taken a position on whether the updated listings should or would reflect a uniform severity standard. (GAO/HEHS-98-123)

Child Support Enforcement

In June 1992, we reported on the opportunity to defray the burgeoning federal and state non-Aid to Families with Dependent Children costs in the child support program by charging a minimum percentage fee on collections. Non-Aid to Families with Dependent Children administrative costs increased from \$644 million in 1990 to \$1.7 billion in 1996, while recovered costs remained stagnant at about \$37 million in 1996. Key congressional staff believe that the concept of charging fees for child support services provided to families not receiving Temporary Assistance for Needy Families, which replaced the Aid to Families with Dependent Children program, continues to have merit. (GAO/HRD-92-91)

See also Chapter 5, Financial and Information Management Programs, Financial Management and Accountability Issue Areas as well as Information Management Issue Areas.

Improving Justice and General Government Programs

Administration of Justice Issue Area (Budget Function 750)

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

Impact of GAO's Work

Americans continue to rank crime and the fear of crime among their top national concerns. We provide analysis and information on, and recommendations for improvements to, federal criminal justice programs. Included among the issues we assess are (1) law enforcement; (2) grant programs supporting criminal justice research and evaluation and assisting states and localities in meeting their public safety needs; (3) immigration; and (4) litigative and judicial activities.

Law Enforcement

Money laundering provides the fuel for drug dealers, terrorists, arms dealers, and other criminals to operate and expand their activities. In 1990, the Financial Crimes Enforcement Network (FinCEN) was established in the Department of the Treasury to combat money laundering. Most federal investigators using FinCEN's services have found them useful in their investigations. However, we found that many investigators in federal field offices were not aware of the products and services that FinCEN offered. In response to our work, FinCEN updated its Internet site to include product and service information and offer viewers the opportunity to send comments and questions via electronic mail.

Criminal organizations and syndicates often launder large amounts of cash. Under the Internal Revenue Code any person engaged in a trade or business who receives more than \$10,000 in cash in one transaction or a series of related transactions must file an information return to the Internal Revenue Service (IRS). We recommended to Congress that certain temporary disclosure provisions of the Code—which give the Secretary of the Treasury authority to disclose information provided in these returns for use by law enforcement agencies investigating money laundering—be made permanent. Subsequently, Congress passed legislation permitting IRS to disclose this information on a permanent basis and to allow law enforcement and regulatory agencies access to it. IRS has initiated a process for providing agencies access to the information.

The Bank Secrecy Act and its implementing regulations, in general, require financial institutions to maintain certain records and to file certain reports that are useful in criminal, tax, or regulatory investigations, such as money laundering cases. Since 1994 FinCEN has been responsible for assessing civil penalties for violations of the act and, since then, the time it has taken to

process these penalties has grown significantly. Lengthy processing times can lessen the credibility and deterrent effects of the act and, in some cases, the statute of limitations could expire. In response to our recommendation, FinCEN revised its procedures to establish strict timelines for processing civil penalty referrals and incorporated increased oversight of the process.

Due to the high volume of cargo entering the U.S., the Customs Service faces a major challenge in effectively carrying out its drug interdiction and trade enforcement missions while facilitating the flow of persons and cargo. To address this challenge, Customs has initiated and encouraged ports of entry to use several programs to identify and separate “low-risk” cargo shipments from those with apparently a higher smuggling risk. However, we identified internal control weaknesses in these programs at the ports we visited. Furthermore, we found that a program to designate low-risk shipments and target high-risk shipments had not proven itself effective. We recommended, among other things, that Customs (1) strengthen its internal controls with regard to its risk assessments, and (2) suspend its program to identify low-risk shipments and target high-risk shipments until more complete and comprehensive data is available for making these assessments. Customs agreed and said it will issue national criteria and guidance to strengthen its risk assessment internal controls and it will suspend its targeting program until more reliable information is available for classifying low-risk importations.

We also reported on, among other things, how Customs assesses the need for inspection personnel and allocates such personnel at ports of entry along the Southwest border. Of Customs 301 ports nationwide, 24 are located along the Southwest border. About 28 percent of Customs’ inspectors and 62 percent of its canine enforcement officers are located at these ports. However, we found that Customs does not have an agencywide process for annually determining its need for inspection personnel and for allocating these personnel among the ports of entry nationwide. We recommended that Customs establish a systematic process to ensure, to the extent possible, that inspection personnel are properly aligned with Custom’s goals, objectives, and strategies and that the process include conducting annual assessments to determine appropriate staffing levels for processing cargo at ports of entry. Customs indicated that it has already begun implementing this recommendation.

Grant Programs

The Public Safety Partnership and Community Policing Act of 1994, established what Justice Department officials described as the largest

grant program ever administered by the Department. The act authorized \$8.8 billion in grants to be used from fiscal year 1995 to fiscal year 2000 to enhance public safety, including the addition of 100,000 officer positions to the streets of communities nationwide. The Attorney General established the Office of Community Oriented Policing Services (COPS) to administer the grants. We looked at several issues related to the program's design, operation, and management. We found that during the first two and a half years of the program, monitoring of the program by the COPS Office was inconsistent. Over \$2.6 billion in grants was awarded during this time. As a result of our work, the COPS Office began taking steps to enhance its monitoring activities and subsequently a new division was created dedicated exclusively to grant monitoring.

Immigration

Illegal immigration has been a long-standing problem. The Illegal Immigration Reform and Immigrant Responsibility Act of 1996 included provisions establishing an expedited removal process for dealing with aliens who attempt to enter the U.S. by engaging in fraud or misrepresentation or who arrive with fraudulent, improper, or no documents (e.g., visa or passport). Under this expedited removal process Immigration and Naturalization Service (INS) officers, instead of immigration judges, are authorized to formally order violating aliens removed from the country. Aliens found subject to expedited removal and who express a fear of being persecuted or tortured if they are returned to their home country are to be provided an interview to establish whether their fear is credible. If the interview establishes a credible fear, the alien is referred to an immigration judge who determines whether the alien should be granted asylum. We reviewed the implementation of the Act at five INS offices, including the implementation and results of the process for making credible fear determinations and provided information on the results of the process over the first 7 months that the process was in place. Our reported information was used in the debate over the expedited removal process.

In addition to the considerable public attention and national focus illegal immigration has received in recent years, concerns were also raised that some aliens who applied for and became citizens may have been improperly naturalized. To judge if this had occurred, INS reviewed case files of 16,858 aliens after receiving criminal history records from the Federal Bureau of Investigation which indicated a felony arrest or conviction of a serious crime by those naturalized between August 31, 1995 and September 30, 1996. The Executive Office of Immigration Review was to provide quality assurance that INS' judgments were unbiased by

reviewing a sample of cases evaluated by INS. As a result of its review, INS is examining the potential citizenship revocation of 6,323 aliens—cases that INS adjudicators judged as requiring further action or presumptively ineligible. However, INS did not plan to review 72 cases that the Executive Office of Immigration Review believed may have involved improper naturalization decisions. As a result of our discussions with INS, these additional cases have been included by INS for revocation review.

The number of applications received by INS has been growing and there are indications that some INS field offices are faster than others at processing applications. In fiscal year 1996, INS received almost 5.4 million new applications and completed processing about 5.6 million applications. A backlog of applications to be processed had increased to about 2.5 times the backlog that existed in fiscal year 1989. We found that statistically significant differences existed in production rates for five predominant types of applications processed by INS district offices and three predominant types of applications processed by INS service centers. INS suggested, among other reasons, that these differences may be due to the way field units reported the data that was used to calculate production rates and processing times and the varying experience level and degrees of specialization of district office and service center adjudications officers. As a result of our findings, INS, among other things, was streamlining and revising the reports district offices and service centers submit to headquarters and has begun training to promote consistency and the accuracy of the data submitted.

Litigative and Judicial Activities

We were asked to evaluate the Credit Research Center's report on personal bankruptcies. That report addressed a major public policy issue—the amount of income that those who file for personal bankruptcy have available to pay their debts. We examined the report's research methodology and formula for estimating the income that debtors have available to pay debts. Depending on the chapter of the bankruptcy code under which individuals filed, debtors either seek discharge of all eligible dischargeable debts or submit a repayment plan for paying all or a portion of their debts. While overall, the Center's report represented a useful first step in analyzing the ability of debtors to pay their debts, our evaluation found five areas of concern that could affect interpretation of the report's conclusions. Among our findings were (1) the report's assumptions about the information debtors provide at the time of filing bankruptcy regarding their income, expenses, and debts and the stability of their income over a 5-year period were not validated; (2) payments on nonhousing debts that debtors stated they intended to voluntarily repay were not included in

debtors' expenses in determining the net income debtors had available to pay nonpriority, nonhousing debts; and (3) a scientific, random sampling methodology was not used to select the 13 locations or the bankruptcy petitions used in the analysis.

Key Open Recommendations

Law Enforcement

In our report on the Counterdrug Technology Assessment Center, in the Office of National Drug Control Policy, we reported on the Center's coordination efforts. These efforts include the coordination with counterdrug research and development agencies at the federal, state, and local levels. These efforts also include identifying both technology needs and projects for Center funding, as well as prioritizing these needs. We reported that the Center's coordination could be more effectively carried out. We therefore recommended that the Director, Office of National Drug Control Policy, direct the Chief Scientist to work with the Science and Technology Committee to improve coordination. Specifically, the Committee with representatives from 21 law enforcement and demand reduction agencies and bureaus, should ensure that it

- meets regularly to exchange information on technology needs for drug supply and demand,
- recommends to the Chief Scientist the selection and funding of the highest priority projects, and
- ascertains that projects selected for Center funding have transitional/acquisition plans.

The Office of National Drug Control Policy generally agreed with our findings and conclusions. The Office is taking action, although none are fully implemented as yet, on all of our recommendations. (GAO/GGD-98-28)

Immigration

In our report on criminal aliens, we recommended that the Commissioner of INS establish a nationwide data system. This system would include the universe of foreign-born inmates reported to INS by the Bureau of Prisons (BOP) and state departments of corrections. It should be used to track the status, according to the Institutional Hearing Program, of each inmate. We also recommended that the Commissioner establish controls to ensure that aliens serving time for aggravated felonies are identified from among the universe of foreign-born inmates, placed into deportation proceedings,

and taken into custody on release. In addition, we recommended that the Commissioner develop a workload analysis model to identify

- Program resources needed to achieve overall Program goals, and
- the portion of those goals that would be achievable with alternate levels of funding.

We also recommended that the Commissioner (1) use the alternate levels of funding to support Program funding requests, (2) identify the causes of attrition among immigration agents, and (3) takes steps to ensure that staffing is adequate to achieve Program goals. We recommended that INS establish and effectively communicate a clear policy on the role of special agents. We also recommended that INS use a workload analysis model to set Program goals for district directors with Program responsibilities. In addition, we recommended that INS document any actions taken to correct problems that prevent Program goals from being met. (GAO/T-GGD-154)

In our report on INS management, we recommended that the INS Commissioner provide written guidance in two areas, with the first directed to all INS managers: (1) the responsibilities and authority of the Executive Associate Commissioner for Field Operations in relation to those of the Executive Associate Commissioner for Programs and (2) the appropriate coordination and communication methods and channels between offices. We also recommended that the Commissioner establish milestones for the issuance of manuals or parts of manuals if the parts can stand alone. Finally, we recommended that the Commissioner incorporate into INS' current evaluation the reorganization issues raised in this report; thus, these issues can be addressed as INS attempts to fully achieve the goals of the reorganization. The reorganization issues include determining whether staffing levels need to be adjusted so that the Office of Programs, the Office of Field Operations, and regional offices can fulfill their prescribed roles. These issues also include developing a strategy and schedule for periodically evaluating the new deployment planning process. Such evaluation will help to ensure that the process is compatible with INS' overall planning. It also provides managers with the information needed to adequately plan for resource needs and decisions. (GAO/GGD-97-132)

In our report on the Justice Department's Southwest border strategy, we recommended that the Attorney General develop and implement a plan for a formal, cost-effective, comprehensive, systematic evaluation of the strategy to deter illegal entry across the Southwest border. This plan should describe (1) the indicators that would be required for the

evaluation, (2) the data that needs to be collected, (3) mechanisms for collecting the data, (4) controls intended to ensure accuracy of the data collected, (5) expected relationships among the indicators, and (6) procedures for analyzing the data. (GAO/GGD-98-21)

In our report on INS user fees, we recommended that the Attorney General establish policies and procedures for (1) accounting for Executive Office of Immigration Review fee revenues INS collects; and (2) making these funds available to Executive Office of Immigration Review, as appropriate. INS agreed with our findings and recommendations and plans to meet with the Executive Office to address these costs and how INS will reimburse them. (GAO/GGD-94-101)

Litigative and Judicial Activities

In our report on how the Judicial Conference assesses the need for more judges, we recommended that the Conference and the Federal Judicial Center should move to develop a better work-load measure for the courts of appeals. (GAO/GGD-93-31)

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

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

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Impact of GAO's Work

We conduct evaluations focused on cross-cutting management, workforce, regulatory, and statistical issues. These include government performance measurement and goals, restructuring and downsizing, regulatory reform, privatization, oversight of the civil service, human resource management, and the quality, reliability, and dissemination of census and other social and economic statistical data. Principal agencies involved with such issues include the Office of Management and Budget, Office of Personnel Management, Merit Systems Protection Board, Office of Special Counsel, Federal Labor Relations Authority, Office of Government Ethics, Department of Commerce, Federal Trade Commission, Government Printing Office, Bureau of Labor Statistics, Library of Congress, and the National Archives. However, managerial, regulatory, personnel, and statistical issues often involve other agencies as well.

In fiscal year 1998, we supported Congress' oversight of initiatives intended to ensure proper government accountability to its citizens. We issued our summary assessment of the September 30, 1997 strategic plans that agencies submitted under the Government Performance and Results Act. That report highlighted the progress agencies had made since they developed their draft plans and outlined key strategic planning issues that continued to need agency and congressional attention. At the request of the congressional leadership, we also issued a guide to facilitate the congressional use of agencies' fiscal year 1999 annual performance plans. We evaluated those plans and issued a summary assessment that identified an agenda for improving the usefulness of annual plans.

Our testimony on the Federal Advisory Committee Act contributed to legislation that redefined the Act's coverage of certain federally chartered organizations. We estimate that the change saved \$33 million that would have been spent by these organizations to comply with the Act. We also contributed substantially to congressional oversight of the Government Printing Office (GPO). As mandated by the Legislative Appropriations Act of Fiscal Year 1998 (P.L. 105-55), GAO contracted for a management audit of the GPO. The May 1998 report included numerous recommendations for improving GPO's management and operations. The Appropriations

Committees directed the Public Printer to implement the recommendations of the management audit as appropriate and report periodically on actions taken to implement them.

We also continued to assist Congress as it deliberated on a wide variety of federal personnel management issues. For instance, our earlier work on Sunday premium pay culminated in a \$33 million savings in fiscal year 1998 as Congress passed governmentwide legislation prohibiting the payment of Sunday premium pay to employees who use leave on their scheduled Sunday workdays. Similarly, our past work on federal downsizing resulted in an estimated savings of \$22 million in fiscal year 1998 as agencies followed our guidance on choosing the most cost-effective approach to downsizing.

In the regulatory arena, we identified a number of issues in need of congressional attention. For example, in several reports and testimonies on the Paperwork Reduction Act, we pointed out that the governmentwide burden-reduction goals are not being met and that OMB's Office of Information and Regulatory Affairs had not fully implemented its responsibilities under the Act. In January 1998, we reported that the recently enacted Unfunded Mandates Reform Act had little effect on federal agencies' rulemaking actions.

Key Open
Recommendations

In October 1997, we recommended that the Consumer Price Index expenditure weights be updated more frequently than at the current rate of approximately every 10 years. This would change the proportionate emphasis given to the items in the market basket of goods and services used as the basis of the Consumer Price Index to more accurately reflect current consumer expenditure patterns, and thus enhance the overall accuracy of the index. The Bureau of Labor Statistics has generally agreed with this recommendation and has undertaken research to determine the optimal frequency for updating expenditure weights. (GAO/GGD/OCE-98-2)

We have noted that it was not always clear whether a proposed regulation would have a significant impact on a substantial number of small entities. As a result, it was not clear whether requirements of the Regulatory Flexibility Act and the advocacy review panel requirements of the Small Business Regulatory Enforcement Fairness Act of 1996 applied to a proposed rule. We therefore recommended that Congress consider (1) providing the Small Business Administration or some other entity with

interpretative authority, and (2) requiring some other entity to establish criteria to define key phrases in the statutes. (GAO/GGD-94-105, GAO/GGD-98-36)

Our February 1998 report on the experiences major federal credit programs have had in measuring the results of their activities recommended several steps to improve the availability of measures that would allow comparison of results across these programs. (GAO/GGD-98-41)

In reviewing the fiscal year 1997 buyout programs of six agencies, we found that they had been better managed than was generally the case governmentwide during the 1994 and 1995 non-defense buyout window. However, we also concluded that opportunities for still further savings might have been identified if OMB had required agencies not only to estimate the savings generated by buyouts, but to compare them to estimated savings produced by alternative separation strategies, such as reductions-in-force. To achieve the full potential savings consistent with other organizational objectives, we recommended that the Director of OMB require all agencies to include in any future requests for buyouts information comparing the costs and savings of buyouts versus other separation strategies for the separation year and a reasonable number of subsequent years for which accurate assumptions and estimates could be made. (GAO/GGD-97-124)

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

Our summary assessment of agencies' fiscal year 1999 annual performance plans developed under the Results Act provided a framework to improve the usefulness of future versions of those plans. We recommended that OMB develop and implement a concrete agenda aimed at substantially improving the usefulness of the agencies' plans for congressional and executive branch decisionmaking. We identified five key opportunities that could serve as core elements of the improvement effort. We also suggested that the OMB Director work with Congress and the agencies to

identify specific program areas that could be used as best practices in the implementation of the Results Act. (GAO/GGD/AIMD-98-228)

And our June 1998 report documented that hundreds of federal advisory committees were established or continued without required supporting information or without independent assessment of the continuing need for the committees by the General Services Administration (GSA). Further, the potential improvements recommended by 13 of 17 presidential advisory committees were at risk because GSA did not ensure that follow-up reports were issued to Congress. We recommended that GSA fully carry out its Federal Advisory Committee Act responsibilities in a timely and accurate manner. (GAO/GGD-98-124)

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

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

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

Impact of GAO's Work

Supervision of the financial services industry is taking place in a period of rapid change as formerly clear and distinct industry definitions become less relevant. Banks and thrifts, which used to be clearly distinct institutions, perform increasingly similar functions. In an attempt to increase profits and maintain a customer base, banks are increasingly taking on new lines of business—such as mutual funds and securities underwriting—which make them look more like securities firms. The consolidation of financial institutions from different segments of the industry is resulting in large financial service conglomerates that offer a range of financial services beyond the mission of any one regulator. As markets become more global, foreign and domestic institutions perform similar functions and interact with savers and investors in similar ways. Our work involving financial institutions and markets explores the implications of these changes for Congress and the regulators, as well as for the industry and its customers.

We examine these issues to provide information, analyses, and recommendations to Congress and regulators on changes in and oversight of the financial services industry. We analyze: 1) how effectively regulators oversee financial institutions to ensure the integrity of the financial system; 2) how effective regulatory policies and procedures are in ensuring competition among financial services providers; 3) what federal regulators are doing to measure the effectiveness of their policies and programs; 4) whether regulators ensure that customers and businesses have open and nondiscriminatory access to financial services and that consumers are protected against fraud; and, 5) the ability of financial regulators to effectively respond to the increasing predominance of conglomerates, the continuing global interdependence of financial markets, and advances in information technology and financial innovation.

Our work has improved the operation of the financial system as a whole and individual components of it. One primary mission—working on safety and soundness issues—helps protect the taxpayer from the need to rescue one or more financial institutions or sectors. Our work also has an investor/customer focus to help ensure that financial services industry

customers get what they pay for and that associated agency operations improve their effectiveness.

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

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

Regarding technology issues, we have helped to alert Congress to the need for the Securities and Exchange Commission to improve its monitoring and reporting of the securities industry's progress in achieving year 2000 compliance. We have also reported on the projected growth in on-line banking systems and the considerable challenges banks are facing in implementing and maintaining secure and dependable on-line banking services to their customers. Other technology work has included a comprehensive assessment of the effects of the Small Order Execution System on the operation of the Nasdaq Stock Market. This work has identified the need to ensure that the planned design of a new electronic trading system provides for fair access to the market while ensuring immediate, automatic execution of investors' orders at the best possible prices.

Key Open
Recommendations

Financial Institution Reforms

Our report on the Federal Home Loan Bank System recommended reforming its capital structure, its mixture of voluntary and mandatory members, and potential cost saving reforms. In a separate report we recommended that the Federal Housing Finance Board improve its oversight of System banks. Both reports recommended a single regulator for all three housing-related government-sponsored enterprises. The Administration and Congress have been working on a legislative plan to address our recommendations. (GAO/GGD-94-38, GAO/GGD-98-203)

Our reviews of the Community Reinvestment Act and of the Equal Credit Opportunity Act and the Fair Housing Act concluded that the lending and regulatory community still face challenges in effectively implementing these laws. We recommended that the regulators: develop uniform fair lending examination procedures; adequately train examiners to review and test for lending discrimination; and use their full range of resources, including enforcement actions to ensure accurate, timely Home Mortgage Disclosure Act data. In addition, we suggested that Congress may wish to consider alleviating the legal risks of self-testing for discrimination done by the lenders. These recommendations are under consideration by the regulators. (GAO/GGD-96-23, GAO/GGD-96-145)

We found the Office of Federal Housing Enterprise Oversight lacked risk-based capital standards and a stress test model. We recommended that—until that office had completed work on these critical safety and soundness tools for overseeing Fannie Mae and Freddie Mac—the Office of Federal Housing Enterprise Oversight periodically report its progress to Congress. (GAO/GGD-98-6, GAO/T-GGD-98-25)

Our report assessing HUD's mission oversight of Fannie Mae and Freddie Mac found the need for improvement in several areas. To strengthen HUD's oversight of these housing enterprises we recommended HUD 1) develop a better understanding of whether the housing goals are enhancing housing affordability and opportunities for targeted groups as intended by Congress and 2) coordinate with the Office of Federal Housing Enterprise Oversight on reviews of enterprise compliance data. We also suggested that HUD determine the cost of overseeing the enterprises and develop a legislative package for Congress that would require the enterprises to pay HUD's oversight expenses. To insure nonmortgage investments are consistent with the purposes expressed in their charters, we

recommended, in this report as well as another, that HUD closely monitor the enterprises' use of nonmortgage investments. (GAO/GGD-98-173, GAO/T-GGD-98-177, GAO/GGD-98-48)

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

Securities

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

Over-the-counter derivative sales practices continue to need oversight. We recommended that regulators monitor the development of this market and, if necessary, introduce specific federal sales practice requirements. We also recommended that regulators assist the industry in determining the degree to which derivative dealers are responsible for disclosing the risks in derivatives they are selling to those wishing to purchase them (end-users). We believe that regulators should ensure enforcement of the sales practice provision of the Framework for Voluntary Oversight developed by the major derivative dealers. (GAO/GGD-98-5)

We reported that the Commodity Futures Trading Commission needs to develop formal training plans for its Division of Enforcement personnel. We also recommended that the Division of Enforcement expand its procedures manual to include all of the major policies and procedures applicable to its investigative and litigation processes. (GAO/GGD-98-193)

We examined the Small Order Execution System and its effects on the Nasdaq Stock Market. This system was developed to allow small orders

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

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

**Government Business
Operations Issue Area
(Budget Function 800)**

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

Impact of GAO's Work

We conduct audits and evaluations focused on civilian agency business activities, including asset management (typically facilities) and the procurement of goods and services. We focus predominantly on the government's two largest business entities—the General Services Administration (GSA), which influences the management of assets valued at nearly \$500 billion, controls or oversees over \$60 billion in annual government spending, and in 1999, through its various business lines will generate nearly \$13 billion in revenue; and the United States Postal Service (USPS), which has revenue of more than \$58 billion annually. In 1998, our work has also involved the Kennedy Center for the Performing Arts, Federal Prison Industries (FPI), the Treasury, Bureau of Engraving and Printing, Agriculture, Forest Service, Administrative Office of the U.S. Courts, Federal Communications Commission, the Architect of the Capitol, and the District of Columbia government.

Facilities Management Issues

To help Congress evaluate the operations of the Federal Buildings Fund, we verified, to the extent possible, the overestimation of its rental revenue for fiscal years 1996, 1997, and 1998; determined whether the actions taken by GSA appeared to address the overestimation problem and recommended additional actions that GSA should take. In addition, we assessed the budgetary impact of the overestimation on projects and programs in the Federal Buildings Fund. We noted that it was not clear how many, if any, of the proposed new construction or modernization projects would have been included in the President's budget or funded by Congress in fiscal year 1998 had it not been for the overestimation problem. However, to the extent the overestimation problem resulted in lack of funding for new projects and these proposed projects are funded in the future, the government could experience cost changes. Delays in basic repair and alteration work could also result in additional future cost to the extent prices for these services increase in the future and to the extent delays cause further deterioration of the assets.

We also assisted Congress in its efforts to evaluate the need for specific facility acquisitions. We issued two reports on the acquisition of the Portals II building in Washington, D.C. for the Federal Communications Commission and delays in the commission's move into the new facility. We reported on GSA's acquisition of a new facility for the consolidation of

Agriculture's natural resources research activities into a single facility in Fort Collins, Colorado. We also evaluated and testified on GSA's upgrading of security of federal buildings under its operations in response to the bombing in Oklahoma City.

Procurement

In response to a provision of the 1997 Emergency Supplemental Appropriations Act and numerous congressional requests, we provided an assessment of (1) the optimum circumstances for the procurement of distinctive currency paper, (2) the effectiveness of the Bureau of Engraving and Printing's efforts to encourage competition in the procurement of currency paper, (3) the fairness and reasonableness of prices paid for currency paper by the bureau and the quality of the paper purchased, and (4) the potential for disruption to the U.S. currency paper supply from the Bureau of Engraving and Printing's reliance on a single source. In our report we included matters for congressional consideration and recommendations to the Secretary of the Treasury. Also, we assisted Congress in the procurement area by evaluating FPI's performance in providing goods and services to federal agencies. We issued reports addressing pricing, timeliness, and customer satisfaction in which we made a number of recommendations aimed at improving FPI's performance.

Postal Service

Our postal work has continued to make substantial contributions to the Congress' ongoing postal reform deliberations and oversight hearings on the Postal Service. Our report on labor-management relations received broad media coverage, as well as a hearing by the Chairman of the House Subcommittee on Postal Service that brought together representatives from the Postal Service, the employee unions, management associations, and a mediator from the Federal Mediation and Conciliation Service to discuss how to improve progress in labor-management relations. We also reported on issues related to concerns about whether the Postal Service has an unfair advantage due to its government status over private competitors in providing international parcel delivery services.

Management Improvement

At the request of the House leadership, we provided our observations on GSA's and the Postal Service's strategic plans and fiscal year 1999 annual performance plans which they were required to prepare by the Government Performance and Results Act of 1993. In each instance, we made recommendations to improve the plans which the agencies agreed to implement.

Key Open Recommendations

Courthouse Construction

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

In our report on courtroom usage, we recommended that the Administrative Office of the U.S. Courts, the Federal Judicial Center, and the Judicial Conference of the U.S. should design and implement cost-effective research to fully examine the courtroom usage issue to form a better basis for determining the number and type of courtrooms needed, as well as whether each district judge needed a dedicated courtroom. The Administrative Office of the U.S. Courts has deferred action on the recommendations until it assesses the implementation of the new Judicial Conference policies related to courtroom sharing among some senior judges and circuit councils considering more closely the existing courtrooms before planning to add new courtrooms. It believes this effort will provide information relatively quickly and on a broad scale. This approach, however, does not consider active judges sharing courtrooms. (GAO/GGD-97-39)

Procurement Issues

FPI needs to institutionalize internally an assessment of overall customer satisfaction with the services it provides and to use this assessment to measure and improve its performance. We recommended the Director, Bureau of Prisons, should direct FPI's Chief Operating Officer to: (1) examine available approaches to collect and use customer satisfaction data to determine the most cost-effective approaches for FPI; (2) develop a plan for collecting customer satisfaction data that would allow for supportable conclusions about federal customers' views on timeliness,

prices, and quality; (3) develop a timetable for implementing the plan; and (4) set performance goals for the levels of customer satisfaction that FPI wants to attain and measure results against these goals. (GAO/GGD-98-50)

Postal Issues

USPS, unions, and management associations should develop a long-term framework agreement to change the workplace climate in mail processing and delivery functions. The agreement should provide for the following principles and values: (1) a work structure to give employees greater responsibility and accountability for results; (2) incentives to encourage all employees to share in the tasks necessary for success and to allow for recognition and reward for corporate and unit performance; (3) training employees and holding them accountable, with a focus on customer service; (4) selection and training of supervisors to be facilitators/counselors who will have the skills, experience, and interest to treat employees with respect, motivate them, recognize and reward them, promote teamwork, and deal with poor performers; and (5) counseling, training, and if necessary, removal of supervisors and employees who show a lack of commitment to work-unit goals, values, and principles. The Postmaster General and the leaders of the unions and management associations participated in a national summit on October 29, 1997, and agreed to continue meeting quarterly to discuss postal labor relations and initiatives to be jointly undertaken to improve workplace relationships. We believe these meetings are a positive step toward reaching agreement on overall objectives and approaches for improving the workroom climate, but that more specific actions are needed to determine whether these discussions result in meaningful improvements. (GAO/GGD-94-201A)

User Fees

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

Chapter 4
Improving Justice and General Government
Programs

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

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

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

Impact of GAO's Work

We conduct evaluations of tax policy and administration to provide the Congress, the executive branch, and the public with timely, accurate, and objective analyses and information to improve the operation and administration of our nation's tax system. This entails the revenue side of the budget—the estimated \$1.6 trillion in tax receipts that finance the federal government's operations and the over \$545 billion in tax expenditures that promote numerous social and economic objectives—as well as the federal agency responsible for tax administration, the Internal Revenue Service (IRS).

The federal government has realized over \$3.5 billion in savings over the last 2 years as a result of statutory and administrative changes we recommended. Of that total, (1) \$2.1 billion comes from a reduction in IRS' Tax Systems Modernization program budget that resulted from IRS' establishment and use of explicit decision criteria when planning and evaluating its technology investments, (2) \$1.1 billion comes from a phaseout of the Section 936 tax credit in U.S. possessions, (3) \$175 million comes from a reduction in IRS' fiscal year 1998 budget submission for a multi-year capital account—the Information Technology Investments Account, and (4) \$131 million comes from a reduction in IRS' fiscal year 1998 budget submission for systems development.

These savings represent only one aspect of the impact of our work. Our reports and testimonies have recommended ways to improve the efficiency and effectiveness of the tax system by addressing such subjects as collecting delinquent taxes and identifying unreported income, responding to taxpayers' inquiries and reducing the burden of complying with the tax laws, modernizing IRS to achieve greater productivity and better management of its operations, and revising IRS' performance measures for compliance and enforcement activities.

Because of our recommendations in these subjects, IRS has (1) taken steps to deny tax refunds and credits on returns with missing or incorrect social security numbers; (2) modified its management and information systems to include information on tax assessments for business partners' tax

returns and on changes in the allocation of profits and losses among partners; (3) contracted with a commercial reporting service to provide information on long-term Original Issue Discount bond issuances that were not reported to IRS and were not included in IRS' Publication 1212; (4) developed and published detailed instructions on how to use its Telephone Routing Interactive System and improved the system's interactive menus and scripts; (5) increased its efforts to answer telephone inquiries during the filing season to 16 hours a day, six days a week, in 1998 and plans to take telephone inquiries 24 hours a day, seven days a week, in 1999; (6) utilized a voice message system to record complex tax questions so that knowledgeable assistors can contact the taxpayers within 2 days of the initial calls; (7) developed a new form for requesting innocent spouse relief and revised its publications to better inform taxpayers about the criteria and procedures for requesting innocent spouse relief; (8) centralized the processing of innocent spouse relief claims and is training its Examination and Collections staff and telephone assistors in the criteria and procedures for obtaining innocent spouse relief; (9) established Cooperative Strategy Working Groups to manage, monitor, and track all research projects; (10) developed computer-based training to meet research training needs and to measure training effectiveness; (11) designated its Compliance Research Information System as the primary analytical tool for conducting research; (12) established Compliance Planning councils in all districts to oversee the districts' compliance programs; and (13) revised the way it measures the accessibility of its telephone service. IRS is implementing a nationwide call router center in Atlanta, Georgia, to receive and route telephone inquiries to available assistors on a real-time basis.

High-Risk Areas

In February 1997, we reported on certain high-risk areas throughout the government. At IRS, the areas included the management and collection of billions of tax dollars in accounts receivable as well as significant levels of tax filing fraud.

Tax Revenue in Accounts Receivable

Since many taxpayers are either unable or unwilling to pay their taxes when due, IRS has accumulated accounts receivable estimated to be in the tens of billions of dollars. For years, IRS' efforts to collect these delinquent taxes have been seriously hampered, primarily, by outdated equipment and processes, old accounts that are difficult to collect, incomplete taxpayer information for targeting collection efforts, and the absence of a comprehensive strategy and detailed plan to address the systemic nature of the underlying problems.

IRS has attempted to deal with these problems, in part, by correcting errors in the accounting records of tax receivables, developing more information on the makeup of the inventory of tax debts, developing research systems to identify characteristics of delinquent taxpayers and appropriate collection techniques, attempting earlier telephone contact with delinquent taxpayers, revising the format of bills sent to taxpayers, and automating many of the collection processes performed by collection employees in field offices. However, IRS still needs a comprehensive strategy, involving all aspects of its operations, that sets collection priorities, modernizes outdated equipment and processes, and establishes goals, timetables, and a system to measure progress.

Filing Fraud

Since our high-risk series was issued, IRS has released a report on the results of its study of earned income credit (EIC) claims on tax year 1994 individual tax returns. That study showed that of the \$17.2 billion in EIC claims on returns filed in tax year 1994, 25.8 percent was erroneously claimed. Our evaluation of IRS' study methodology concluded that IRS' estimate was reasonably accurate and representative of EIC claimants filing between January 15 and April 21, 1995. With new enforcement tools provided by Congress and an increase in funding specifically designated for EIC-related activities, IRS began implementing in fiscal year 1998 a plan that, over a 5-year period, calls for attacking EIC noncompliance through expanded customer service, strengthened enforcement, and enhanced research. Many parts of that initiative are targeted at the primary sources of EIC noncompliance identified in IRS' tax year 1994 study. We reviewed IRS' efforts for tax year 1997. Although most of the efforts had not progressed far enough for us to make any judgment about their effectiveness, we identified several implementation issues that could diminish the compliance initiative's impact. (GAO/GGD-98-150)

Key Open Recommendations

Accounts Receivable Collection

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

We reviewed IRS' Offer-in-Compromise Program, which affords taxpayers the opportunity to settle tax debts for less than the amount owed. While IRS was pleased with the results of the program, the program has not demonstrated that its objectives of increased collections and improved compliance will be met. We recommended that IRS develop the indicators necessary to evaluate the Offer-in-Compromise Program as a collection and compliance tool. IRS is studying the program and plans to make modifications, including the development of performance indicators. (GAO/GGD-94-47)

Taxpayer Compliance

The Low-Income Housing Tax Credit is the largest federal program to fund the development and rehabilitation of rental housing for low-income households. Under the program, states allocate federal tax credits as an incentive to the private sector to develop these projects. The annual cost of the credits could be as much as \$3 billion. IRS is responsible for ensuring that taxpayers take no more credits than allowed and that the states allocate no more credit that they are authorized to allocate. We recommended that IRS (1) establish clear requirements to ensure independent verification of sources and uses of funds submitted to states by developers that form the basis of decisions about the value of tax credits granted low-income housing projects; (2) require that states report sufficient information about monitoring inspections or reviews, including the number and types of inspections made so that IRS can determine whether states have complied with their monitoring plans; (3) require that states' monitoring plans include specific steps that will provide information to permit IRS to more efficiently ensure that the Internal Revenue Code's habitability requirements are met; and (4) explore alternative ways to obtain better information to verify that states' allocations do not exceed tax credit authorizations and to evaluate taxpayers' and housing projects' compliance with the requirements of the Code. IRS is taking steps to address these recommendations. (GAO/GGD-97-55)

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

requirements to cover independent contractors. We testified annually from 1992 to 1996 concerning these issues. Since January 1995, at least four legislative proposals for clarifying the rules have been submitted. (GAO/GGD-92-108)

As of 1994, about two-thirds of all additional tax assessments recommended as a result of IRS' audits were attributable to the nation's 1,700 largest corporations. Although audits of these large corporations consumed about 20 percent of IRS' Examination resources, IRS collected only about \$1 out of every \$5 in recommended tax assessments. We recommended that IRS attempt to ensure collection of the proper amount of tax by (1) providing more authority over budget and staffing allocations in the field to the National Office executive who manages the audit program and (2) analyzing the recurring tax disputes and proposing legislative changes for minimizing such recurrence. IRS is taking steps to address these recommendations. (GAO/GGD-94-70)

IRS also has an audit program that deals with tax returns filed by about 45,000 other large corporations. Between 1988 and 1994, IRS invested additional time in doing these audits but recommended fewer additional taxes per hour invested. Since IRS had only been collecting about \$1 of every \$4 in additional taxes recommended during these audits, the results raised concerns about the productivity of such audits. Our recommendations strove to improve that productivity. For example, we recommended that IRS develop more specific criteria to guide the selection of tax returns and tax issues on those returns with high audit potential. (GAO/GGD-97-62)

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

Concerns about continued overall noncompliance levels led IRS to change its tax compliance philosophy. In addition to the use of enforcement methods, it is researching ways to improve compliance for entire market segments—specific groups of taxpayers that share certain characteristics or behaviors. IRS’ goal is to increase total compliance with the tax laws from the current estimated level of 87 percent, and IRS believes its new compliance research approach will uncover ways to help meet this goal. We recommended that IRS take steps to ensure that reliable compliance data is available when needed. (GAO/GGD-96-109)

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

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

Taxpayer Service

IRS plans to serve more taxpayers by telephone, primarily through the use of its Telephone Routing Interactive System. The interactive system is designed to allow taxpayers with certain questions to obtain the information or service they need without speaking to a representative, thereby allowing customer service representatives to assist taxpayers with more complex, time-consuming questions. Unfortunately, few taxpayers are using the system other than to check on the status of their refunds (information that can be obtained from another automated system). Some taxpayers feel that the Telephone Routing Interactive System offers too many menus to remember or prevents them from using certain applications. We recommended that IRS conduct a cost-benefit analysis to determine whether multiple toll-free numbers would overcome the problem of having to remember too many menu options. (GAO/GGD-96-74)

We also recommended that IRS re-examine its plans for using interactive telephone applications. At a minimum, IRS needs to (1) analyze the services taxpayers need, want, and will use; (2) determine why taxpayers are not using the existing interactive applications; (3) reevaluate the costs and benefits of its Telephone Routing Interactive System; and (4) delay the further development and implementation of any interactive applications until the re-examination is completed. (GAO/GGD-98-152)

For years, IRS' plans for improving customer service have included the implementation of a one-stop service initiative to reduce the time and frustration associated with making numerous contacts with IRS to resolve a single problem. In August 1994, we reported that a flawed measurement process had led IRS to overstate its progress in providing one-stop service and recommended that a different measurement system be adopted. (GAO/GGD-94-131)

Management of IRS

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

IRS is undergoing a major effort to modernize its information systems and restructure its organization. Part of this effort involves improving IRS' interactions with taxpayers by folding parts of its field structure into customer service centers. These centers would interact primarily by telephone to provide customer service, take orders for tax forms, collect unpaid taxes, and adjust taxpayer accounts. However, a lack of clarity in management responsibilities has, to some extent, hampered IRS in implementing its customer service plans. First, because the work units and related resources that are to make up the new customer service centers belong to two separate IRS organizations, we recommended that IRS clarify its criteria for assigning process owners. Second, since we found instances in which "products" were being developed for use in the customer service sites that had no clearly designated process owners, we recommended that IRS define the process owners' roles and responsibilities. And third, we recommended that IRS emphasize the need for timely input for the data it needed to evaluate its systems' performance. (GAO/GGD-96-03)

We reviewed IRS' plans to maximize electronic filing, which is the cornerstone of IRS' plan to move away from traditional paper-based return filing. We found that (1) if electronic filing continues at the current pace, IRS will fall far short of its goal of 80 million electronic returns by 2001; (2) IRS has had little success in broadening the appeal of electronic filing to those taxpayers who file other more complex returns; and (3) unless IRS can increase electronic filing, its customer service and paper-processing workloads may overwhelm its planned staffing and alter various aspects of its modernization efforts. We recommended that the Commissioner (1) identify those groups of taxpayers who offer the greatest opportunity to reduce IRS' paper-processing workload and operating costs if they were to file electronically and develop strategies that focus IRS' resources on eliminating or alleviating impediments that inhibit those groups from participating in the program, including the impediment posed by the program's cost; (2) adopt goals for electronic filing that focus on reducing IRS' paper-processing workload and operating costs; and (3) prepare contingency plans for the possibility that the electronic filing program will fall short of expectations. IRS is developing a strategy that should be finalized by the end of 1998. (GAO/GGD-96-12)

For years, IRS has sought to develop effective measures to gauge its performance in collecting federal taxes at the least cost to the taxpayer and the government. Recently, IRS has attempted to develop and implement results-oriented performance measures as required by the Government Performance and Results Act in order to assist in meeting legislative requirements to improve customer service and reduce the burden on taxpayers associated with paying their taxes. In doing so, IRS must measure the elements of burden it can influence and devise a means to capture the costs taxpayers incur when preparing and filing their tax returns. We recommended that IRS develop performance indicators that cover the full range of IRS' customer service program. (GAO/GGD-98-59)

Tax Simplification

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

To determine their tax liabilities (e.g., employer portion of Social Security taxes) and take the appropriate steps to meet the requirements of other laws, businesses need to be able to readily distinguish between workers who are "employees" and those who are "independent contractors." However, IRS' rules for classifying workers are unclear and subject to

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Improving Justice and General Government
Programs

conflicting interpretations. This situation puts employers at risk of incurring large penalties and retroactive tax assessments. We recommended that Congress and IRS work together to clarify the rules. (GAO/GGD-92-108, GAO/T-GGD-96-130)

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

Improving Financial and Information Management Programs

Budget Issue Area (Budget Function 990)

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Impact of GAO's Work

During fiscal year 1998, GAO's work relating to the federal budget focused on improving the budgetary information available to policymakers and the public on the government's overall fiscal position and on the cost and performance implications of budgetary decisions. In examining federal budgetary structures and processes, we bring new information from our own audit and evaluation work to the attention of budget decisionmakers and identify improvements in executive and legislative budget processes that promise to better highlight important tradeoffs implicit in budgetary choices.

Assessing the Fiscal Position of the Federal Government

We have continued work to help Congress address the difficult budgetary choices associated with reducing the budget deficit and, recently, achieving a budget surplus. For the fifth year, we have provided a compendium of options for achieving budgetary savings based on GAO's work during the year, identifying approaches to address performance problems in a budgetary context. The report has prompted widespread interest in the House and Senate Budget Committees, who have requested us once again to work with the Congressional Budget Office to provide savings estimates for our options. We also worked to facilitate the use of our work by new oversight task forces convened by the Senate Budget Committee to review specific program performance issues.

We have continued to provide periodic simulations of the long-term implications of current fiscal policy for the nation's economic and budgetary future looking out some 50 years, based on a long-term economic model we first prepared in 1992. A report and testimony in early 1998 pointed to substantial fiscal progress made in recent years, capped by the 1997 Balanced Budget Act, but also revealed the dimensions of the long term fiscal challenges continuing to face the nation prompted by escalating health and Social Security costs associated with the baby boom retirement. The model also helps decisionmakers understand the consequences of alternative fiscal policy paths for such outcomes as the nation's capital stock, Gross Domestic Product per person, public debt and associated interest costs.

The budget surplus itself has prompted many in Congress to ask new questions about current budget presentations and policies which we are addressing in our work. Some have proposed to use the period of budget surplus as an opportunity to address perennial concerns about whether the budget numbers adequately reflect the long-term implications of federal commitments. Our work on federal insurance programs illustrates that cash reporting of these programs in the budget often misstates the long-term federal commitment and risks and we recommended that both Congress and OMB focus more attention on developing reliable accrual-based numbers estimating the government's risks. The budget process reform legislation introduced in 1998 by the co-chairs of the House Process Reform Task Force of the Budget Committee includes a section prompted by our report to shift insurance budgets to an accrual basis. Another long-term commitment receiving increased attention is Social Security. We issued the first comprehensive report to address the budgetary and economic implications of investing in the stock market, the surpluses currently building up within the Social Security program, and the report highlighted the effects of current and alternative investment policies on the government's overall fiscal position. The report was well received in Congress, culminating in testimony before the Senate's Special Committee on Aging.

Finally, the surplus triggered widespread interest in how changes in annual government fiscal position affect public debt and the issues involved in how the Treasury Department is managing the reduction in debt. We were asked to testify before the Ways and Means Committee on the overall nature and implications of federal debt for the budget and the economy. The Senate Budget Committee has asked us to update a widely-read 1996 primer on the federal debt adding issues raised by the existence of a budget surplus.

Improving Budgetary Choices

Although neither the structure of the budget nor the budget process itself determines the outcome of budget deliberations, each can influence what the debate is about by highlighting particular types of tradeoffs and information. Building on a long-standing GAO presence in budget accounting and presentation issues, the group made progress in 1998 in strengthening the linkage of budget with performance and financial accounting information and in helping policymakers understand the implications of proposed changes in budget concepts and structures.

Working from the strong foundation established by recent statutory reforms that require federal agencies to produce audited financial

statements and annual performance plans, we have focused on the challenge of integrating these new perspectives and information with the budget. Recognizing the essential synergy between management reforms and the budget, we have identified gaps between performance goals, financial statements and budget accounting and appropriations perspectives that need to be addressed if the new reforms are to achieve sustainable changes in both management and resource allocation practices. We have prepared the guides for both Congress and evaluators to assess the relevance and usefulness of individual agency performance plans and their linkage with the budget. We worked closely with congressional appropriations staff to help them develop performance-oriented questions for hearings and report language suggesting the need for stronger linkage of performance information in agency budget submissions. Our work assessing the status of budget integration was summarized in a report setting forth an agenda for improving the agencies' annual performance plans and in a separate report evaluating the first governmentwide performance plan prepared by OMB. Beginning with work done in the past several years, we also continued to identify ways to use the performance planning and budgeting processes to identify fragmentation and overlap among government programs and agencies pursuing common or similar outcomes, culminating in reports on the usefulness of budget functions as a framework for comparing the efficacy of related governmental programs and tools.

We have also sought to identify ways to make information in financial statements and financial audits more relevant to budgeting. Although the budget is largely based on annual cash flow principles, we have long felt that resource allocation can be improved by considering audited accrual-based information derived from financial accounting disclosing selected assets, liabilities and net costs. We have helped make the consolidated governmentwide audit report useful to budget debates. We have, moreover, continued to develop a new set of reports interpreting the budget relevance of selected agency financial audit reports for the House Budget Committee at their request, and are now developing an approach for auditing the numbers used in the budget itself. We have also explored the use of accrual concepts for recording selected budgetary transactions, culminating in a report evaluating the experience with the use of accrual budgeting for federal credit programs since 1990 and the insurance report mentioned above. We are now exploring lessons we might learn from initiatives underway in several nations to adopt full-scale accrual-based budgets.

Finally, work on budget structures and intergovernmental fiscal relations have borne fruit in 1998. In testimony before the President's Commission on Capital Budgeting, members expressed strong interest in the agenda we have developed over a number of years for "middle range" reforms for improving agency capital budgeting practices and for adopting targets or goals for federal "investments" in infrastructure, human capital and research and development. While falling short of a full-scale capital budget, these reforms were seen by many as offering the potential to improve capital budgeting within the familiar constraints of the unified budget. Parallel work identifying best practices in capital planning in private business and state and local governments has been reflected in our exposure draft which has been leveraged by OMB in its guidance to federal agencies and in a conference jointly sponsored by us and OMB on best practices in capital planning and budgeting. Our report on the early fiscal effects of welfare reform has been hailed by Congressional requestors and federalism observers for credibly identifying the fiscal choices states have made in designing their new welfare programs.

Key Open Recommendations

Federal Credit Reform

We have issued a series of reports examining some technical issues related to the implementation of the Federal Credit Reform Act of 1990. In our July 1994 report on coverage and compliance issues, we stated that Government National Mortgage Association (GNMA) guarantees were covered by the Credit Reform Act, but that GNMA had not fully complied with the act's requirements. We recommended that the OMB Director require GNMA to budget for guarantees using the issuance dates of the guarantees to determine whether their costs should be included in the financing account or the liquidating account. Both the fiscal year 1998 and fiscal year 1999 budgets included some change in budgetary treatment for the GNMA, but the action taken will not result in full compliance with the Federal Credit Reform Act. GNMA has hired an advisor and has met with OMB officials to develop a budget treatment that will comply with credit reform. (GAO/AIMD-94-57)

In a 1998 report on cost estimation and the quality of re-estimates we reported that re-estimates were often not done in a timely manner and component data were incomplete. We recommended that the Secretaries of Agriculture, Education, Housing and Urban Development, and Veterans Affairs and the Administrator of the Small Business Administration

improve oversight of credit reform implementation, including ensuring that estimates are prepared accurately. We also recommended that the OMB Director work toward identifying ways OMB could further assist agencies to implement credit reform more rapidly and accurately. The Secretaries of Agriculture, Education, Housing and Urban Development all responded that they were taking steps to examine and deal with weaknesses in implementation. The Administrator of the Small Business Administration said she believed that the Small Business Administration was making progress. OMB is developing a new credit subsidy calculator that is expected to assist agencies in calculating subsidy components. We remain convinced that consistent high-level attention to credit reform implementation is necessary to assure that the estimates can be used for consideration of any changes in credit programs. (GAO/AIMD-98-14)

Budgeting for Federal Insurance

In an examination of the budget treatment of Federal Insurance programs, we reported that a cash-based treatment in which premiums are reflected as inflows and expenditures are recorded later when claim payments are made does not accurately represent either the impact of the insurance on the economy or the full cost to the federal government. We recommended that the Congress consider encouraging the development and subsequent reporting of annual risk-assumed cost estimates in conjunction with the cash-based estimates. We also recommended that OMB develop risk-assumed cost estimation methods and report on these methods. As part of a larger budget process reform bill, the House Budget Committee included a revision of the budget treatment for federal insurance based on this report. OMB has been working with the House Budget Committee task force on this proposal. (GAO/AIMD-97-16)

Year-End Spending

In a review of agency spending in the fourth-quarter of the fiscal year (“year-end spending”), we recommended that in order to improve oversight of agencies’ execution of the budget, OMB reemphasize compliance with OMB Circular A-34’s requirement that agencies provide quarterly data no later than 20 days after the close of a calendar quarter and that OMB examine quarterly reporting by agencies that varies significantly from planned or historical rates. We also recommended that OMB continue its efforts to integrate budget and accounting reporting at year-end and report periodically on progress made. OMB indicates that it is taking steps to improve data on quarterly spending patterns. (GAO/AIMD-98-185)

Temporary Assistance for Needy Families Block Grant Reserves

In a review of early fiscal effects of the welfare reform block grant (Temporary Assistance for Needy Families—TANF), we found that more

federal and state resources were available for states' low-income family assistance programs since welfare reform passed in 1996 than would have been available under the previous system of financing the welfare programs consolidated in the TANF block grant. We concluded that states' fiscal planning for any future increases in caseloads varied widely. We recommended that the Secretary of Health and Human Services consult with the states and explore options to enhance information regarding states' plans for their unused TANF balances. The Department concurred in our recommendation. (GAO/AIMD-98-137)

See chapter 2, Improving Resources, Community, and Economic Development Programs, Income Security Issue Area. See also chapter 4, Improving Justice and General Government Programs, Financial Institutions and Markets Issue Area.

**Financial
Management and
Accountability Issue
Areas (Budget
Function 990)**

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Impact of GAO's Work

During 1998, we continued to make significant contributions to improving the reliability of financial management reporting, controls, and operations across government by (1) completing our first-ever audit of the consolidated financial statements of the federal government and identifying and recommending solutions to weaknesses that impair agencies' ability to obtain unqualified audit opinions for the 24 agencies covered by the Chief Financial Officers (CFO) Act of 1990, (2) assisting the Congress in putting in place and overseeing efforts to improve financial management across government, and (3) carrying out Government Corporation financial audits and providing other financial audit and review assistance to the Congress.

**Auditing the U.S. Government's
Consolidated Financial
Statements**

On March 31, 1998, the Secretary of the Treasury, in consultation with the Director of OMB, issued the Consolidated Financial Statements of the U.S. Government for Fiscal Year 1997. These government-wide financial statements, the first in our nation's history, were prepared and issued under provisions of the expanded CFO Act and included our first audit report as required by the act.

Our report on the consolidated financial statements highlighted the most serious of many long-standing financial management challenges facing the federal government. Major problems include agencies' inability to

- properly account for and report on billions of dollars of property, equipment, materials, and supplies;
- properly estimate the cost of most federal credit programs and the related loans receivable and loan guarantee liabilities;
- estimate and report material amounts of environmental and disposal liabilities and related costs;

- determine the proper amount of other liabilities, including post-retirement health benefits for military and federal civilian employees, veterans' compensation benefits, accounts payable, and other liabilities;
- accurately report on major portions of the net costs of government operations;
- determine the full extent of improper payments that occur in major programs and that are estimated to involve billions of dollars annually;
- properly account for billions of dollars of basic transactions, especially those between government entities;
- ensure that the information in the consolidated financial statements is consistent with agencies' financial statements;
- ensure that all disbursements are properly recorded; and
- effectively reconcile the change in net position reported in the financial statements with budget results.

We conducted the financial statement audits at the IRS and of the Schedule of Federal Debt Management by Treasury's Bureau of the Public Debt, as well as of internal controls over cash receipts and disbursements. We also worked closely with the Inspectors General of DOD, SSA, and HHS and reviewed the results of financial audits performed by the Inspectors General at other agencies. This audit work has resulted in an identification and analysis of deficiencies in the government's recordkeeping and control systems and recommendations to correct them. Our work has led to a number of material adjustments to the consolidated financial statements, both in terms of the dollar amounts reported and the classification of those amounts. For example, in reviewing the proposed allocation of about \$100 billion in pension and other benefits expense contained in the draft fiscal year 1997 consolidated financial statements, we worked with Treasury to reallocate about \$9 billion in employee contributions among federal agencies.

A critical component of our financial statement audit work is the assessment of computer system security controls. We have been at the forefront in auditing computer security. We developed the Federal Information System Controls Audit Manual—GAO's methodology for computer security reviews—which has been widely adopted across the federal audit community. Our work has identified widespread computer control weaknesses that, among other serious consequences, are placing financial information at risk of unauthorized access, modification, or destruction. For example, in September 1998, we issued a report entitled: Information Security: Serious Weaknesses Place Critical Federal Operations and Assets at Risk (GAO/AIMD-98-92), which summarized

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numerous computer security weaknesses throughout the government. We recommended that the Director of OMB and the Assistant to the President for National Security Affairs ensure that efforts to address federal information security are coordinated under a comprehensive strategy. Through our financial audits and in working with the Inspectors General, significant information security weaknesses in systems that handle the government's unclassified information have been reported in each of the major federal agencies.

The Congress has reacted strongly to the results of our financial audit report. For example, in April 1998, the Subcommittee on Government Management, Information and Technology of the House Committee on Government Reform and Oversight held a series of oversight hearings on the results of the government-wide financial statement audit and of the outcome of individual financial audits at IRS, DOD, SSA, and HCFA. Further, on June 9, 1998, the House of Representatives unanimously passed a resolution that underscored congressional demand for quickly resolving outstanding accounting and reporting problems. The House Resolution, which had the personal support of the House majority leadership, reemphasized the deficiencies identified in our report.

The administration also has moved forward to increase attention on improving government-wide financial management. Financial management has been designated one of the President's priority management objectives, with the goal of having performance and cost information in a timely, informative, and accurate way, consistent with federal accounting standards. The administration has set goals for individual agencies, as well as the government as a whole, to complete audits on time and to gain unqualified opinions. To help achieve these objectives, the President issued a May 26, 1998, memorandum to the heads of executive departments and agencies on actions needed to improve financial management.

In addition to helping the Congress ensure the expanded CFO Act's requirements are implemented effectively, we have been at the forefront as a catalyst in assisting and advising the Congress as it explored the need for financial management improvement legislation in other areas. For instance, we worked with the Congress to oversee agencies' efforts to comply with the Federal Financial Management Improvement Act of 1996. Our audit work has shown that significant challenges must be overcome if agencies are to put in place the accounting standards and systems requirements of the Federal Financial Management Improvement Act. In

addition, as part of the House Committee on Government Reform and Oversight's Subcommittee on Management, Information and Technology's recent series of hearings on financial management issues, we participated in exploring options, including legislative enhancements, to expedite fixing the problems that hamper effective financial management across government and in examining the important financial management work of the Inspectors General under the Inspector General Act of 1978.

The Congress has also taken legislative action stemming from our work on individual agency financial audits. For example, the Congress recently put in place statutory requirements for DOD to prepare biennial financial management improvement plans, to accelerate its planned timetable for addressing long-standing problems in accurately and promptly accounting for billions of dollars in disbursements, and to improve reporting of its multi-billion dollar inventories and military equipment.

In addition, our analysis for the House Budget Committee of information in agencies' financial statements and related audit reports has served to alert the Congress to developing trends that may have significant fiscal or budgetary implications. For example, our analysis of the Navy's and the Federal Aviation Administration's financial statements and related audit reports, which even though they did not include all required information and were not verifiable, still provided data that could be used to identify financial issues of interest to the Congress as well as budget and program managers. Our analysis highlighted for the Congress how the deficiencies disclosed in the auditor's reports impaired the agencies' abilities to efficiently and effectively manage programs and exposed the agencies to increased risk of waste, fraud, and misappropriation of funds. Also, our analysis of auditors' reports on the Forest Service served to alert the Congress to the inefficiency and waste that resulted from the lack of reliable accounting and financial data.

Other Financial Statement
Audits and Financial
Management Assistance
Provided to the Congress

Our financial audits of Government Corporations, reviews of the financial operations of the District of Columbia, and other financial management assistance have also served to improve the reliability of financial reports and controls across government. We have continued to work with Executive Branch agencies, including CFOs and Inspectors General, to strengthen agencies' financial operations and reporting and the efficiency and effectiveness of their financial audit procedures.

Government Corporations

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

and Loan Insurance Corporation Resolution Fund, and Savings Association Insurance Fund). These audits included assessments of the entities' internal control systems over financial reporting, safeguarding of assets, and compliance with laws and regulations. In response to issues identified through our audits, FDIC has improved its process for overseeing contractors that service assets and make collections on FDIC's behalf, thus providing assurance that contracted asset services safeguard assets and provide FDIC with accurate financial reporting information. FDIC also improved review procedures and quality control in its process for estimating the recoveries from assets from failed institutions, thus improving the information used to record key estimates in the financial statements. In addition, FDIC took actions to improve weaknesses we identified in its electronic data processing controls, thereby providing additional assurance that FDIC's data base is properly restricted and protected from unauthorized access.

**District of Columbia Reviews
and Other Assistance to the
Congress**

At the request of several congressional committees, we conducted numerous financial management reviews of the District of Columbia Government. We performed the first financial statements audit of the District's Highway Trust Fund and identified material internal control weaknesses in the expenditure and revenue functional areas. We examined the District's progress in acquiring a new financial management system and made several recommendations to improve its financial management systems needs. Further, we issued our report on the new sports arena project and performed financial analysis involving the District's largest economic development project, the proposed new convention center, which was a factor in the Congress' approval of legislation to move this project to the construction phase.

We assisted the Congress in obtaining financial audits for the Senate Restaurants and the Government Printing Office. For these audits, we contracted with independent public accountants and monitored the independent public accountant's work for compliance with professional auditing standards. We also conducted financial statement audits of several other congressional entities and provided a variety of financial-related services, such as reconciliations of financial records and developing internal control procedures to process and safeguard donations to the U.S. Capitol Police Memorial Fund.

Key Open
Recommendations

Department of Defense

As we testified in April 1998, DOD is struggling to meet the many challenges brought about by decades of neglect and an inability to fully institute sound financial management practices. The material financial management deficiencies identified at DOD, taken together, represent the single largest obstacle that must be addressed to achieve an unqualified opinion on the U.S. government's consolidated financial statements. These deficiencies led us in 1995 to put DOD financial management on our list of high-risk areas vulnerable to fraud, abuse, and mismanagement.

No major part of DOD has yet been able to pass the test of an independent audit. However, the financial audits at DOD have served to further clarify the scope and magnitude of DOD's problems, and recommendations to correct them. These problems range from an inability to properly account for billions of dollars in assets, to not being able to accurately account for basic transactions. Collectively, these problems leave DOD highly vulnerable to the loss of assets and inefficient operations. Such weaknesses also prevent DOD from generating the type of management information needed to effectively and efficiently manage its day-to-day operations and impede its ability to obtain the reliable and timely information needed to make sound resource decisions. Effectively addressing these long-standing problems will only be possible with the sustained, demonstrated commitment of the DOD's top leaders. The following are among our most important recommendations that have yet to be fully implemented.

DOD-Wide Programs

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

In September 1997, we reported on the need for DOD to expedite plans to implement a deferred maintenance accounting standard to comply with the new federal requirement beginning with fiscal year 1998. Accurate reporting for DOD's deferred maintenance, particularly for its estimated

\$590 billion investment in mission assets such as submarines, ships, aircraft, and combat vehicles is particularly important. For example, deferred maintenance on mission assets, if reliably quantified and reported, can be an important performance indicator of mission asset condition (a key readiness factor). However, both Army and Navy officials informed us that they were reluctant to develop procedures to implement the required accounting standard until DOD issues overall policy guidance. While DOD officials stated that they have plans underway to develop deferred maintenance guidance, we reported our concern that these plans may not be in time to develop service-specific policies and procedures needed to implement the new federal accounting standard by fiscal year 1998. We recommended that DOD take action to ensure that DOD-wide policy is in place as soon as possible so that DOD can comply with the fiscal year 1998 effective date for the deferred maintenance standard. DOD has not taken action which will permit it to meet this requirement for 1998; although DOD continues to state its intention to develop appropriate policy. (GAO/AIMD-97-159R)

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

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

and disposal costs, for major defense acquisition programs. We recommended that DOD take action to ensure the prompt issuance of guidance on the recognition of a liability for aircraft disposal costs and to include the estimated aircraft disposal liability in its fiscal year 1997 financial statements. To date, DOD has not provided guidance but has expressed its intent to do so. (GAO/AIMD-98-9)

In December 1997, we reported that DOD has not yet implemented the federal accounting standard that requires recognizing and reporting liabilities such as those associated with ammunition disposal, nor has it provided guidance to the military services in this area. We reported that the cost of ammunition disposal can be reasonably estimated and that the cost information developed in response to requests from congressional committees can be used as a starting point. We recommended that DOD take action to ensure the prompt issuance of guidance on the recognition of a liability for ammunition disposal costs and to include the estimated ammunition disposal liability in its fiscal year 1997 financial statements. DOD has expressed its intent to issue such guidance. (GAO/AIMD-98-32)

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

In June 1998, we reported that, drawing on lessons learned from our survey of state government and private sector organizations, training should receive a strong emphasis as a means of upgrading workforce knowledge of current financial management, accounting, and reporting requirements. DOD's financial personnel face the challenge of leading DOD's efforts to produce reliable financial data (1) throughout a large and complex DOD organization with acknowledged difficult financial deficiencies and (2) that build upon the existing requirements to include recent, more comprehensive accounting standards and federal financial management systems requirements. Yet, over half of the key DOD financial managers we surveyed—who all held leadership positions—had received

no financial or accounting related training during 1995 and 1996. We recommended a number of actions to upgrade the technical accounting and related knowledge of DOD financial personnel, including the development and implementation of a formalized, structured training program for financial management personnel throughout DOD.

(GAO/AIMD-98-126)

Army Programs

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

(GAO/AIMD-94-12)

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

Navy Programs

In March 1996, we issued a report to complete our initial reviews of each of the military services' financial management operations. In that report, we expressed our concern that the Navy had not taken advantage of the 5 years since the passage of the CFO Act or the experiences of its counterparts in the Army and the Air Force to address the pervasive and long-standing financial management problems that hamper the Navy's

financial operations. We concluded that the Navy and Defense Finance and Accounting Service must now play “catch up” by giving the area a higher priority and sense of urgency if it is to meet the objectives of the CFO Act.

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

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

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

In September 1996, we issued a report concerning improvements needed in the Standard Accounting and Reporting System (STARS) selected to serve as Navy’s system for general fund accounting. We found that the planned STARS implementation is expected to produce some net cost savings. However, its implementation plans were hampered by the lack of a target systems architecture—or blueprint—that would define the systems’

expected functions, features, and attributes, including interfaces and data flows. To increase the likelihood that the STARS enhancement project will result in an efficient, effective, and integrated Navy general fund accounting system, we recommended that DOD and the Navy expeditiously develop a target STARS architecture and that action plans reflect specific steps needed to achieve this architecture, identifying responsible parties, and establishing realistic milestones. (GAO/AIMD-96-99)

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

Department of Education

Federal Family Education Loan Program

For the first time, the Department of Education received an unqualified opinion on its fiscal year 1997 departmentwide financial statements. Although the Department received an unqualified opinion, the audit continued to identify internal control material weaknesses related to determining the Federal Family Education Loan Program's loan estimates, effectively monitoring payments to Guaranty Agencies and lenders, and ensuring accurate financial reporting. Because the Department has begun corrective actions in these areas and has demonstrated a commitment to resolving financial management problems, we believe the Department has made progress. However, because Guaranty Agencies and lenders have a crucial role in the implementation and ultimate cost of the Federal Family Education Loan Program, the Department should complete steps underway for improving oversight of Guaranty Agencies and lenders. In August 1996, the Department issued revised audit guidance to all Guaranty Agencies participating in the Federal Family Education Loan Program. This guidance became retroactively effective for fiscal years on or after June 30, 1996. In addition, in June 1997, OMB also issued this guidance in its OMB Circular A-133 compliance supplement which will be effective for Guaranty Agencies' fiscal years ending on or after June 30, 1997. Both

require auditors of Guaranty Agencies to specifically audit and report on the integrity of the billings submitted to the Department. However, to use this guidance as an effective monitoring tool, the Department needs to receive reports on audits under this guidance and to perform quality control reviews on these audits to ensure that the guidance has been implemented properly. Audit reports under the OMB Circular A-133 compliance supplement had not been available to the Department until fiscal year 1998. Until this guidance has been fully implemented, audits of Guaranty Agencies may not provide sufficient information to verify the integrity of Guaranty Agencies' billings. Furthermore, the Department needs to continue its plans for (1) establishing and maintaining subsidiary ledgers for the Federal Family Education Loan Program, and (2) finalizing reasonability edits and analyzing variances between the Department's Federal Family Education Loan Program subsystems and lenders' billing data. (GAO/AIMD-96-22)

Department of Energy

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

Department of the Interior

Bureau of Indian Affairs

Our work at the Department of the Interior's Office of the Special Trustee for American Indians and its Bureau of Indian Affairs identified

implementation issues related to several proposed initiatives for improving trust fund management, including the need for additional coordination and planning for proposed major information technology investments. We pointed out the need for the Secretary, in carrying out his trust improvements project, to assure that (1) major information technology investments comply with legal and regulatory requirements and (2) detailed planning is done to ensure that all related business functions and information requirements are identified. (GAO/T-AIMD-97-138, GAO/AIMD-98-37)

Department of the Treasury

Customs Financial Management

Customs continued its efforts to address outstanding weaknesses in its financial management and internal control systems. For example, Customs is working on the integration of its accounts receivable subsidiary ledger as part of the Automated Commercial Environment system initiative. The prototype version was scheduled for testing in fiscal year 1999. In November 1996, Customs also began phasing in its comprehensive financial management and seized property tracking system—Seized Asset and Case Tracking System. According to Customs, significant functions within this tracking system will be completed in fiscal year 1999. In addition, Customs made significant progress in designing an In-bond Compliance Measurement Program which it plans to implement nationwide for fiscal year 1999. Follow through on these ongoing actions is critical to addressing weaknesses in Customs financial management and removing this area from GAO's high-risk list. (GAO/AIMD-94-119, GAO/HR-97-30)

Internal Revenue Service

Our work at IRS has identified several areas for improvement that are needed to better manage, account for, and report tax revenues and receivables. These include recommendations to (1) identify reporting information needs, develop related sources of reliable information, and establish and implement policies and procedures for compiling this information; (2) monitor implementation of actions to reduce the errors in calculating and reporting manual interest on taxpayer accounts, and test the effectiveness of these actions; (3) ensure that system development efforts provide reliable, complete, timely and comprehensive information for evaluating the effectiveness of its enforcement and collection programs; and, (4) establish and implement procedures to analyze the impact of abatements on the effectiveness of assessments from IRS' various collection programs. (GAO/AIMD-94-22, GAO/AIMD-94-120)

**Consolidated Audit and
Computer Security Issues**

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

For example, while progress has been made, serious weaknesses continue to exist at five IRS facilities visited during our prior audit, and we identified several additional weaknesses at those locations and at a sixth facility. These weaknesses exist primarily because IRS has not yet fully institutionalized its computer security management program. These weaknesses affect IRS' ability to control physical access to its facilities and sensitive computing areas, control electronic access to sensitive taxpayer data and computer programs, prevent and/or detect unauthorized changes to taxpayer data or computer software, and restore essential IRS operations following an emergency or natural disaster. Until these weaknesses are mitigated, IRS continues to run the risk of its tax processing operations being disrupted. Furthermore, sensitive taxpayer data entrusted to IRS could be disclosed to unauthorized individuals, improperly used or modified, or destroyed, thereby exposing taxpayers to loss or damages resulting from identity fraud and other financial crimes. (GAO/AIMD-99-3)

In September 1998, we issued a report that outlined numerous computer security problems at VA. We made numerous recommendations to improve specific aspects of computer security and periodically report on progress in addressing these weaknesses including identifying information system security weaknesses as material internal control weaknesses in the Department's Federal Managers Financial Integrity Act annual report. These recommendations have not been addressed. (GAO/AIMD-98-175)

OMB Credit Subsidy Model

Our review of OMB's credit subsidy model resulted in the following recommendations for improving the model's reliability and controls: (1) revise the model's discounting equations to follow standard finance theory, (2) implement a structured software development methodology to ensure the production of quality, reliable software, (3) improve documentation, (4) enhance the model's printed output to provide an audit trail showing which data the model used to calculate the subsidy cost, and (5) provide credit agencies with guidance to establish logical access

controls surrounding use of the model. OMB has indicated that it plans to take actions consistent with our recommendations when it develops a new model that is tentatively expected to be completed in early 1999.
(GAO/AIMD-97-145)

Corporate Audits and Standards

FDIC's Internal Controls

In our 1997 financial audits of FDIC's three funds, we found that the corporation continued to make progress in addressing internal control weaknesses identified during our previous financial audits. However, while much progress has been made, FDIC continues to face internal control weaknesses relating to estimating recoveries for securities and other assets valued outside of the standard asset valuation process. FDIC is currently working to address these internal control issues. We are in agreement with the Corporation's planned corrective actions and we will continue to monitor its progress. (GAO/AIMD-98-204)

Audit Oversight and Liaison

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

District of Columbia

In our review of the District of Columbia's acquisition and implementation of a new Financial Management System, we identified weaknesses in the areas of (1) software acquisition planning, (2) requirements development and management, (3) project management, (4) contracting and oversight, (5) evaluation, and (6) acquisition risk management. Corrections the District makes to these areas can be applied to future software acquisitions. We recommended that the District (1) document its decisions and update its planning documents to ensure that large acquisitions—such as its Financial Management System—can be effectively managed, (2) develop an organizational policy for establishing and managing software-related requirements, and (3) develop written policies for the execution of the software project, contract tracking and oversight activities for the financial management system project, managing the evaluation of acquired software products and software acquisition risk

management. The District's newly hired Chief Technology Officer and the interim CFO have taken some steps to develop new policies and procedures to implement our recommendations, but these recommendations have yet to be fully implemented. (GAO/AIMD-98-88)

Our recent audit of the District of Columbia's Highway Trust Fund for the 12-month period ended September 30, 1997, showed that the District had upgraded its internal controls over receipt of fuel tax revenues. However, some expenditure journal entry transactions were still being prepared, approved, and validated by the same person without independent reviews or approvals; tax receipts were not being deposited promptly; and minimal improvements had been made in the general controls over the computer system. (GAO/AIMD-98-254)

Information
Management Issue
Areas (Budget
Function 990)

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Impact of GAO's Work

Information systems are integral to nearly every aspect of the over \$1.7 trillion in annual federal government operations and spending—from national defense and air traffic control to revenue collection and benefit payments. Yet the federal government faces tremendous challenges in (1) ensuring that these systems will not fail because of the Year 2000 computing problem, (2) protecting sensitive data from computer attacks, and (3) harnessing the full potential of information technology to improve performance, reduce costs, and enhance responsiveness to the public.

To address these challenges, we have helped increase national attention this year on the Year 2000 risks facing the government and the private sector and offered roadmaps to fixing and testing systems and developing business continuity and contingency plans. We have continued to assess the agency efforts to protect their information resources and identified practical, proven ways of strengthening information security. We have also continued our efforts to uncover and remedy underlying weaknesses in multibillion dollar problematic modernization efforts. Our recommended solutions in these areas have not only contributed to over a billion dollars in taxpayer savings, they have spurred agencies to expedite and strengthen their Year 2000 and computer security initiatives and to implement more efficient and effective information technology investment, development, and acquisition processes.

Mitigating Year 2000 Risks

The public faces a high risk that critical services provided by the government and the private sector could be severely disrupted by the Year 2000 computing crisis¹. Financial transactions could be delayed, flights grounded, power lost, and national defense affected. Moreover, because of the complex and intricate nature of the information infrastructure, a single failure could have adverse repercussions on public and private enterprises.

¹The Year 2000 problem is rooted in the way dates are recorded and computed in automated systems. For the past several decades, systems have typically used two digits to represent the year, such as "97" representing 1997, in order to conserve on electronic data storage and reduce operating costs. With this two-digit format, however, the year 2000 is indistinguishable from 1900, or 2001 from 1901. As a result of this ambiguity, system or application programs that use dates to perform calculations, comparisons, or sorting may generate incorrect results.

In view of its potentially devastating impact, we designated the Year 2000 problem as a high-risk area for the federal government in February 1997. Since then we have been (1) assessing Year 2000 readiness at selected agencies and specific systems, (2) assessing governmentwide progress, (3) developing and disseminating Year 2000 guidance, and (4) assessing critical cross-cutting issues. As the following examples illustrate, this work has helped agencies to make significant strides in strengthening Year 2000 program management and spurred actions to strengthen governmentwide and national Year 2000 oversight.

- In 1998, we testified that federal progress in the Year 2000 arena was slow: government priorities for correcting systems had not been established, OMB's assessment of federal Year 2000 progress was predominantly based on unverified agency self-reporting, end-to-end testing of systems across agency boundaries had not yet been defined or ensured, and business continuity and contingency planning across government had been inadequate. Several actions have been taken to implement recommendations we made to address these weaknesses. For example, 41 additional agencies—including such critical agencies as the Postal Service and the Tennessee Valley Authority—were required, for the first time, to report on their Year 2000 status. Even more important, the Chair of the President's Council on Year 2000 Conversion recently directed the Council's sector working groups to perform assessments of their sectors. The Council plans to use these sector assessments as a basis for a public report to the President—the first time such an assessment of our nation's readiness will be available.
- In February 1998, we testified that the implications of FAA not meeting the Year 2000 deadline are enormous and could affect hundreds of thousands of people through customer inconvenience, increased airline costs, grounded or delayed flights, or degraded levels of safety. Nonetheless, FAA was severely behind schedule in completing basic Year 2000 awareness activities, including issuing a final, overall Year 2000 strategy. FAA agreed with our recommendations and, in implementing them, finalized an agencywide plan outlining a strategy for addressing the issue. The plan outlines the agency's strategies, goals, and schedules—items that are critical to sound management.
- In April 1998, we reported that DOD was lagging in its Year 2000 effort because it lacked key management and oversight controls to enforce good management practices, direct resources, and establish a complete picture of its Year 2000 progress. This increased the risk that mission-critical operations would be severely degraded or disrupted as a result of the Year 2000 problem. In response, DOD agreed with all of our recommendations

calling for stronger management and oversight controls over its Year 2000 initiative and is in the process of implementing these recommendations. Thus far, DOD has appointed a chief executive with responsibility for the program.

- While we reported that the financial institution regulators have made good progress in helping to achieve industrywide Year 2000 compliance and remediate their own systems, we also identified concerns and problems with their efforts. For example, all regulators were late in initiating their Year 2000 oversight of institutions and in issuing key guidance on business continuity and contingency planning, corporate borrowers, and service providers and software vendors. The regulators were quick to respond to our recommendations. The National Credit Union Administration, for instance, implemented a quarterly reporting process whereby credit unions would communicate the status of their remediation efforts between examinations, and also hired additional contractor support to assist with exams of credit unions and service providers. The Federal Deposit Insurance Corporation and the Office of Thrift Supervision took immediate steps to implement our recommendation that they develop contingency plans for their mission-critical systems and core business processes.
- Our work has identified Year 2000 issues that cut across traditional agency jurisdictions, such as in the areas of data exchanges, telecommunications, and personnel. In July 1998, for example, we highlighted the importance of electronic data exchanges by disclosing the hundreds of thousands of exchanges used by federal and state agencies to deliver services. At the time of our review, much work remained to ensure that federal and state data exchanges will be Year 2000 compliant. In response to our recommendations to strengthen data exchange efforts, OMB agreed that it needed to increase its attention to this area and has taken some actions, particularly related to federal/state exchanges.
- Our detailed guidance on key Year 2000 remediation phases and transcending activities has been widely adopted nationally and internationally. For example, our first guide, Year 2000 Computing Crisis: An Assessment Guide, which offered a structured approach for reviewing the adequacy of agency planning and management of Year 2000 programs, is being used by federal agencies, state and local governments and private sector organizations to initiate and organize their Year 2000 programs. In addition, this guide and our second guide, Year 2000 Computing Crisis: Business Continuity and Contingency Planning, were adopted by OMB and the Chief Information Officers (CIO) Council as standards for federal agencies to follow. Finally, our most recent guide, Year 2000 Computing Crisis: A Testing Guide, which presents a step-by-step framework for

managing all testing activities related to the Year 2000 problem, is being widely adopted in both the government and private sectors.

In response to the urging of our Executive Council on Information Management and Technology to expand our Year 2000 scope beyond the federal government and at the request of the Senate Special Committee on the Year 2000 Technology Problem, our scope now includes sector-based reviews (e.g., health, safety and emergency services; transportation; power and water; and telecommunications). We are assessing the readiness and risk of each sector and identifying problem areas that require attention.

Strengthening Computer Security

The risks to the security of our government's computer systems are significant, and they are growing. The dramatic increase in computer interconnectivity and the popularity of the Internet, while facilitating access to information, are factors that also make it easier for individuals and groups with malicious intentions to intrude into inadequately protected systems and use such access to obtain sensitive information, commit fraud, or disrupt operations. Additionally, the number of individuals with computer skills is increasing, and intrusion, or "hacking," techniques are readily available. These risks are exacerbated by the Year 2000 date change, which has increased the likelihood of system failures.

In September 1996, we reported that a broad array of federal operations were at risk due to information security weaknesses and that a common underlying cause was inadequate security program management. Subsequently, in February 1997, we designated information security as a new governmentwide high-risk area. Since then, we have worked with the Congress to pursue a comprehensive strategy for addressing federal information security problems. This strategy involves (1) continuing to perform audits at selected agencies and develop specific recommendations for improvement, (2) assisting agency Inspectors General in conducting or arranging for information security, (3) developing methodologies for evaluating federal agency information security programs, (4) providing technical training to GAO and IG staff involved in evaluating computer-based controls, (5) promoting a broader understanding of the practices that make an information security program successful, and (6) working with OMB and others to promote more effective central leadership, oversight, and coordination.

During 1998, for example, we have continued to chronicle significant information security weaknesses in federal agencies.

- In May 1998, we reported that weak computer security practices at FAA jeopardized flight safety. FAA's air traffic control network is an enormous, complex collection of interrelated systems, including navigation, surveillance, weather, and automated information processing and display systems that reside at, or are associated with, hundreds of facilities. All the critical areas included in our review—facilities' physical security, operational systems information security, future systems modernization security, and management structure and policy implementation—were ineffective.
- In May we also reported that the Department of State did not have a program for comprehensively managing the information security risks associated with its many sensitive operations. Specifically, State (1) lacked a central management group to oversee and coordinate security activities, (2) did not routinely perform risk assessments, (3) relied on a primary information security policy document that was outdated and incomplete, (4) did not adequately ensure that computer users were fully aware of risks and their responsibilities for protecting sensitive data, and (5) lacked key controls for monitoring and evaluating the effectiveness of its security program.

In September 1998, we reported that general computer weaknesses placed critical operations of the Department of Veterans Affairs, such as financial management, healthcare delivery, benefit payments and life insurance services at risk of misuse and disruption. In addition, sensitive information contained in VA's systems, including financial transaction data and personal information on veteran medical records and benefit payments, was vulnerable to inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction—possibly occurring without detection.

To help State, FAA, and other agencies better protect their systems, we studied the security management practices of eight organizations known for their superior security programs. We found that these organizations managed their information security risks through a cycle of risk management activities, and identified 16 specific practices that supported these risk management principles. This work has been endorsed by the CIO Council and should provide agencies with a practical framework for protecting their systems.

Several new governmentwide efforts to improve information security have been initiated since we reported on the need for more effective oversight in 1996. For example, in late 1997, the CIO Council designated information security as one of six priority areas, and established a security committee.

This Committee, in turn, has developed a preliminary plan for addressing various aspects of the problem, and established links with other federal entities involved in security issues. In addition, OMB has continued to monitor selected agency system-related projects, many of which have significant security implications. Moreover, in May 1998, the administration developed and issued Presidential Decision Directive 63 on critical infrastructure protection. This directive provides for additional central oversight of agency practices by the National Security Council in the Executive Office of the President and it specifies several requirements related to evaluating and coordinating federal agency information security practices.

Improving Information Technology Investments

Despite making a huge investment in information technology, many government operations are still hampered by inaccurate data and inadequate systems. Too often, federal information technology projects have cost too much, produced too little, and failed to significantly improve mission performance. Yet there is also general agreement that the government's ability to improve its service and performance will depend heavily upon how well information technology can be integrated into fundamental business/mission needs.

Recognizing the urgent need for improvement, the Congress passed landmark reforms in information technology management, including the Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996. The Paperwork Reduction Act emphasizes the need for agencies to acquire and apply information technology resources to effectively support the accomplishment of agency missions and the delivery of services to the public. The Clinger-Cohen Act repeats this theme and elaborates on requirements for agencies to follow when managing information technology. By continuing to identify weaknesses underlying problematic information technology development efforts and recommend corrective measures that will facilitate implementation of these reforms, our work has helped to generate millions of dollars in taxpayer savings and prevent future costly system development failures. For example:

- Following our testimony recommending that about \$1.1 billion of IRS' fiscal year 1998 and 1999 information technology-related budget requests be denied, the Congress funded only \$325 million of the request and later reduced this amount by about another \$20 million, resulting in hundreds of millions of dollars in savings.
- After we found that DOD had failed to adhere to its own decisionmaking and oversight processes in its multi-billion dollar effort to develop

standard information systems for business operations, the Congress reduced DOD appropriations in fiscal year 1998 by \$110 million. DOD itself began reevaluating the way it manages and performs acquisition oversight of its information technology investments.

- Our reports on the benefits of using automated drug use review systems in the Medicaid program influenced many states to install these systems to deny or cancel inappropriate prescriptions as well as prevent inappropriate drug therapy and avoid hospitalizations. As a result, the Medicaid program has saved hundreds of millions of dollars annually.
- As part of our review of HCFA's Medicare Transaction System, we found that HCFA had not justified its plans to acquire two processing sites and a data operations center and therefore recommended that funding be withheld for these. HCFA subsequently cancelled its request for proposals for these sites and saved over \$300 million in costs.
- In response to our recommendation, the Department of the Interior identified and acted on opportunities to consolidate and optimize telecommunications services. These actions resulted in annualized cost avoidance and reductions totaling about \$10.5 million.
- After we raised concerns that the National Oceanic and Atmospheric Administration's deferring the development of its next generation of the Geostationary Operational Environmental Satellite was risky because it did not take advantage of the opportunity to (1) design an architecture that would be more flexible, less costly, and better able to meet user needs and (2) incorporate advanced technologies, the National Oceanic and Atmospheric Administration reconsidered its strategy and initiated a series of activities to accelerate the development of the program to begin in fiscal year 2000.
- Because agencies face challenges in improving both financial and information management, each management area requires full-time leadership by separate individuals with appropriate talent, skills, and experience in these two areas. However, at VA we found that the current Chief Information Officer also functioned as the Department's Assistant Secretary for Management and Chief Financial Officer. In response to our recommendation, VA established a Chief Information Officer position reporting directly to the Secretary on all information resources issues. The newly established position should help VA ensure that information technology issues are addressed promptly and efficiently.
- During 1998, we have worked closely with OMB and the CIO Council's Capital Planning and IT Investment Committee to devise a new information technology budget format that will help (1) agencies to link their internal planning, budgeting, and management of information technology

resources and (2) OMB to provide more effective oversight and review of information technology and information resources management.

In addition to focusing on improving information technology management practices, we have continued to advance our work in examining the pricing and financial management practices of DOD's working capital funds. In responding to our recommendations, DOD began billing foreign military sales customers who had previously been undercharged for foreign military sales' services. The Navy Ordnance business area revised its pricing and workload forecasting practices and reduced overhead staff, which resulted in annual savings of \$34 million.

Key Open Recommenadations

Mitigating Year 2000 Risks

In recognition of the fact that not all systems could be fixed in time and to more effectively oversee the activities of federal agencies in addressing the Year 2000 computing crisis, we recommended that the Chairman of the President's Council on Year 2000 Conversion establish governmentwide priorities, using criteria such as the potential for adverse health and safety effects, adverse financial effects on American citizens, detrimental effects on national security, and adverse economic consequences.

(GAO/T-AIMD-98-278)

As of late 1998, however, the Chairman has not established such governmentwide priorities, preferring to allow individual agencies to continue with their own designations of mission-critical systems. However, the Chairman agreed that it may be necessary at a later date for agencies to further prioritize their systems. We believe such priority-setting must occur now while there is still time to make sure that our government's most critical areas are addressed. We also believe that agencies themselves need to devote more attention to setting priorities, developing a complete and accurate picture of Year 2000 progress, ensuring systems are adequately tested, ensuring the continuity of critical core business processes, and recruiting and retaining information technology personnel with appropriate skills for Year 2000-related work.

(GAO/T-AIMD-98-278)

Strengthening Information Security

To strengthen information security across the federal government, we recommended that the Director of OMB and the Assistant to the President for National Security Affairs ensure that the various existing and newly

initiated efforts to improve federal information security are coordinated under a comprehensive strategy. Among other things, this strategy should (1) ensure that executive agencies are carrying out the responsibilities outlined in laws and regulations requiring them to protect the security of their information resources, (2) clearly delineate the roles of the various federal organizations with responsibilities related to information security, (3) identify and rank the most significant information security issues facing federal agencies, (4) ensure the adequacy of information technology workforce skills, and (5) provide for periodically evaluating agency performance from a governmentwide perspective and acting to address shortfalls. (GAO/AIMD-98-92)

We reported on significant weaknesses in FAA's management of information security and had a number of recommendations in the areas of physical security, operational air traffic control systems, systems under development, and the agency's approach to managing this critical area. FAA has acknowledged that major improvements are needed in all areas of its computer security program but has not yet formulated a plan to strengthen security. (GAO/AIMD-98-155)

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

In response to our finding that its information systems were vulnerable to unauthorized access, the Department of State has developed a security plan and implemented physical security measures. However, additional actions are needed to (1) strengthen its ability to react to intrusions and attacks on its information systems and (2) ensure its central information security unit has the responsibility and authority needed to facilitate, coordinate, and oversee the department's information security activities. Additionally, State should defer the expansion of its Internet usage until known vulnerabilities are addressed. (GAO/AIMD-98-145)

See chapter 1, Improving National Security and International Affairs Programs, International Relations and Trade Issue Area.

Improving Information Technology Investments

Implementing the Clinger-Cohen Act of 1996 and the Paperwork Reduction Act and ensuring that they follow rigorous and disciplined system engineering principles will not be easy for many agencies given the weaknesses pervading current decisionmaking and oversight processes for information technology investments. Nevertheless, strong actions need to be taken to prevent future system development efforts from failing.

For example, DOD needs to (1) ensure alternatives and risks are vigorously examined before investments are made and that these analyses are reviewed by qualified independent parties, (2) require post-implementation reviews of information systems which compare actual costs, benefits, risks and returns against original baseline estimates, and (3) expedite the definition, coordination, testing, and implementation of information management performance measures. (GAO/AIMD-98-5)

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

After acknowledging that its \$3.4 billion Tax System Modernization program had failed, the IRS has taken a good first step in developing a blueprint to direct its future modernization efforts. However, it still needs to implement our recommendations to ensure that the blueprint provides sufficient detail and precision for building or acquiring new systems. For example, it should complete the definition and implementation of all system lifecycle processes, including those for ensuring disciplined software development and acquisition and for validating system lifecycle products. It should also provide its chief information officer with responsibility for developing, and implementing, and enforcing system lifecycle processes and products across IRS as well as budget and organizational authority over all systems development and maintenance activities.

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

The National Weather Service's modernization remains a high risk area, in part, because the agency has not yet implemented our recommendation to develop a systems architecture for weather forecasting and warning subsystems and to use the architecture as a guide in current subsystems development. Likewise, until the Customs Service implements our recommendations focused on ensuring its architecture is complete and enforceable, it will lack adequate assurance that the standards, products, and services selected will optimally support its needs across all business areas.

To strengthen FAA's management of its high-risk air traffic control modernization, we recommended that FAA develop and enforce a complete systems architecture and implement a management structure for doing so that is similar to the Chief Information Officers provisions of the

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Clinger-Cohen Act. We also recommended that FAA institutionalize mature software acquisition processes and defined processes for estimating projects' costs, and implement a managerial cost accounting capability. FAA has not yet fully implemented these recommendations.

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

Key Products

Mitigating Year 2000 Risks

Medicare Computer Systems: Year 2000 Challenges Put Benefits and Services in Jeopardy (GAO/AIMD-98-284, September 28, 1998).

Year 2000 Computing Crisis: Compliance Status of Many Biomedical Equipment Items Still Unknown (GAO/AIMD-98-240, September 18, 1998).

Year 2000 Computing Crisis: Federal Depository Institution Regulators Are Making Progress, But Challenges Remain (GAO/T-AIMD-98-305, September 17, 1998).

Year 2000 Computing Crisis: Significant Risks Remain to Department of Education's Student Financial Aid Systems (GAO/T-AIMD-98-302, September 17, 1998).

Year 2000 Computing Crisis: Progress Made at Department of Labor, But Key Systems at Risk (GAO/T-AIMD-98-303, September 17, 1998).

Year 2000 Computing Crisis: State Department Needs To Make Fundamental Improvements To Its Year 2000 Program (GAO/AIMD-98-162, August 28, 1998).

Year 2000 Computing Crisis: Progress Made in Compliance of VA Systems, But Concerns Remain (GAO/AIMD-98-237, August 21, 1998).

FAA Systems: Serious Challenges Remain in Resolving Year 2000 and Computer Security Problems (GAO/T-AIMD-98-251, August 6, 1998).

Year 2000 Computing Crisis: Business Continuity and Contingency Planning (GAO/AIMD-10.1.19, August 1998).

Year 2000 Computing Crisis: Actions Needed on Electronic Data Exchanges (GAO/AIMD-98-124, July 1, 1998).

Year 2000 Computing Crisis: Telecommunications Readiness Critical, Yet Overall Status Largely Unknown (GAO/T-AIMD-98-212, June 16, 1998).

Year 2000 Computing Crisis: Actions Must Be Taken Now to Address Slow Pace of Federal Progress (GAO/T-AIMD-98-205, June 10, 1998).

**Strengthening Information
Security**

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

Year 2000 Computing Crisis: USDA Faces Tremendous Challenges in Ensuring That Vital Public Services Are Not Disrupted (GAO/T-AIMD-98-167, May 14, 1998).

Year 2000 Computing Crisis: Continuing Risks of Disruption to Social Security, Medicare, and Treasury Programs (GAO/T-AIMD-98-161, May 7, 1998).

Information Security: Serious Weaknesses Place Critical Federal Operations and Assets at Risk (GAO/AIMD-98-92, September 23, 1998).

Information Systems: VA Computer Control Weaknesses Increase Risk of Fraud, Misuse and Improper Disclosure (GAO/AIMD-98-175, September 23, 1998).

Information Security: Strengthened Management Needed to Protect Critical Federal Operations and Assets (GAO/T-AIMD-98-312, September 23, 1998).

FAA Systems: Serious Challenges Remain in Resolving Year 2000 and Computer Security Problems (GAO/T-AIMD-98-251, August 6, 1998).

Air Traffic Control: Weak Computer Security Practices Jeopardize Flight Safety (GAO/AIMD-98-155, May 18, 1998).

Computer Security: Pervasive, Serious Weaknesses Jeopardize State Department Operations (GAO/AIMD-98-145, May 18, 1998).

Executive Guide: Information Security Management: Learning From Leading Organizations (GAO/AIMD-98-68, May 1998).

**Improving Information
Technology Investments**

USDA Service Centers: Multibillion Dollar Effort to Modernize Processes and Technology Faces Significant Risks (GAO/AIMD-98-168, August 31, 1998).

VA Information Technology: Improvements Needed to Implement Legislative Reform (GAO/AIMD-98-155, July 7, 1998).

USDA Telecommunications: Strong Leadership Needed to Resolve Management Weaknesses, Achieve Savings (GAO/AIMD-98-131, June 30, 1998).

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Social Security Administration: Information Technology Challenges Facing the Commissioner (GAO/T-AIMD-98-109, March 12, 1998).

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Improving Defense Working
Capital Fund Operations

DOD Information Services: Improved Pricing and Financial Management Practices Needed for Business Area (GAO/AIMD-98-182, September 15, 1998).

Air Force Supply Management: Analysis of Activity Group's Financial Reports, Prices and Cash Management (GAO/AIMD/NSIAD-98-118, June 8, 1998).

Navy Ordnance: Analysis of Business Area Efforts to Streamline Operations and Reduce Costs (GAO/AIMD/NSIAD-98-24, October 15, 1997).

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

Introduction

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

How to Install

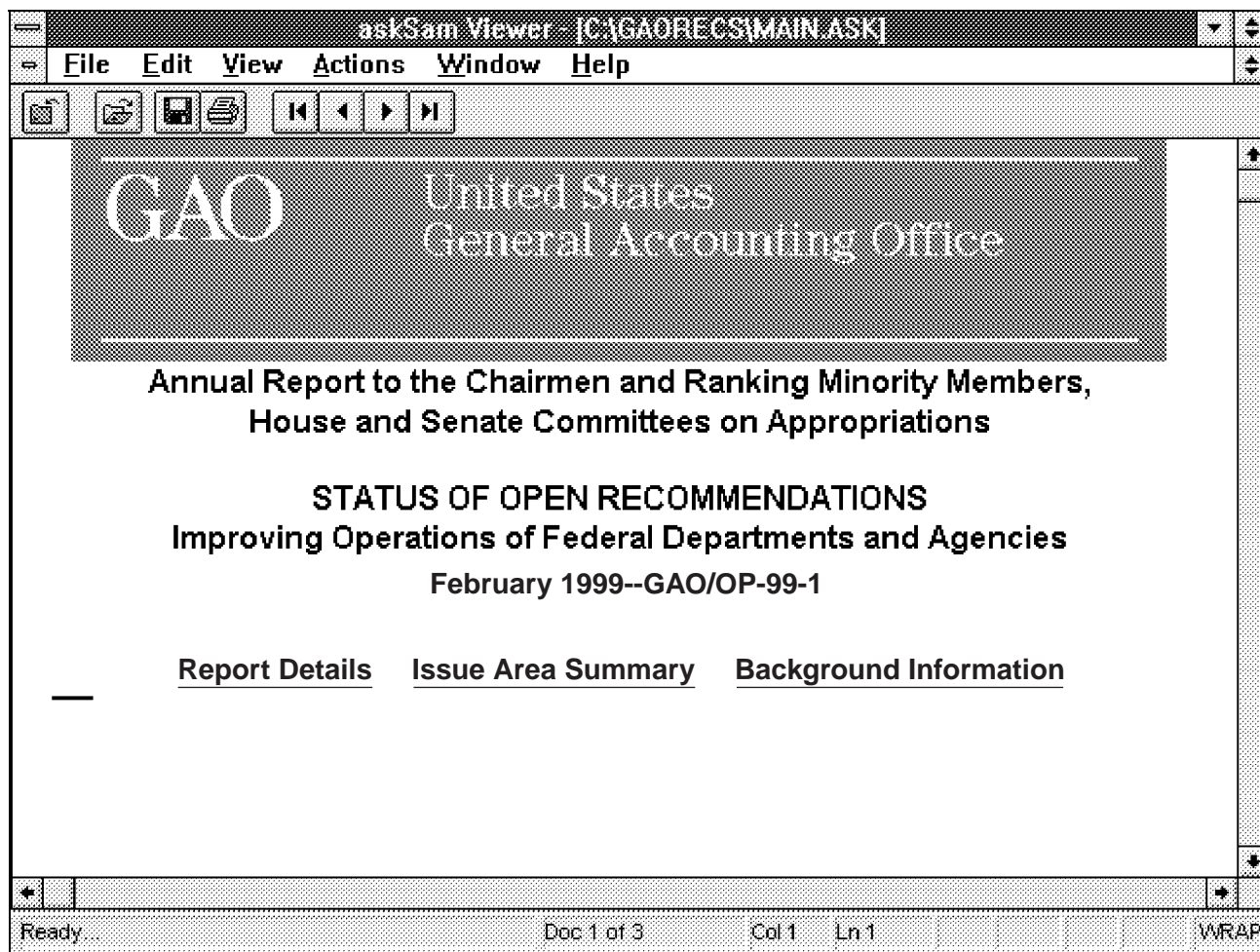
The installation program installs the files necessary to run this software on your hard drive and creates a Windows icon that will allow you to run the program. At least 8MB of RAM and 8.3MB of hard disk space are required. To load the software on your hard drive:

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

How to Start

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

Figure 1



How to Search—Report Details

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

1. Select the Report Details option on the main menu. The Report Details menu, shown in figure 2, will be displayed.
2. To quickly select a commonly used word, code, or phrase: select and click on one of five look-up table options listed:

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

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

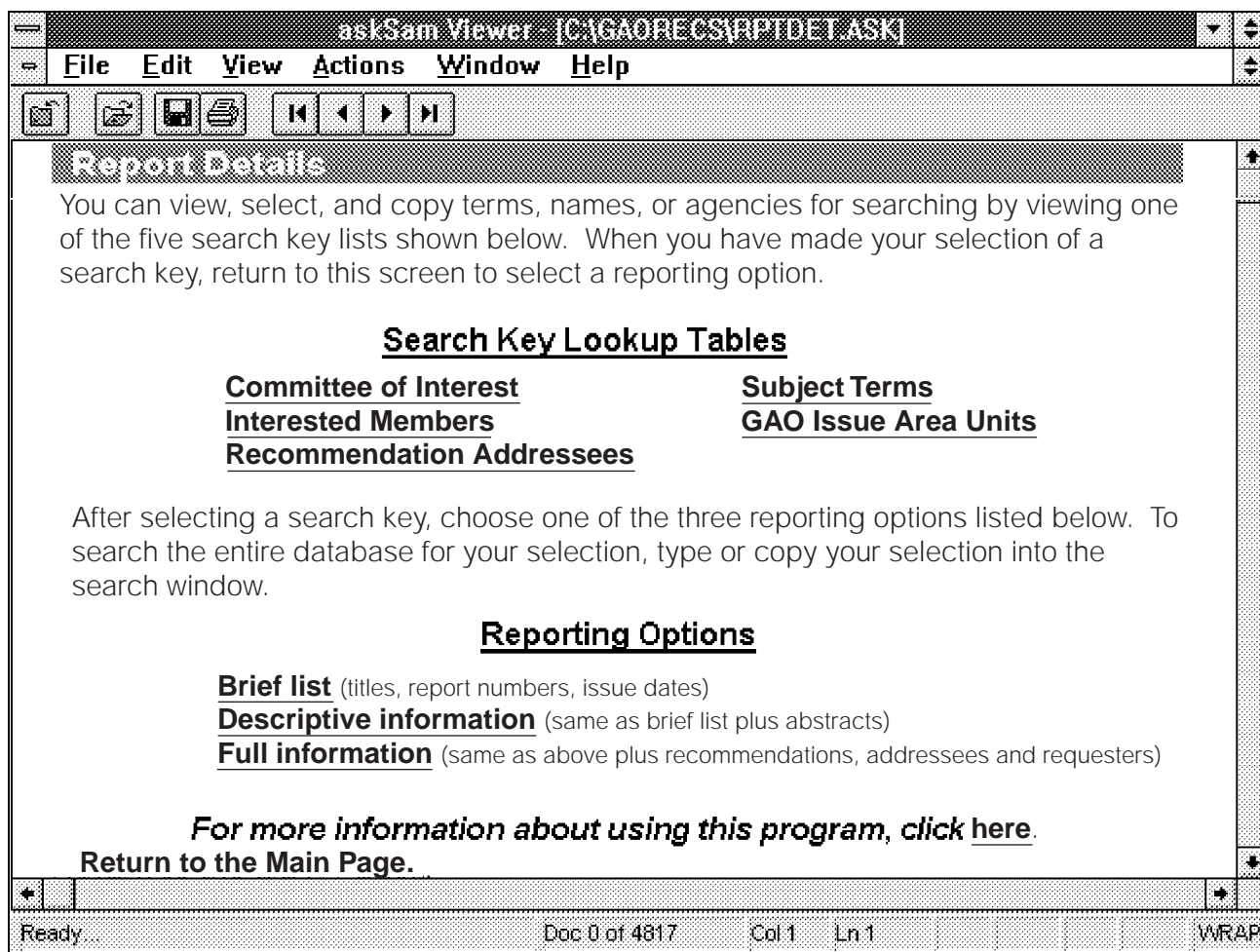
Follow the instructions to browse the table you selected, and to select and copy the name, term, or code for your search. Return to the Report Details menu. (NOTE: You may skip step 2 if you wish to search on a keyword.)

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

Brief list
Descriptive information
Full information

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

Figure 2



How to Search—Issue Area Summary

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

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

Table of Contents
Search Issue Area by Keyword

How to Print Your Search Results

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

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

Exiting the Program

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

How to Get Help

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

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

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