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# Reports and Testimony: June 1994

## Highlights

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### Federal Information Management

*Innovative uses of computers and technology by private and public sector organizations provide many lessons for federal agencies on "best practices" that can enhance the use of technology to improve service, save money, and boost productivity. Page 2.*

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### CFOs and Financial Management

*The Chief Financial Officers (CFO) Act of 1990, which requires annual financial reports at selected federal agencies, has been instrumental in identifying management inefficiencies and safeguarding taxpayer assets, as shown by audits at the IRS, Customs Service, and Education Department. The law should be extended to cover the entire federal government. Page 16.*

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### Tax Expenditures

*Tax expenditures—revenues foregone through credits, deductions, and exemptions in the federal tax code—can be a useful component of public policy, but they should be scrutinized more closely and more often to make certain that they are used fairly and effectively. Page 45.*

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# Reports and Testimony: June 1994

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## Special Publications

### **Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology**

GAO/AIMD-94-115, May 1994 (48 pages).

Making government more effective and efficient is a national issue. Accomplishing these goals requires that federal agencies use modern management practices. Today's information systems offer the government unprecedented opportunities to provide higher quality services tailored to the public's changing needs, delivered more effectively, faster, and at lower cost. Too often, federal agencies have not kept pace with evolving management practices and skills necessary to (1) precisely define critical information needs and (2) select, apply, and control changing information technologies. Fortunately, solutions to seemingly intractable, complex information management problems do exist. Innovative approaches used by leading private and public sector groups provide valuable lessons in how the use of computers and telecommunications can deliver better services, save money, and boost productivity. This report summarizes 11 fundamental practices that improved performance in leading private and public organizations. GAO's case studies show that such "best practices" make it possible to do far more with less.

### **Energy and Science Reports and Testimony: 1993**

GAO/RCED-94-176W, June 1994 (47 pages).

GAO's Energy and Science Issue Area conducts in-depth studies of the production, regulation, and consumption of all forms of energy and analyzes federal science and technology programs. This annual index, organized by broad subject areas, summarizes these and other GAO documents issued during 1993. An order form is included.

### **GAO Reports: Health, Education, Employment, Social Security, Welfare, and Veterans Issues**

GAO/HEHS-94-186W, June 1994 (69 pages).

This booklet lists GAO documents issued on government programs related to health, education, employment, social security, welfare, and veterans issues, which are primarily run by the Departments of Health and Human

Services, Labor, Education, and Veterans Affairs. One section identifies reports and testimony issued during the past two months and summarizes key products. Another section lists all documents published during the past two years, organized chronologically by subject. Order forms are included.

## Agriculture and Food

### **Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry**

GAO/RCED-94-110, May 19 (73 pages).

Federal inspections fall short in protecting the public from the most serious health risks caused by microbial contamination. Resources that could be more effectively used in a risk-based system are drained away by labor-intensive inspection procedures and inflexible inspection schedules. Under current law, federal inspectors must examine each carcass slaughtered—nearly 7 billion birds and livestock annually—and visit each of the 5,900 processing plants at least once during each operating shift. During these inspections, inspectors rely on their sense of smell, touch, and feel to make judgments about disease conditions, contamination, and sanitation. However, these methods cannot detect microbial contamination. The government must move to a modern, scientific, risk-based inspection system that targets resources toward higher-risk meat and poultry products. Meat processing plants with microbial testing programs have used the test results to identify problems and make changes to improve the safety of their products. However, the government has not supported this effort by designing generic programs or by disseminating information gained from individual testing programs. A Hazard Analysis and Critical Control Point system is generally considered the best approach for ensuring safe foods because it seeks to prevent contamination in the first place. The government plans to require meat and poultry plants to use such a system but has yet to determine (1) whether microbial testing will be required or (2) who should do it—the plants or government inspectors.

### **Rice Program: Government Support Needs to Be Reassessed**

GAO/RCED-94-88, May 26 (89 pages).

The Agriculture Department's rice program cost an average of \$1 billion annually between 1986 and 1992 to support rice producers and rice exports. These costs remained substantial because of (1) increased government costs resulting from the marketing loan provision and (2) continuing high deficiency payments. In addition, the government spent \$157 million annually over this period to promote exports. The rice program has increased the percentage of farmers' income derived from government support. Government payments as a percentage of producers' total rice revenues nearly doubled from an average of 27 percent in 1982-84 to 50 percent in 1992. Without the program, some producers would probably go out of business. However, with the program, producers receive rice revenues that, on average, exceed the amount needed to stay in business over the long term. Moreover, although all rice producers benefitted from the program, the benefits were concentrated: For the 1990 crop year, 15 percent of the rice farms received 52 percent of the deficiency payments. Despite federal efforts to boost U.S. exports, the U.S. share of the world rice market fell from 24 percent in 1980 to 15 percent in 1992. This decline occurred because Thailand began exporting rice of comparable quality at a lower price, some countries lowered their rice imports, and U.S. exports were limited by increased domestic consumption and supply restrictions on the U.S. rice program.

**Nutrition Monitoring:  
Progress in Developing a Coordinated Program**

GAO/PEMD-94-23, May 27 (51 pages).

The United States has one of the most comprehensive nutrition monitoring programs in the world today. The main goal of nutrition monitoring is to accurately measure and survey the dietary and nutritional status of the U.S. population, as well as the quality, quantity, and safety of the food it eats. Observing trends in the health of the population and linking nutritional intake to health status are important elements of effective monitoring. Data from current monitoring, conducted primarily by the Departments of Agriculture (USDA) and Health and Human Services (HHS), serve a multitude of users in government, academia, and private industry. However, several recurring problems have plagued the consistency, quality, and cost of nutrition monitoring during the past two decades. As a result, USDA and HHS have been required to develop and implement a 10-year comprehensive plan for the National Nutrition Monitoring and Related Research Program. GAO concludes that (1) a coherent, consistent system or program for nutrition monitoring is not yet in place and

(2) although the current 10-year plan reflects some progress in planning for a program, several important aspects of the plan remain incomplete. GAO urges Congress to continue closely monitoring the development of the program to ensure its success.

**Wheat Support:  
The Impact of Target Prices Versus Export Subsidies**

GAO/RCED-94-79, June 7 (50 pages).

The Export Enhancement Program, which lowers the price of U.S. agricultural products to overseas markets in order to boost the U.S. share of world markets, is intended to pressure countries that subsidize agricultural exports to eliminate trade-distorting practices. The program is particularly important for wheat. Since 1985, more than half of all U.S. wheat has been exported and more than half of these exports have received program subsidies. Program expenditures totaled \$6.3 billion from its inception in 1985 through fiscal year 1993; 76 percent of this was for wheat exports. This report (1) examines how the program has affected the income of wheat producers and grain exporters and (2) determines to what extent wheat farmers' incomes would have increased if more program funds had been used for direct income support payments through higher target prices.

**FDA Regulation:  
Compliance by Dietary Supplement and Conventional Food  
Establishments**

GAO/HEHS-94-134, June 13 (16 pages).

The Food and Drug Administration (FDA) regulates dietary supplements, which include vitamins, proteins, herbs, and fish oils, on a case-by-case basis, generally responding to complaints or other information on health risks. It takes action only when it is concerned about a product's safety or labeling. The frequency of inspections at dietary supplement establishments is somewhat less when compared with conventional food establishments. FDA takes official enforcement actions against dietary supplement establishments almost twice as often because FDA finds that they violate the regulations more often. FDA does not maintain data on the costs that dietary supplement establishments incur to comply with FDA regulations. However, limited cost data provided to GAO from dietary supplement establishments show that such establishments incur a wide

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range of costs. Finally, GAO found that the resources FDA uses to regulate the dietary supplement industry represent a small percentage of its total workforce.

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## Budget and Spending

### **Impoundments: Revised Deferral of Fiscal Year 1994 Social Security Administrative Expense Funds**

GAO/OGC-94-26, June 1 (two pages).

On May 2, 1994, the President submitted to Congress his fifth special impoundment message for fiscal year 1994. The message revises the amount of one deferral of budget authority previously reported, which affects administrative expenses at the Social Security Administration. GAO reviewed the deferral and found it to be in accordance with the Impoundment Control Act.

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## Business, Industry, and Consumers

### **Insurance Regulation: Shortcomings in Statutory Asset Reserving Methods for Life Insurers**

GAO/GGD-94-124, June 3 (45 pages).

An adequate asset reserve is crucial to insurer solvency and for early detection of deteriorating financial conditions. Inappropriate asset reserving methods can mask an insurer's true condition and the potential need for regulatory intervention. GAO reviewed the new methods of calculating statutory asset reserves for life insurers to determine the extent to which they overcome the shortcomings of the old method, the mandatory securities valuation reserve (MSVR). The National Association of Insurance Commissioners (NAIC) termed GAO's earlier criticisms of the MSVR "moot" because NAIC replaced the MSVR method with the asset valuation reserve and the interest maintenance reserve methods. The new asset valuation reserve serves to buffer capital against fluctuating asset prices caused by changes in the credit quality of an insurer's portfolio. The new interest maintenance reserve serves to buffer capital against losses caused by general interest rate changes. This report evaluates how these two methods overcome the MSVR's shortcomings, which were that it (1) did not cover all types of risky investments and accumulated slowly; (2) buffered capital and surplus from changes in the value of assets, masking the true

financial condition of the insurer; and (3) had a poorly defined purpose, hindering regulator's assessment of capital adequacy.

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## Economic Development

### **Los Angeles Earthquake: Opinions of Officials on Federal Impediments to Rebuilding**

GAO/RCED-94-193, June 17 (32 pages).

In January 1994, an earthquake measuring 6.8 on the Richter scale shook Los Angeles, killing 61 people, injuring 18,000 others, and leaving 25,000 homeless. More than 55,000 buildings were damaged, and the city's freeway system was severely damaged. Damage was estimated to be as high as \$15 billion and prompted the largest number of applications for disaster relief in the history of the Federal Emergency Management Agency. GAO is required to report to Congress on federal laws, unfunded mandates, and regulatory requirements that may prevent or hinder state and local authorities from quickly rebuilding in Southern California. This report draws on GAO's interviews with federal, state, and local officials and summarizes their views about such barriers.

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## Employment

### **Workplace Regulation: Information on Selected Employer and Union Experiences**

GAO/HEHS-94-138 (Vols. I and II), June 30 (128 pages and 59 pages).

Like many industrialized nations, the United States uses several different strategies to protect workers. One way to establish workplace standards is by enacting statutes that directly set the terms and conditions of employment and rely on agencies and the courts for enforcement. Another strategy is to encourage the direct resolution of workplace problems by the parties themselves, rather than through judicial or regulatory recourse. The first volume of this report examines the major statutes comprising the framework of federal regulations and describes the actual work experiences of employers and unions operating under that framework. The second volume identifies various characteristics of the 26 statutes and one executive order comprising the framework of federal regulations on the workplace and briefly summarizes the statutes and the executive order, scope of coverage, nature of penalties, reporting and disclosure requirements of each executive order, and enforcement.

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## Energy

### **Energy Conservation: Contractors' Efforts at Federally Owned Sites**

GAO/RCED-94-96, Apr. 29 (40 pages).

Energy experts estimate that the federal government—the nation's largest energy consumer—could cut annual energy use in its buildings by at least 25 percent. This report focuses on how energy contractors managing sites owned by five agencies—the Departments of the Air Force, Army, Navy, and Energy, and NASA—have achieved reductions in energy use. GAO discusses (1) energy consumptions at the government-owned sites operated by contractors in the United States, (2) incentives and funding sources available for contractors to use in reducing energy consumption, and (3) contractors' energy conservation efforts and the results these efforts have achieved.

### **Nuclear Regulation: Action Needed to Control Radioactive Contamination at Sewage Treatment Plants**

GAO/RCED-94-133, May 18 (33 pages).

Radioactive materials are sometimes discharged into municipal sewer systems by hospitals, decontamination laundries, research facilities, and manufacturers licensed by the Nuclear Regulatory Commission (NRC). NRC regulations fall short, however, in controlling low-level radioactive wastes being discharged into municipal sewer systems, possibly putting treatment plant workers, plant property, and the general public at risk. During the past decade, at least nine cases of radioactive contamination of sewage sludge have occurred at treatment plants. One of the most recent was the inadvertent discovery by NRC in 1991 of radioactive contamination at the Southerly Sewage Treatment Plant in Cleveland, Ohio. NRC has concluded that the elevated radiation levels at the site do not pose health or safety risks to plant workers or to the public. The facility has already spent more than \$1.5 million for on-site cleanup and a secured fence, and estimates for off-site disposal range as high as \$3 billion. The full extent of contamination at other treatment plants nationwide is unknown because (1) NRC has inspected only 15 of the 1,100 NRC licensees that may discharge radioactive material to determine if a concentration problem exists, (2) NRC does not know how many of the estimated 3,000 "agreement state" licensees may have been inspected, and (3) neither NRC nor the Environmental Protection Agency requires treatment plants to test for the

presence of radioactive materials in sewage sludge. Exposure to treatment plant sludge, ash, and related by-products can occur in a variety of ways. For example, some of the substances are used for agricultural and residential purposes, such as lawn fertilizer. NRC and EPA studies on the health effects of radioactive materials in sewage sludge and ash have been inconclusive. GAO summarized this report in testimony before Congress; see:

Nuclear Regulation: Action Needed to Control Radioactive Contamination at Sewage Treatment Plants, by Jim Wells, Associate Director for Energy and Science Issues, before the Senate Committee on Governmental Affairs and the Subcommittee on the Environment, Energy, and Natural Resources, House Committee on Government Operations. GAO/T-RCED-94-247, June 21 (15 pages).

**Electricity Regulation:  
FERC's Efforts to Monitor and Enforce Hydroelectric Requirements**

GAO/RCED-94-162, May 24 (24 pages).

The Federal Energy Regulatory Commission (FERC) regulates about 1,670 nonfederal hydroelectric projects across the country. FERC's main concern is that project operators abide by terms and conditions designed to protect people, property, and the environment. GAO concludes that FERC's monitoring procedures and practices are adequate to ensure that these projects are complying with its requirements. FERC's procedures for investigating allegations of noncompliance with license requirements are adequate and generally followed. FERC's monitoring and enforcement efforts to ensure structural soundness, public safety, and environmental protection are showing positive results. The number of violations committed each year fell from 157 in fiscal year 1989 to 87 in 1993, a 45-percent decline. Over the same period, FERC increased its enforcement efforts against project owners who committed violations. Compliance orders, which are directives to correct deficiencies, jumped from 26 to 37; fines totaling \$3.7 million were levied against 31 projects; and eight licenses were revoked.

**Fossil Fuels:  
Lessons Learned in DOE's Clean Coal Technology Program**

GAO/RCED-94-174, May 26 (28 pages).

The Energy Department's (DOE) Clean Coal Technology program, which has been underway since 1986, is a unique partnership between government and industry for sharing the costs of commercial-scale projects demonstrating innovative technologies for using coal in a more environmentally sound, efficient, and economical way. DOE funds up to half of a project's cost, with the project's sponsor and other nonfederal participants picking up the tab for the rest. This report reviews the lessons DOE has learned in implementing the clean coal program and the changes it has made that would be useful to other federal agencies that share in the costs of developing and demonstrating technologies. GAO also obtained information on DOE's plans for the future direction of the clean coal program. Although it is too soon to judge the commercial success of the innovative technologies developed, the program has shown that the government and the private sector can work together to develop and apply new technologies.

**Nuclear Safety:  
Unresolved Issues Could Impair DOE's Oversight Effectiveness**

GAO/RCED-94-129, June 7 (20 pages).

In April 1993, the Energy Department (DOE) announced the transfer of the oversight functions of its Office of Nuclear Safety to the Office of Environment, Safety and Health as part of a broader streamlining of the entire agency. This report reviews DOE's restructuring of nuclear safety oversight and evaluates whether the proposed changes would improve or detract from DOE's ability to ensure nuclear safety. GAO (1) determines the process DOE used in deciding to consolidate the two offices and (2) identifies issues that could influence the effectiveness of the nuclear safety oversight carried out by the Office of Environment, Safety and Health.

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**Environmental  
Protection**

**Toxic Substances:  
Status of EPA's Efforts to Develop Lead Hazard Standards**

GAO/RCED-94-114, May 16 (12 pages).

Lead poisoning is the most common and devastating environmental disease of young children, according to the Centers for Disease Control. Millions of U.S. children from all geographic areas have harmful lead levels in their blood. A major cause of lead poisoning is lead-based paint. To

address this problem, Congress required the Environmental Protection Agency to develop by April 1994 (1) standards defining hazardous lead levels in paint, household dust, and soil; (2) standards for inspecting and removing lead-based paint; and (3) guidelines to avoid creating lead-based paint hazards during renovations and remodeling. Although abatement guidelines for lead-based paint have been developed for public housing, no standards exist for use in private homes and municipal buildings to help identify and remove lead hazards safely and effectively. This report reviews EPA's efforts to develop the standards and guidelines for lead hazards. GAO discusses the status of these efforts as of April 1994 and the additional steps EPA must take to issue the standards and guidelines.

## Testimony

Superfund: Reauthorization and Risk Prioritization Issues, by Keith O. Fultz, Assistant Comptroller General for Resources, Community, and Economic Development Programs, before the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations. GAO/T-RCED-94-250, June 24 (21 pages).

Proposed legislation to reauthorize the Superfund program, which could cost as much as \$75 billion to clean up thousands of seriously contaminated sites, makes significant strides, including provisions to improve the pace and consistency of cleanups, involve the public earlier and to a greater extent, and reduce transaction costs. GAO believes, however, the bill could do more to encourage the efficient and effective use of Superfund resources. In particular, Congress may want to consider amending the Superfund legislation to underscore the importance of ranking hazardous waste sites so that resources are targeted to the worst sites first. It could also encourage cost-recovery efforts by authorizing the Environmental Protection Agency (EPA) to accrue interest on its expenditures earlier in the process and to apply market rates and by requiring EPA to define more broadly which costs are recoverable. GAO also believes that more information is needed to determine the cost implications of key provisions in the bill—those transferring to the federal government responsibility for the cost of orphan shares and operation and maintenance at Superfund sites.

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## Financial Institutions

### **1992 Thrift Resolutions: RTC Policies and Practices Did Not Fully Comply With Least-Cost Provisions**

GAO/GGD-94-110, June 17 (66 pages).

From 1980 through 1992, more than 1,300 savings and loans failed. To stem losses and foster depositor discipline, Congress required the Resolution Trust Corporation (RTC) to resolve failed thrifts at the least possible cost to RTC. RTC must follow specific rules in calculating the cost of resolution alternatives and document its evaluation of those costs. In reviewing RTC's 1992 compliance with the least-cost provisions, GAO found that three of RTC's corporate policies raised compliance questions. These policies (1) did not ensure that uninsured depositors would assume their share of thrift losses if necessary to achieve least costly resolutions; (2) require RTC to estimate the cost of liquidating thrifts in conservatorship as of the conservatorship state date; or (3) require RTC to evaluate other available resolution methods before downsizing. RTC defended these policies, citing the backlog of thrifts awaiting resolution in 1992 and the lack of funding for resolutions for much of that year. In any case, RTC changed its policies on uninsured depositors in September 1993, a move that should allow RTC to better comply with the least-cost provisions. With its recently appropriated funding and few additional thrifts expected to fail in 1994 or 1995, RTC should be able to further modify its corporate policies to ensure full compliance with the law. For resolution decisions made in 1992, RTC had adequate procedures for calculating, evaluating, and documenting the cost of resolution alternatives. These procedures, however, were not always adhered to, particularly the documentation of evaluations and assumptions. Further, RTC did not always document the rationale for the marketing strategy it chose.

### **Resolution Trust Corporation: Interim Report on the Management Reforms in the RTC Completion Act**

GAO/GGD-94-114, June 30 (44 pages).

This is the first of two required GAO reports on the Resolution Trust Corporation's (RTC) efforts to implement 21 management reforms mandated by the RTC Completion Act. This interim report provides information on the manner in which RTC is implementing the mandated reforms and the progress that it has made toward achieving full

compliance during the six months since the act became law in December 1993.

## Testimony

Response to the International Swaps and Derivatives Association Position Paper, by James L. Bothwell, Director of Financial Institutions and Markets Issues, before the Subcommittee on Environment, Credit and Rural Development, House Committee on Agriculture. GAO/T-GGD-94-163, June 14 (25 pages).

In May 1994, the International Swaps and Derivatives Association issued a position paper on GAO's report on financial derivatives (GAO/GGD-94-133). Although it believed that GAO's report contained valuable information and useful suggestions, the Association disagreed with several of GAO's conclusions and recommendations, arguing that many of GAO's recommendations were not supported by the facts presented and suggesting that their adoption would raise costs and reduce the availability of derivatives products. GAO recommended extending basic regulatory safeguards and prudent corporate governance to the currently unregulated major derivatives dealers, strengthening the regulatory oversight of bank derivatives dealers, increasing accountability for major end-users of complex derivatives, and improving disclosure and accounting standards for derivatives users. This testimony outlines GAO's responses to the Association's positions.

Financial Derivatives: Actions Needed to Protect the Financial System, by James L. Bothwell, Director of Financial Institutions and Markets Issues, before the Subcommittee on Environment, Credit, and Rural Development, House Committee on Agriculture. GAO/T-GGD-94-169, June 14 (eight pages); and

Financial Derivatives: Actions Needed to Protect the Financial System, by Charles A. Bowsher, Comptroller General of the United States, before the House Committee on Banking, Finance, and Urban Affairs. GAO/T-GGD-94-170, June 23 (nine pages).

During the past two decades, fundamental changes in global financial markets, particularly the increased volatility of interest rates and currency exchange rates, have prompted public and private institutions to turn increasingly to derivatives—financial products whose values are based on the value of an underlying asset, reference rate, or index. Basic types of derivatives include forwards, futures, options, and swaps. Because of

derivatives growth and increasing complexity, Congress, federal regulators, and some industry members are concerned about the risks that derivatives may pose to the financial system, individual firms, investors, and U.S. taxpayers. These concerns have been heightened by recent reports of huge losses by derivatives investors, some totaling hundreds of millions of dollars. These two testimony summarize the major conclusions and recommendations contained in GAO's recent report on derivatives (GAO/GGD-94-133). The Comptroller General's testimony also discusses H.R. 4503, proposed legislation that would require regulators to set consistent standards for accounting, disclosure, capital, and examinations; could produce better call report data, including information on revenues gains and losses by product class; would provide regulators greater access to information in an emergency; and would encourage international cooperation to harmonize derivatives regulation.

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## Financial Management

### **Cost Accounting Standards Board: Little Progress Made in Resolving Important Issues**

GAO/AIMD-94-88, May 25 (19 pages).

Since the newly established Cost Accounting Standards Board began operations in July 1990, it has made minimal progress in resolving pressing cost accounting issues. The Board has completed only three of its original 12 projects, two of which dealt primarily with internal organizational and operational issues. The inherent nature of the Board's work as a standard-setter, where general acceptance is obtained through deliberative due process procedures, makes it hard to measure timeliness. However, the Board's progress has been hampered by limited staffing and inadequate planning and project management. The majority of respondents to GAO's survey of government and industry contracting representatives believe that the Board has been moving too slowly in issuing authoritative guidance and probably has too few staff.

### **Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements**

GAO/AIMD-94-119, June 15 (118 pages).

An audit of the U.S. Customs Service reveals that the agency cannot (1) fully account for tons of illegal drugs and millions of dollars seized from drug dealers, (2) adequately control the use of its operating funds,

and (3) ensure that importers are complying with fair trade laws. During fiscal year 1993, the U.S. Customs Service took several meaningful steps toward addressing recommendations resulting from GAO's audit of the fiscal year 1992 statements. Most importantly, Customs began a program to reliably measure compliance with trade laws; developed a methodology for accurately reporting its \$900 million in accounts receivable; and, for the first time, did a nationwide inventory of its seized assets. More substantial improvements, however, will be needed to develop meaningful and reliable financial management information and establish a sound internal control structure. Consequently, GAO is unable to express an opinion on Customs' fiscal year 1993 financial statements. This report highlights Customs' serious financial management and control problems and describes how these problems could harm Customs' ability to carry out its trade and enforcement missions. GAO also describes Customs' efforts to overcome the problems and makes recommendations to help Customs resolve these problems and strengthen its financial management.

**Financial Audit:**

**Examination of IRS' Fiscal Year 1993 Financial Statements**

GAO/AIMD-94-120, June 15 (131 pages).

An audit of the Internal Revenue Service (IRS) reveals that the agency is hampered by serious, pervasive financial management problems, including the inability of antiquated systems to generate reliable financial information needed to manage IRS operations. GAO is unable to express an opinion on the reliability of IRS' fiscal year 1993 financial statements. Critical supporting information for seized assets, accounts payable, and collection by type of tax was unavailable, and supporting information for in-process revenue transactions, tax credit balances, and funds with the Treasury Department was not properly analyzed and recorded. Additionally, most financial statement balances were plagued by errors in revenue and operating funds transactions. This report discusses the scope and severity of IRS' financial management and control problems, the adverse impact of these problems on IRS' ability to effectively carry out its mission, and IRS' actions to remedy the problems. GAO makes recommendations to help IRS continue its efforts to resolve these long-standing and difficult problems and strengthen its financial management.

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**Financial Audit:**  
**Federal Family Education Loan Program's Financial Statements for  
Fiscal Years 1993 and 1992**

GAO/AIMD-94-131, June 30 (76 pages).

GAO and the Education Department's Office of the Inspector General audited the financial statements of Education's Federal Family Education Loan Program and its internal controls and compliance with laws and regulations for fiscal year 1993. GAO was unable to give an opinion on the fiscal year 1992 financial statements because reliable student loan data upon which to base the liabilities for loan guarantees was unavailable. In addition, existing systems did not provide meaningful and reliable financial management information needed to effectively manage and report on program operations. Due to the limited amount of time between the fiscal year 1993 and 1992 audits and the severity of the long-standing financial management problems, many of the problems identified during the previous year's audit still exist. For these reasons, the opinions of GAO and the Inspector General on the fiscal year 1993 financial statements, internal controls, and compliance with laws and regulations are essentially the same as GAO's opinions covering fiscal year 1992. GAO and the Inspector General found weaknesses in the internal controls governing (1) how program costs are determined, (2) how payments to guaranty agencies and lenders are monitored, and (3) the accuracy of financial reporting. These weaknesses undermine Education's ability to make loans available to all eligible students at a reasonable cost to taxpayers. Also, without adequate financial information, Congress and Education cannot be sure of the program's operating costs or the extent of Education's liability for loan defaults.

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**Testimony**

**Financial Management: CFO Act Is Achieving Meaningful Progress**, by Charles A. Bowsher, Comptroller General of the United States, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. GAO/T-AIMD-94-149, June 21 (39 pages).

The Chief Financial Officers (CFO) Act provides the blueprint for much-needed financial management reforms. The act's first 3-1/2 years represent a very successful start and show the relevance of its provisions to improving government operations. The act's requirement for producing annual financial statements, in particular, is proving its worth in several ways, such as providing a more accurate picture of agencies' financial

conditions. Audited financial statements have also identified management inefficiencies and weaknesses, exposed gaps in how government assets are safeguarded, and uncovered possible illegal activity. CFO Act financial audits have identified actual and potential savings totaling hundreds of millions of dollars. GAO strongly supports expanding the act's requirements for agencywide audited financial statements to all 23 CFO Act agencies and to the government as a whole. The Comptroller General's testimony discusses (1) the value of the financial statements and audits mandated by the act, (2) the costs and the funding issues related to implementing the act and expanding its requirements, (3) the potential impact of future Office of Management and Budget (OMB) personnel cuts and OMB 2000 on the ability of OMB to carry out its responsibilities under the act, (4) the quality and the timeliness of appointments to positions mandated by the act, and (5) the ability of the Federal Accounting Standards Advisory Board to propose meaningful federal accounting standards in a timely manner.

Financial Management: Status of CFO Act Implementation at the Department of Commerce, by Gregory M. Holloway, Director of Civil Audits, before the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations. GAO/T-AIMD-94-150, June 28 (16 pages).

In implementing the Chief Financial Officers Act of 1990, the Commerce Department has forthrightly acknowledged serious problems with its financial management systems and related internal controls and has placed strong leadership in key financial management jobs. These persons have shown commitment to the act and are trying to fix many of Commerce's long-standing problems. Although implementing improvements will be a long-term effort, Commerce should begin considering ways to enhance the chief financial officer structure, ensure that financial management staff are adequately trained, and move toward an agencywide financial statement audit.

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## Government Operations

### **Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation**

GAO/GGD-94-115FS, Apr. 21 (40 pages).

The turnover among political appointees running many federal agencies is such that the median length of service for these government executives is only 2.1 years, hindering the stability and continuity of leadership essential for effective management of federal organizations. Many experts on public administration have expressed concern that the frequent turnover of political appointees in the Executive Branch can (1) disrupt program management, (2) cause key positions to remain vacant for long periods, and (3) prevent clear assignment of accountability for program outcomes. Generally, the median length of service of appointees in cabinet departments was below the governmentwide median. Cabinet departments also generally had higher-than-average turnover rates. Because of differences in the statutorily prescribed lengths of fixed-term positions, a governmentwide turnover rate or median length-of-service figure for such positions would not be meaningful. GAO noted, however, that term-limited appointees generally served longer in their positions than their indefinite-tenure counterparts.

**Postage Meters:  
Risk of Significant Financial Loss But Controls Are  
Being Strengthened**

GAO/GGD-94-148, May 26 (50 pages).

In 1993 the Postmaster General disclosed publicly that meter fraud had caused significant revenue losses. GAO concludes that sustained management attention to controls over metered mail is needed to reduce the potential for substantial revenue losses to the Postal Service. Metered mail represents about 46 cents of every dollar the Postal Service collects in postage. Meters are used to print postage, which is a marketable, liquid asset. Much of the control over meter activities, however, resides with meter manufacturers. The Postal Service recognizes that it needs to gain greater control over meters and is trying to do so through initiatives involving meter technology, meter licensing, and the identification of lost and stolen meters. These efforts appear to have the potential for improving the meter program in the long run. However, the effectiveness of the meter program depends on management's sustained attention to substantially reducing the risk of meter fraud. This includes maintaining accountability for meter program operations, ensuring that the technology and security used in meters are effective, and working to establish and maintain an adequate system of controls for deterring and detecting meter fraud.

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**Personnel Practices:  
Presidential Transition Conversions and Appointments—Changes  
Needed**

GAO/GGD-94-66, May 31 (73 pages).

During a presidential transition or a large turnover of Members of Congress, political appointees at federal agencies as well as White House and congressional employees sometimes apply for and receive career appointments in the competitive or Senior Executive Service. Such appointments are sensitive. The political nature of the individuals' past assignments creates concern about whether they had an unfair advantage in the merit system selection process, even the appearance of which could compromise the integrity of the civil service system. From January 1992 through March 1993, 25 federal agencies GAO surveyed reported 121 conversions and noncompetitive appointments. This report examines the propriety of such appointments. GAO also reviews allegations by federal workers and others about potentially improper career appointments of political appointees, agency reorganizations, and rule changes.

**Supply Contract Terminations:  
GSA Is Missing Opportunities to Recover Costs From  
Vendor Default**

GAO/GGD-94-137, June 15 (16 pages).

Although unclaimed costs in individual defaulted contracts can be relatively small, in the aggregate they can be substantial because the General Services Administration (GSA) terminates hundreds of supply contracts annually for vendor default. Previous GAO work revealed that GSA continued to do business worth more than \$1 billion with nearly 300 vendors who had histories of poor contract performance. Total expenses can mount up due to (1) the costs of acquiring, holding, and disposing of defective goods; (2) replacement product price increases when GSA has to pay higher prices to obtain replacement products; and (3) GSA administrative costs, such as staff time. Lack of management emphasis and complete, reliable data on the universe of defaulted contracts and associated costs have caused GSA to miss opportunities to pursue claims against defaulted vendors to recover costs. Also, poor claims administration has impaired GSA's ability to account for and collect on the amounts due on claims it does assess. Although GSA is trying to improve its management and oversight of the claims process, additional steps must be

taken to better ensure that claims to recover costs linked to vendor default are identified, assessed, and collected.

**Financial Status:  
District of Columbia Finances**

GAO/AIMD/GGD-94-172BR, June 22 (87 pages).

The District of Columbia, faced with unresolved long-term financial issues and short-term financial crises, will run short of cash by the end of fiscal year 1995 unless steps are taken to compensate for revenue shortfalls, forcing the city to borrow from the U.S. Treasury. Although the District received \$331 million from general obligation bonds in 1991 to help relieve its cash shortfall, the city's cash position has declined by nearly \$200 million since then, and the District projects continuing declines in its cash balance. The pension payment the District agreed to make in fiscal year 1995 exceeds the cash projected to be available on September 30, 1995, by more than \$9 million, not counting any additional costs and interest foregone. As of June 1994, the District had no plan to produce the cash necessary to implement its agreement with the D.C. Retirement Board. Furthermore, supplemental budgets to address insufficient funding of District services and programs have not included shortfalls of the D.C. General Hospital, which the District subsidizes. As of September 1993, the Hospital had a cumulative deficit of \$109 million. In addition, the fiscal year 1994 supplemental and fiscal year 1995 budgeted expenditures do not reflect historical and projected trends. Specifically, the budgets for many programs are lower than past actual expenses as well as future projections. Although District officials maintain that short-term actions will reduce the fiscal year 1994 and 1995 expenditures, such actions may not be achievable and these budgets may be optimistic. The District's authority to issue short-term bonds spanning the year-end is limited, and financial markets may not favorably receive such obligations.

**General Services Administration:  
Better Data and Oversight Needed to Improve Construction Management**

GAO/GGD-94-145, June 27 (31 pages).

The General Services Administration's (GSA) construction program continues to be plagued by major problems. Construction contracts experience substantial cost growth; many contract changes that contribute

to cost growth are authorized to overcome design and planning problems; and incomplete and inaccurate data—combined with a lack of criteria for measuring and evaluating cost-growth—impede effective program oversight. These problems are not new. In fact, GSA has been criticized repeatedly for problems linked to the management and administration of contract modifications. GSA has tried to improve the management of the construction program and avoid some of the problems that have contributed to contract modifications. Without sustained attention to better design and planning and improved data, however, GSA can expect to continue to experience huge cost increases on its contracts and will not be in a good position to head off problems before they occur.

## Testimony

Bureau of the Census: Management Issues Require Prompt Attention, by William M. Hunt, Director of Federal Management Issues, before the Subcommittee on Census, Statistics and Postal Personnel, House Committee on Post Office and Civil Service. GAO/T-GGD/AIMD-94-171, June 9 (17 pages).

This testimony discusses the following two key Census Bureau management issues: the Bureau's recent efforts to recover unliquidated obligations and the Bureau's impending reorganization. GAO concludes that the Bureau needs to address its financial management problems promptly. Sound financial management is essential to maintain the Bureau's credibility with Congress so that it can obtain the money it needs to plan for the mammoth job of reforming and carrying out the year 2000 Decennial Census. The Bureau intends to address other management issues by its reorganization, but the success of the reorganization in achieving specific measurable results remains to be seen.

Application of Laws: Comments on the Congressional Accountability Act—S. 2071, by Robert P. Murphy, Acting General Counsel, before the Senate Committee on Governmental Affairs. GAO/T-OGC-94-2, June 29 (11 pages).

Several bills before Congress would extend employee protection laws to Congress and other legislative branch agencies, such as the General Accounting Office. This testimony focuses on the most comprehensive bill, S. 2071, which would provide aggrieved employees the right to seek remedial action under a system analogous to the one now available to GAO employees. For GAO, the law's provisions have worked well. One essential part of GAO's system is an independent administrative body—the Personnel

Appeals Board—that serves as an effective forum for personnel and equal employment oversight and for resolving disputes. This system avoids conflicts that would exist between GAO's legislative branch role and enforcement by executive branch agencies. To avoid similar conflicts, GAO recommends administration and enforcement of legislative branch employees protection measures by authorities in the legislative branch. GAO also recommends that Congress preserve existing enforcement mechanisms in the legislative branch that work effectively, such as GAO's Personnel Appeals Board and equal employment program. GAO believes that clear guidance, qualified decisionmakers, employee education, periodic self-evaluation, and independent oversight are key to successful employee protection programs.

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## Health

### **Medicare: Inadequate Review of Claims Payments Limits Ability to Control Spending**

GAO/HEHS-94-42, Apr. 28 (30 pages).

Medicare overpayments of millions of dollars are being made because of inadequate safeguards by contractors who process Medicare claims and inattention by the federal Health Care Financing Administration (HCFA). Carriers use inaccurate or incomplete data in compiling statistical reports profiling doctors and other providers. Their focused reviews to identify irregular billing patterns and unusual spending trends suffer from HCFA's failure to spell out appropriate analysis methods and outcome measures. As a result, HCFA cannot be sure that Medicare carriers are systematically targeting providers or services that most warrant attention. Shortcomings in carriers' claims review activities exist, in part, because HCFA lacks meaningful requirements for—and the data needed to measure—carriers' postpayment review performance. Shortcomings also persist because funds earmarked for postpayment review have not kept pace with the growth in Medicare claims or as a percentage of the carriers' overall administrative budget.

### **Prescription Drugs: Spending Controls in Four European Countries**

GAO/HEHS-94-30, May 17 (100 pages).

Although the United States has traditionally allowed drug prices to be determined by the free market, other countries use a variety of policies to control prescription drug costs. This report analyzes the effects of pharmaceutical policies in the following four European countries: France, Germany, Sweden, and the United Kingdom. GAO (1) describes the strategies these countries use to control prescription drug prices and limit pharmaceutical spending, (2) reviews the effects of the policies on drug prices and spending, and (3) analyzes the effects of these policies on pharmaceutical research and development. GAO found that controls on pharmaceuticals have succeeded in restraining prices in the four countries but have not prevented increases in drug spending, owing to higher consumption and newer, more expensive drugs.

**Primary Care Physicians:  
Managing Supply in Canada, Germany, Sweden, and the  
United Kingdom**

GAO/HEHS-94-111, May 18 (33 pages).

In the debate over health care reform, managed care proposals call for increased dependence on primary care physicians. In the United States today, however, specialists outnumber primary care doctors, while many areas of the country suffer from a scarcity of both. Some health policy analysts believe that this mix and supply of physicians could slow the implementation of health care reforms. GAO examined the methods used by four nations—Canada, Germany, Sweden, and the United Kingdom—to manage their physician supply and specialty distribution. All these industrialized countries have instituted universal care coverage yet spend a lower percentage of their gross domestic product on health care than the United States does. This report also identifies strategies used by these countries to encourage doctors to practice in medically underserved areas.

**Health Care Reform:  
Proposals Have Potential to Reduce Administrative Costs**

GAO/HEHS-94-158, May 31 (45 pages).

Americans today receive health insurance from a multitude of sources, including more than 1,200 commercial insurers; 550 health maintenance organizations; 69 Blue Cross and Blue Shield plans; thousands of self-insured plans run by private employers; and government programs, such as Medicaid and Medicare. Many believe that the complexity of this

insurance system contributes to the nation's high per capita health care costs. One of the aims of health care reform is to enhance administrative efficiency. To the extent that reform simplifies insurance administration, it may be able to cut costs. Any savings in administrative expenses could be applied to other valuable ends, such as expanding access and improving quality. This report examines the administrative cost implications of alternative reform proposals, including a single-payer plan and three managed competition plans, and compares their administrative cost savings potential.

**Access to Health Insurance:  
Public and Private Employers' Experience With  
Purchasing Cooperatives**

GAO/HEHS-94-142, May 31 (72 pages).

One of the key areas of widespread agreement in the health care debate is that small businesses and other small organizations have a tough time buying and keeping health insurance for their employees. Some small groups cannot obtain health insurance at any price because of the health status of just one of their workers. Even those able to secure coverage may face extremely high premiums. One response to this problem is to pool the buying power of individual small firms. Under insurance purchasing cooperatives, large numbers of relatively small organizations band together to reduce their administrative expenses, pool their insurance risk, and increase their clout to get a better deal. GAO believes that the criticism of coops as too regulatory and too bureaucratic has been overstated. Coops are a proven and economical way for firms to buy insurance. Coops generally operate with small staffs and have greater regulatory authority than many health reform proposals would allow. They rarely, however, administer subsidies for the poor or the unemployed, a key requirement under many health care reform bills. GAO suggests that more attention needs to be paid to several governance issues, including the composition of coops' governing boards, representational safeguards, and the potential for politicization of appointments. GAO summarized this report in testimony before Congress; see:

Health Reform: Purchasing Cooperatives Have an Increasing Role in Providing Access to Insurance, by Mark V. Nadel, Associate Director for National and Public Health Issues, before the Subcommittee on Human Resources and Intergovernmental Relations, House Committee on Government Operations. GAO/T-HEHS-94-196, June 30 (13 pages).

## Housing

### **Rental Market: Use of Smaller Market Areas to Set Rent Subsidy Levels Has Drawbacks**

GAO/RCED-94-112, June 24 (141 pages).

To ensure that needy families are able to live in decent housing, the Department of Housing and Urban Development (HUD) provides rent subsidies to low-income households. This program, known as the Section 8 program, served more than one million households at a cost of about \$7 billion in 1992. The amount of rental assistance that a household receives varies with the market area in which the household lives. The size and nature of a market area can vary greatly: Entire states, large metropolitan areas, and medium-sized cities can all be considered market areas. In response to congressional concerns that these markets areas are too broadly defined to permit rental assistance payments that reflect true market rents, this report determines (1) the effects of basing rent subsidy payments on smaller market areas, including any effects that doing so would have on recipient households' access to education and employment, and (2) the extent to which payments made under the current program have an inflationary effect on rents in surrounding areas. GAO also provides information on where Section 8 recipients live and their proximity to key services and businesses. GAO based its analysis on the following four market areas: Oklahoma City, Oklahoma; Seattle, Washington; Washington, D.C.; and Wilmington, Delaware.

### **Homelessness: McKinney Act Programs and Funding Through Fiscal Year 1993**

GAO/RCED-94-107, June 29 (112 pages).

GAO is required to report annually to Congress on the status of programs authorized under the McKinney Act. This report provides updated program and funding information for fiscal years 1992 and 1993. It also provides information on the third reauthorization of the act. GAO discusses the legislative history of the act; describes each McKinney Act program, and identifies the funding provided under each program by state. GAO also briefly describes newly authorized assistance programs for the homeless and significant changes to existing McKinney Act programs that occurred during these two fiscal years.

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## Testimony

Mortgage Financing: Financial Health of FHA's Home Mortgage Insurance Program Has Improved, by Jacquelyn L. Williams-Bridgers, Associate Director for Housing and Community Development Issues, before the Subcommittee on Housing and Community Development, House Committee on Banking, Finance, and Urban Affairs. GAO/T-RCED-94-255, June 30 (13 pages).

The Federal Housing Administration's (FHA) Mutual Mortgage Insurance Fund made significant progress during fiscal year 1993 toward achieving the capital reserve needed for actuarial soundness under the law. Clearly, legislative and other program changes have helped restore the Fund's financial health and reverse the trend of the late 1980s and early 1990s toward insolvency. Fiscal year 1993 was, however, an unusually good year for FHA because actual economic conditions and forecasts of future economic conditions were favorable. Nevertheless, forecasting economic net worth and resulting capital ratios to determine whether FHA will have the funds needed to cover its losses over the life of 30-year loans it has insured is uncertain. Loan performance, and therefore economic net worth and capital ratios, will depend on several economic and other factors, such as the rate of appreciation in house prices and premiums charged FHA borrowers. Loan performance will also be affected by the demand for FHA-insured loans, which partly depends on alternatives available from private mortgage insurers. The desire to assist home buyers must be carefully weighed against the government's potential financial risk and expectations for the housing market's future performance.

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## Income Security

**Social Security Disability:  
SSA Quality Assurance Improvements Can Produce More  
Accurate Payments**

GAO/HEHS-94-107, June 3 (26 pages).

In 1993, the Social Security Administration's (SSA) Disability Insurance program provided nearly \$35 million to 5.3 million disabled workers and their dependents and the Supplemental Security Income program provided about \$24 billion to 6 million recipients. Although SSA runs these programs, state agencies determine whether claimants are disabled according to program rules. In recent years, disability benefit claims have soared and the two programs have been unable to keep up with the high rate of claims submitted. In response to congressional concerns about the increasing workload pressures on the quality of disability determinations, this report

evaluates (1) the reliability of SSA's reported accuracy rates and (2) how well SSA's quality assurance mechanism ensures the accuracy and consistency of state agencies' disability determinations and minimizes erroneous payments.

**Social Security:**

**New Continuing Disability Review Process Could Be Enhanced**

GAO/HEHS-94-118, June 27 (20 pages).

The Social Security Administration's (SSA) new process for conducting continuing disability reviews relies on computer profiling and beneficiary self-reported data. Beneficiary self-reported data, when used with other key information SSA has, appear reliable for making decisions about when to do full medical examinations of beneficiaries scheduled for reviews. SSA has also taken steps to further assess the reliability of the self-reported data and plans to continually refine its use of computerized beneficiary data to better predict medical improvements and likely benefit terminations. The mailer process appears to be a significant step by SSA to make the review process more efficient and cost-effective. SSA needs to send out more mailers and conduct more full medical reviews of program beneficiaries. As SSA gains more experience with the mailer process and improves its ability to accurately identify beneficiaries with the greatest potential for medical improvement, it should do more full medical reviews of those persons to achieve the most effective use of agency resources. By focusing on beneficiaries with the greatest likelihood of improvement, SSA can save taxpayers millions of dollars each year and help preserve the programs' integrity by removing ineligible persons from the rolls.

**Testimony**

D.C. Pensions: Plans Consuming Growing Share of District Budget, by Joseph F. Delfico, Director of Income Security Issues, before the Subcommittee on Fiscal Affairs and Health, House Committee on the District of Columbia. GAO/T-HEHS-94-192, June 14 (13 pages).

The District of Columbia's overall financial status is being affected by the increasing demand on city revenues from its underfunded pension plans for police and fire fighters, teachers, and judges. In 1991 the District's contribution to these plans was about eight percent of revenues, and unless remedial action is taken, the contribution could rise to about 15 percent of revenues by 2005. Pension costs are now running more than 50 percent of payroll and will grow to 70 percent after 2004. This testimony

provides a brief historical overview of the unfunded liability in the District's pension plans; outlines the plans' current funding provisions; and discusses the effects of H.R. 3728, the District of Columbia Pension Liability Funding Reform Act of 1994, which seeks to eliminate the District's financial liability for these plans, as well as the responsibilities of the federal government, the District, and the plans' participants.

Underfunded Pension Plans: Stronger Funding Rules Needed to Reduce Federal Government's Growing Exposure, by Joseph F. Delfico, Director of Income Security Issues, before the Senate Committee on Finance. GAO/T-HEHS-94-191, June 15 (10 pages).

Although the majority of pension plans insured by the Pension Benefit Guaranty Corporation (PBGC) are well funded, a significant minority are underfunded, and the level of underfunding in these plans has been growing in recent years. This growth increases PBGC's exposure, which refers to the size of its potential claims. This testimony makes three main points. First, current rules designed to ensure that sponsors of underfunded plans make additional contributions to better fund their plans are not working well. Second, provisions in the administration's proposed pension reform bill—S. 1780, the Retirement Protection Act of 1993—especially the revised offset design, should increase both the number of sponsors of underfunded plans that make additional contributions and the amount of those contributions. Third, GAO believes that the proposed funding provisions should be strengthened further to ensure that an even greater percentage of underfunded plan sponsors make additional contributions.

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## Information Management

### **Aviation Safety: FAA's Assessment of Pre-flight Service Technology Options**

GAO/AIMD-94-137BR, June 20 (26 pages).

The Federal Aviation Administration (FAA) provides weather information and flight plan filing services to pilots at no direct cost. FAA provides these services through direct contact with FAA staff, either in person or via a toll-free number, and the Direct User Access Terminal System (DUATS), an automated system that pilots can access via personal computers. DUATS allows pilots to file their flight plan electronically and receive weather briefings on screen and in hard copy. As part of its budget reduction efforts, FAA eliminated funding for DUATS for fiscal year 1994—a move that

the Senate later reversed. Subsequently, FAA established a subcommittee consisting of user, FAA, and industry experts to review issues relating to pre-flight weather and flight plan filing services. This briefing report discusses (1) whether the FAA subcommittee report responds to the Senate's requirement for restored funding and (2) the statistical validity of a contractor survey of DUATS users that FAA used in deciding to terminate fiscal year 1994 funding for DUATS.

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## International Affairs

### **Multilateral Development: Status of World Bank Reforms**

GAO/NSIAD-94-190BR, June 6 (33 pages).

In February 1992, the World Bank assembled a task force to review the Bank's portfolio management. Audits had shown a growing decline in the Bank's project success rate for the past decade, particularly during the last three years. The task force reported in October 1992 that the main causes of the decline were poor project design, management, and implementation. Underlying the decline in the project success rate was the Bank's preoccupation with new lending, described by some as the loan approval culture, which often took precedence over effective project management once new loans were approved. The task force called on the Bank to change its internal values and incentives by focusing on the central objectives of achieving sustainable development impact and the critical role of portfolio management. This report (1) discusses the status of the Bank's efforts to institute reforms, (2) assesses the extent to which the United States influenced the reforms, and (3) describes the process used by the United States to evaluate loan proposals.

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## Testimony

International Trade: Issues Concerning the Generalized System of Preferences Program, by Allan I. Mendelowitz, Director of International Trade, Finance, and Competitiveness Issues, before the Subcommittee on International Trade, Senate Committee on Finance. GAO/T-GGD-94-174, June 20 (16 pages).

The Generalized System of Preferences Program eliminated tariffs on imports from 145 Third World countries in order to promote development through trade rather than through traditional aid programs. In 1992, nearly \$17 billion, or about three percent of all U.S. imports, entered duty free under the program. U.S. duties foregone on these goods were about

\$900 million. The cost to the U.S. government, however, is pegged at 75 percent of this amount due to tax revenue offsets, according to the Congressional Budget Office. The value of duties foregone would decrease with the implementation of the estimated 40-percent tariff reductions negotiated under the Uruguay Round of the General Agreement on Tariffs and Trade for products eligible under the General System of Preferences Program. This testimony evaluates the program and presents several matters for Congress to consider during the reauthorization of the program, which is due to expire in September 1994.

International Trade: Market-Oriented Strategy Would Help Lead U.S. Agriculture Into the Future, by Allan I. Mendelowitz, Director of International Trade, Finance, and Competitiveness Issues, before the Subcommittee on Foreign Agriculture and Hunger, House Committee on Agriculture. GAO/T-GGD-94-177, June 23 (eight pages).

The U.S. Department of Agriculture (USDA) and American farmers face a changing environment for world agricultural trade, one that includes lowered trade barriers and emerging new markets. This testimony focuses on how a shift from a traditional production-oriented approach to a market-oriented approach would help USDA adapt to the increasingly competitive world marketplace. GAO believes that in making this shift, USDA will find it essential to employ a strategic marketing approach that includes a long-term market development plan and a new approach to information gathering, personnel policies, and resource allocation. Also, USDA will still need to stress programs to combat unfair foreign trade practices and overcome market imperfections. Shifting to a market-oriented approach may, however, reduce the size of U.S. carryover stocks of staple grains. Previous oversupplies of these stocks had the side effect of helping to ensure world food security. Without them, the United States and other nations may need a different strategy to address the problem of food shortages.

## Justice and Law Enforcement

### **Customs Service: Information on User Fees**

GAO/GGD-94-165FS, June 17 (29 pages).

GAO is required to report to Congress on the efficiency, effectiveness, and fairness of the U.S. Customs Service's user fees, which partially underwrite Customs' inspection services. This fact sheet discusses (1) the

current structure of user fees, (2) uses of user fee revenues, (3) changes and possible fiscal impact of the North American Free Trade Agreement on the user fees, and (4) changes to Customs' overtime and premium pay system resulting from the Customs Officer Pay Reform provisions found in 1993 legislation.

## Testimony

Restitution, Fines, and Forfeiture: Issues for Further Review and Oversight, by Henry R. Wray, Director of Administration of Justice Issues, before the Senate Committee on Governmental Affairs. GAO/T-GGD-94-178, June 28 (22 pages).

Criminal monetary penalties, mainly fines and restitution, are important tools in the criminal justice system. Most fine payments go to the Crime Victims Fund, which makes grants to support victim assistance programs. According to the Justice Department, outstanding criminal debt swelled from \$300 million to \$3.6 billion between fiscal years 1985 and 1993. Much of this increase is linked to penalties imposed in financial institution fraud cases. Because of severe data limitations and other factors, it is extremely difficult to assess how effectively federal agencies can collect criminal debts or how much of the outstanding debt is realistically collectible. GAO believes that several areas merit further review and continued oversight. Until the National Fine Center—created to centralized criminal data collection and provide up-to-date information on the payment of criminal debt—is fully operational on a national basis, efforts to review the government's criminal debt collection performance will continue to be hampered. Although it is important to identify suspects' assets early on during an investigation, before they can be moved or spent, GAO found little information on how effectively the Justice and Treasury Departments locate assets in criminal debt cases. Justice has acknowledged shortcomings in identifying assets for forfeiture. Thus, more attention might be paid to Justice's efforts to identify and locate assets that could be seized, forfeited, or otherwise used to meet later criminal debt obligations.

Judiciary Automation Fund: Reauthorization Should Be Linked to Better Planning and Reporting, by Henry R. Wray, Director of Administration of Justice Issues, before the Subcommittee on Intellectual Property and Judicial Administration, House Committee on the Judiciary. GAO/T-GGD/AIMD-94-176, June 30 (23 pages).

Congress created the Judiciary Automation Fund in 1989 to allow the federal judiciary to develop plans for the expansion, management, and use

of automation in the courts. The Fund was established for a five-year period ending in September 1994. GAO testified that the Fund has been useful in expanding automation in the courts. The judiciary needs to achieve operational efficiencies through automation, and the flexibility offered by the Fund's no-year appropriations warrant the Fund's reauthorization. However, GAO believes that the Fund should be reauthorized for less than the five years requested by the courts because the judiciary needs to take additional steps to ensure that automation resources are used more effectively. During the additional period for which the Fund is reauthorized, the courts should report to Congress annually on their progress in (1) developing a strategic business plan for the courts, (2) implementing a long-range information resources management plan that is based on that business plan, and (3) achieving effective audit oversight of court automation efforts.

## National Defense

### **Strategic Missiles: Issues Regarding Advanced Cruise Missile Program Restructuring**

GAO/NSIAD-94-145, May 31 (31 pages).

The Advanced Cruise Missile, which the Air Force began developing in the early 1980s, is a subsonic, turbofan-powered missile equipped with a nuclear warhead. To meet operational deadlines, the Air Force implemented a highly concurrent program. Flight tests discovered many design and manufacturing deficiencies, and the program's schedule slipped and projected costs began to increase. To overcome the design and manufacturing problems, many changes were made to the missile's guidance set, sensor, actuators, and other subsystems. In addition, the planned procurement rate was slowed and actions were taken to improve the missile's quality and reliability. Flight tests improved considerably in 1989, but design, quality, and financial problems continued to plague the program. This report provides information on the program's restructuring, funding, and missile performance. It also discusses the application of work measurement standards to missile production contracts and the criteria used in determining progress payments while missile deliveries were suspended to overcome quality problems.

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**Strategic Airlift:  
Further Air Base Reductions in Europe Could  
Jeopardize Capability**

GAO/NSIAD-94-138, June 2 (19 pages).

Over the past several years, U.S. airlift operations at several air bases in Europe have been either closed or curtailed. As of March 1994, operational capabilities at the six key air bases in Europe that would best support airlift aircraft headed for the Middle East are just enough to meet the mobility requirements spelled out in the Mobility Requirements Study. GAO concludes that ending airlift operations at any of the six European air bases would increase the risk that U.S. troops or cargo destined for a Middle East crisis would arrive too late; further, the Air Force would have to resort to riskier practices, such as aerial refueling and emergency base construction.

**Defense Health Care:  
Uniformed Services Treatment Facility Health Care Program**

GAO/HEHS-94-174, June 2 (30 pages).

The National Defense Authorization Act for Fiscal Year 1994 requires GAO and the Congressional Budget Office (CBO) to evaluate the agreements entered into between the Defense Department (DOD) and the Uniformed Services Treatment Facilities to provide health care to members of the military. This report (1) compares the health care available through the Uniformed Services Treatment Facilities to the health care available elsewhere in the military health care delivery system, (2) compares the beneficiary cost-sharing requirements of the facilities to those of the other components of the military health care delivery system, and (3) discusses the costs and other implications of terminating the agreements before their expiration. CBO will be issuing a separate report discussing the cost effectiveness of the agreements and the impact of the agreements during their four-year term on DOD's budget and expenditures for health care programs.

**Army Inventory:  
More Effective Review of Proposed Inventory Buys Could Reduce  
Unneeded Procurement**

GAO/NSIAD-94-130, June 2 (20 pages).

GAO reviewed the termination of planned procurements at the Tank-Automotive Command (TACOM), one of the Army's national inventory control points, and found that TACOM was missing opportunities to terminate or reduce planned procurements. Item managers and procurement specialists did not always confer before awarding contracts. Without communication, procurement personnel may be unaware of new considerations that could affect the need for the procurement. Item managers, in deciding whether to implement the requirements system's recommended commitment termination or reduction, often changed the requirements data to bring the requirements and inventory into balance. In other instances, item managers relied on invalid, out-of-date, or unverified data in deciding whether to implement the system's recommendation. GAO's analysis of 31 sample items randomly selected from the universe of 136 items that were in long supply and had items due as of September 1993 found that procurements valued at nearly \$800,000 could have been terminated. Procurements could be reduced as much as \$21.5 million annually if September 1993 was a representative month and if the recommended commitment cutbacks were made when they first appeared.

**Army Inventory:  
Opportunities Exist for Additional Reductions to Retail  
Level Inventories**

GAO/NSIAD-94-129, June 6 (20 pages).

This report evaluates the Army's progress toward reducing its inventory levels of infrequently requested items. The five Army divisions GAO reviewed reduced their authorized inventory levels by about \$30 million between 1992 and 1993. These same divisions had about \$108 million in inventory that they had received few or no requests for or that involved items that contributed little toward satisfying their customers' needs. Army studies have shown similar results for the large number of inventory items that are infrequently demanded and contribute little toward improving supply responsiveness. These studies recommended that infrequently demanded items be removed from the authorized inventories and that the criteria for determining what items should be stocked be reevaluated.

**Strategic Sealift:  
Summary of Workshop on Crewing of the Ready Reserve Force**

GAO/NSIAD-94-177, June 6 (93 pages).

GAO sponsored a workshop in April 1994 on crewing of the Ready Reserve Force (RRF) to (1) discuss the impact of the declining U.S. merchant marine manpower pool on U.S. sealift capability, (2) identify impediments to timely crewing, and (3) discuss various crewing proposals. Participants included representatives from government agencies, commercial ship managers, and organized maritime labor. Highlighted points that the workshop attendees agreed on included the following: The key to crewing RRF is maintaining a viable U.S. merchant marine industry. The current state of the U.S. maritime industry demands passage of reemployment rights for mariners who volunteer to RRF duty during a crisis. Some form of permanently assigned crews would help maintain a base of skills and experience to run RRF ships. Cooperation among the groups involved with crewing RRF is needed to resolve many issues, such as improvement of the mariner database.

**Export Controls:  
License Screening and Compliance Procedures Need Strengthening**

GAO/NSIAD-94-178, June 14 (50 pages).

The U.S. export control system is basically run by two agencies. The Commerce Department licenses sensitive dual-use items, those with both civil and military uses, and the State Department licenses munitions exports. Both State and Commerce use computers to screen export applications, but they do not include on the watchlists many ineligible or questionable individuals and companies. Missing names included those on a Justice Department list of fugitives for export violations, parties for whom pre-licensing checks had revealed derogatory information, and parties identified by intelligence reports as diverters or proliferators. Consequently, State and Commerce issued licenses to some of these parties. Although State and Commerce exchange some information on export policies and questionable license applications via interagency coordinating committees, the sharing of their watchlists has been limited. State is not monitoring manufacturing and distribution agreements by routinely collecting or reviewing annual sales reports. State attributes this lack of monitoring to staff shortages. In addition, State's agreements files are in disarray. To fulfill the statutory requirement that no munitions license be issued to a foreigner, State relies solely on the application's certification that the person signing the application is a U.S. person. State does not require documentary evidence and does only limited telephone checks of the certifications. State even approved some licenses when the

applicants lacked the required certifications. GAO summarized this report in testimony before Congress; see:

Export Controls: License Screening and Compliance Procedures Need Strengthening, by James F. Wiggins, Associate Director for Acquisition Policy, Technology, and Competitiveness Issues, before the Subcommittee on Federal Services, Post Office, and Civil Service, Senate Committee on Governmental Affairs. GAO/T-NSIAD-94-203, June 15 (20 pages).

**Foreign Military Sales:  
Use of FMS in Proposed Commercial Sale of Airborne  
Self-Protection Jammer**

GAO/NSIAD-94-202, June 16 (14 pages).

This report provides information on the use of the Foreign Military Sales (FMS) program in connection with proposed commercial sale of the Airbone Self-Protection Jammer to foreign governments. Although the jammer, including its hardware and software, failed operational testing, the Defense Department's (DOD) decision to allow the sale of the jammer's software through the program does not violate military policy because the sale was approved on the basis of national security and technical concerns. DOD's decision to allow the foreign military sale of the jammer software after it failed operational testing does not raise any U.S. financial liability or national security concerns. Foreign governments remain interested in procuring the jammer, despite the system's testing failure and DOD's subsequent decision to end U.S. production. Their reasons include the following: (1) the jammer will meet each country's operational needs if it performs to agreed-upon design specifications, (2) DOD agreed to provide life-cycle software support services, (3) the jammer is close to being fully integrated on the F-18, and (4) the F-18 was wired for the jammer. Swiss and Finnish officials said that they had not yet received all information on the operational testing process and related documents, which would permit a more informed assessment of the jammer's operational capabilities.

**Military Exports:  
Concerns Over Offsets Generated With U.S. Foreign Military  
Financing Program Funds**

GAO/NSIAD-94-127, June 22 (32 pages).

“Offsets” are industrial and commercial compensation practices provided to foreign governments and firms as inducements or conditions for the purchase of military goods and services. Israel, Egypt, Greece, and Turkey are the largest recipients of the U.S. Foreign Military Financing (FMF) Program, which provides offsets in conjunction with foreign military sales. Since fiscal year 1975, the United States has provided more than \$60 billion in FMF grants and loans to these countries. The FMF Program has been justified to Congress on the basis of its role in (1) strengthening the security of friendly and allied countries and (2) benefiting the U.S. economy because the funds are generally spent on U.S. goods and services. U.S. laws and regulations, however, do not preclude offsets when recipients are making purchases with FMF funding. Using FMF funds, Israel, Egypt, Greece, and Turkey benefitted in two ways—first with the U.S. government funding or underwriting their weapons purchase with grants or loans, and then by developing their industrial bases and other aspects of their economic through offset requirements from the U.S. government or contractors. Offsets reduce the employment, defense industrial base, and other economic benefits that normally accrue to the United States from weapons exports. Some offsets have caused U.S. contractors as well as companies in nondefense businesses to lose work. Pentagon officials said that no other arms supplier provides a combination of grant aid and offsets like the United States does. GAO summarized this report in testimony before Congress; see:

Military Sales: Concerns Over Offsets Generated Using U.S. Foreign Military Financing Program Funds, by Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs Programs, before the Subcommittee on Commerce, Consumer Protection, and Competitiveness, House Committee on Energy and Commerce. GAO/T-NSIAD-94-215, June 22 (seven pages).

**Navy Laboratories:  
Concerns Regarding the Naval Undersea Warfare Center’s  
Suffolk Facility**

GAO/NSIAD-94-143, June 22 (12 pages).

As part of the 1993 round of base closures, the Navy recommended closing the Naval Undersea Warfare Center in Norfolk, Virginia and moving it to Newport, Rhode Island, to reduce excess capacity. Construction of the Center’s new facility in Suffolk, Virginia, had begun nearly a year earlier and was nearing completion under a 20-year lease for a building built to

the Center's specifications. The justification for the building was originally submitted in 1987, before base closure considerations and reduced Navy budgets. It was based on the detachment's planned growth and the desire to consolidate the detachment's existing leased spaces in the Norfolk area. GAO concludes that the Navy should not have entered into a long-term lease during a period of downsizing. If the Navy fails to find other occupants for the building, it could be forced to spend more than \$24 million in lease costs over the course of the lease. In addition, the Navy spent more than \$9 million on one-time relocation costs. Before signing the lease, the Navy had indications that the proposed facility might not be needed. As a result, GAO believes that options other than a long-term lease merited greater consideration. In GAO's view, the decision to build the Suffolk facility was questionable. GAO found no indication that other options were considered for acquiring space for a smaller detachment. GAO summarized this report in testimony before Congress; see:

Navy Laboratories: Issues Concerning the Naval Undersea Warfare Center's Suffolk Facility, by Donna M. Heivilin, Director of Defense Management and NASA Issues, before the Senate Committee on Governmental Affairs. GAO/T-NSIAD-94-211, June 22 (seven pages).

**Defense Business Operations Fund:  
Improved Pricing Practices and Financial Reports Are Needed to  
Set Accurate Prices**

GAO/AIMD-94-132, June 22 (28 pages).

The primary goal of the Defense Business Operations Fund is to focus management attention on the total cost of carrying out critical Defense Department (DOD) business operations and the management of those costs. A basic principle of the Fund is to set prices that recover the total costs of providing goods and services to its customers. This report (1) describes the process used to develop the Fund's fiscal year 1995 prices, (2) identifies major reasons Fund prices have increased, (3) identifies major reasons the Fund has continued to incur operating losses, and (4) provides information on the adequacy of the Fund's budget and financial reports. GAO limited its review to depot maintenance and supply operations, the Fund's largest business areas, which will account for \$51 billion, or 66 percent, of the Fund's estimated revenues in fiscal year 1995.

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**Military Construction:  
Planning and Design Costs**

GAO/NSIAD-94-182BR, June 22 (18 pages).

This briefing report reviews the Defense Department's (DOD) military construction planning and design costs for the military services and defense agencies. GAO (1) identifies trends in these costs for DOD and its military services and defense agencies as a percentage of total project cost; (2) determines what, if any, differences exist in the percentage of total project costs directed to planning and design by project size and type; and (3) compares DOD's planning and design percentages and time devoted to planning and design to the following four civilian entities: the Coast Guard, the Federal Aviation Administration, the General Services Administration, and the Department of Veterans Affairs.

**European Drawdown:  
Status of Residual Value Negotiations in Germany**

GAO/NSIAD-94-195BR, June 23 (nine pages).

This briefing report provides information on the total estimate of potential residual value of U.S. installations being returned to European host countries and the status of the residual value negotiations between the United States and Germany. So far, the United States has recovered only a small portion of its total estimated residual value claim in Europe, estimated at \$3.8 billion. Most of this estimate comes from installations being returned in Germany, where the U.S. investment is pegged at \$3.4 billion. State Department officials said that negotiations on a settlement with Germany have begun but that much hard bargaining remains ahead. They also said that the \$3.4 billion figure is a starting point for negotiations, but they expect that the United States will ultimately receive significantly less. The negotiations are being carried out at a time of severe financial constraints on Germany, resulting in part from aid being provided to Russia, the Ukraine, and Eastern Europe. The United States has received about \$3 million in cash from Germany for a small number of properties returned before 1991. Unable to negotiate additional satisfactory cash settlements with Germany, the U.S. military has started to turn to payment-in-kind. That is, the German government will fund military construction projects to be carried out by German companies instead of paying cash for U.S. facilities and improvements at U.S. installations being returned.

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**Navy Ships:  
Seawolf Cost Increases and Schedule Delays Continue**

GAO/NSIAD-94-201BR, June 30 (17 pages).

Seawolf submarine detail design and SSN-21 construction continued to experience cost increases and schedule delays during 1993. The estimated total cost of detail design and lead ship construction rose about \$17 million (2.5 percent) and \$39 million (3.5 percent), respectively. Design cost increases were caused by rescheduling drawing issue dates to meet Electric Boat's requirements, design inefficiencies associated with that effort, and paying overtime. Factors contributing to construction cost increases included increases in direct labor, increases in overhead, and additional work. The detail design contract fell another 15,000 hours behind schedule because of delays in preparing design drawings and integrated logistics support data. SSN-21 construction fell four months behind the construction schedule, which was revised in March 1993. According to Electric Boat and Navy Seawolf program officials, late design data, an eroding industrial vendor base, and later material contributed to the delays. Although Electric Boat has begun corrective action aimed at recovering construction delays and meeting the SSN-21's revised May 1996 delivery schedule, the Supervisor of Shipbuilding at Electric Boat continues to be concerned about Electric Boat's ability to recover the construction delays.

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**Natural Resources**

**Offshore Oil and Gas Resources:  
Interior Can Improve Its Management of Lease Abandonment**

GAO/RCED-94-82, May 11 (46 pages).

When oil and gas production from a federal lease on the Outer Continental Shelf ends, the Interior Department's Mineral Management Services (MMS) is responsible for ensuring that the parties to the lease bear the costs of abandoning the leased area. Lease abandonment includes plugging any abandoned wells, removing structures, and clearing lease sites, all of which must be done in a way that minimizes harm to marine life and the environment. This report discusses MMS' actions to lesson the environmental impact of lease abandonment and (2) the estimated costs of lease abandonment and MMS' approach for ensuring that the government is not burdened with these costs. GAO focuses on MMS' actions in the Gulf of

Mexico because almost all Outer Continental Shelf oil and gas structures are located there.

**Forestry Functions:  
Unresolved Issues Affect Forest Service and BLM Organizations in  
Western Oregon**

GAO/RCED-94-124, May 17 (14 pages).

The Bureau of Land Management (BLM), part of the Interior Department, and the Forest Service, part of the Agriculture Department, together manage 7.2 million acres of land in western Oregon. Both agencies manage portions of these lands for timber production and have parallel forestry organizations in several locations. This report examines the possibility of the two agencies consolidating their forestry duties. GAO summarizes these agencies' past and ongoing reorganization efforts and the potential legal and other constraints affecting any consolidation.

**Water Transfers:  
More Efficient Water Use Possible, If Problems Are Addressed**

GAO/RCED-94-35, May 23 (122 pages).

Debates over how water from western federal water projects should be used have become more heated in recent years. Farmers use more than 80 percent of the western water withdrawn for use. Environmental problems, such as selenium contamination and salinity, have been linked to agricultural irrigation. Moreover, as urban populations, tourism, and environmental awareness continue to grow, the demand for water increases for cities, recreation, and fish and wildlife habitats. Building dams to meet new demand is often not an option because of their high price tags and harmful environmental effects. Advocated by resource economists and others, water markets, in which rights to use water are bought and sold, would allocate water to its highest economic use by allowing those who place the highest economic value on it to buy it. This report examines (1) the costs and benefits of water transfers; (2) how water markets might be structured to address the impacts on parties outside of transfers; (3) the legal, institutional, and other issues that would need to be addressed to implement a federal water market; and (4) how transfers of water from federal projects could be coordinated with state law.

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**Hawaiian Homelands:  
Hawaii's Efforts to Address Land Use Issues**

GAO/RCED-94-24, May 26 (27 pages).

Although the Interior and Justice Departments maintain that the federal government has never had a trust responsibility to native Hawaiians, the state of Hawaii disagrees. Hawaiian state courts and the state's Attorney General have concluded that the federal government had a trust responsibility during the territorial period, and the state's Attorney General believes that such a responsibility continues today. In GAO's opinion, territorial governors lacked authority to withdraw Hawaiian homelands for nonfederal public purposes through executive orders and proclamations. However, many of these unauthorized withdrawals appear to have (1) benefitted native Hawaiians or (2) involved lands that were unsuitable for authorized homeland uses, such as homesteading or leasing, during the territorial period. Territorial governors also lacked authority under the Hawaiian Homes Commission Act to withdraw homelands for federal purposes through executive orders or other means. Because such withdrawals took place more than 50 years ago, there is no guarantee that all information relevant to these withdrawals is still available. Therefore, GAO is unable to express an opinion on the propriety of homeland withdrawals for federal purposes. GAO believes that the methodology used by a consultant to the state to estimate the lost income from and the current market value for parcels of lands was generally reasonable.

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**Testimony**

Natural Resources: Lessons Learned Regarding Public Land Withdrawn for Military Use, by Donna M. Heivilin, Director of Defense Management and NASA Issues, before the Subcommittee on Military Installations and Facilities, House Committee on Armed Services. GAO/T-NSIAD-94-227, June 29 (16 pages).

Military operations had not been hampered at the six withdrawn sites GAO visited in Alaska, Arizona, Nevada, and New Mexico, but these operations had constrained resource management activities. Military commanders at five of the sites said that they changed some training exercises to accommodate concerns for wildlife; at one site, officials expressed concern about meeting training needs because of environmental constraints. However, the Defense Department restricted access to three sites, making it difficult for the Bureau of Land Management (BLM) to carry out resource management activities. Such restrictions and the overall

military presences have led BLM to assign a low priority to resource management on military lands. A lack of information on resource conditions prevents an overall assessment of the impacts. The six sites could improve resource management by enhancing interagency cooperation and by strengthening systems to monitor resource management actions. Resource management at the Goldwater Range in Arizona was an example of effective cooperation between BLM and the military.

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## Science, Space, and Technology

### **Asian Aeronautics: Technology Acquisition Drives Industry Development**

GAO/NSIAD-94-140, May 4 (18 pages).

In recent years, American industries that once enjoyed worldwide preeminence have come under increasing economic pressure from abroad. In response, much attention has been paid to ways in which other countries create new technologies and bring them to market. Recent developments—notably the emergence of aircraft manufacturing companies in Europe and Japan—have focused this attention on the U.S. aeronautics industry. This report provides information on (1) the approaches that Asian nations have taken to develop their aeronautics industries, (2) the level of aeronautics development each country has achieved, and (3) the implications of this development for the U.S. aeronautics industry.

### **Space Shuttle: Incomplete Data and Funding Approach Increase Cost Risk for Upgrade Program**

GAO/NSIAD-94-23, May 26 (31 pages).

The space shuttle, the only U.S. launch system capable of carrying people to and from space, has operated for more than a decade and is likely to be used well into the next century. As the shuttle ages, NASA will need to update and replace various components due to obsolescence or to enhance safety. This report (1) determines the assumptions that NASA has made about the length of time the current shuttle fleet will be in operation and (2) NASA's processes and criteria for selecting needed safety and obsolescence upgrades.

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**Space Station:  
Impact of the Expanded Russian Role on Funding and Research**

GAO/NSIAD-94-220, June 21 (15 pages).

Increased Russian participation in the space station will require additional investments, offsetting much of the \$2 billion that NASA claims the partnership will save. Russian involvement could expand research opportunities, but the resource benefits to the United States, such as laboratory space, are unclear. The first phase of Russian participation will allow for near-term research opportunities in Russia's existing Mir space station, and the accelerated assembly schedule will provide earlier research capability on the International Space Station Alpha. However, the allocation of the research resources still has to be negotiated among all the space station partners, and some committees that advise NASA on space station research have yet to fully assess the impact of increased Russian participation.

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**Social Services**

**Child Support Enforcement:  
Credit Bureau Reporting Shows Promise**

GAO/HEHS-94-175, June 3 (10 pages).

Of nearly \$35 billion in children support payments owed nationwide under the Child Support Enforcement Program, more than \$27 billion remained uncollected at the end of fiscal year 1992. During that year, more than 5.7 of the 8.5 million noncustodial parents owing child support made no payment on the amount owed. Eleven of 16 states GAO reviewed routinely report child support payment information to credit bureaus; five states report information only at the request of credit bureaus. Most of the states that routinely report usually report only delinquent noncustodial parents. These states generally report to all three major credit bureaus information that is less than 30 days old, and few states have had problems categorizing child support payments in an automated and standardized format for the credit bureaus. The costs to start up and run credit bureau reporting systems appears to be nominal. The effects of credit bureau reporting on increasing collections have not been widely evaluated by the states GAO reviewed, but completed studies and comments by state and credit grantor officials suggest that credit reporting is helping with enforcement. One state suggested that its main benefits will appear over time as creditors deny credit to delinquent parents.

## Tax Policy and Administration

### **Tax Policy: Tax Expenditures Deserve More Scrutiny**

GAO/GGD/AIMD-94-122, June 3 (135 pages).

At a time when the federal government faces hard choices to reduce the deficit and use available resources wisely, no federal expenditure or subsidy should escape careful review. Tax expenditures, or revenues forgone through preferential provisions in the tax code—for example, deductions, exemptions, and credits—can be a useful part of federal policy, but they should be scrutinized more closely and more often to ensure that, when used, they are the most effective means to an end. This report assesses the growth of federal revenues forgone through income tax expenditures and presents three options for reviewing and controlling their growth: (1) strengthening and extending techniques now used by congressional tax-writing committees, (2) integrating tax expenditures further into the budget process, and (3) reviewing tax expenditures jointly with related federal outlay programs.

### **Tax Policy: Health Insurance Tax Credit Participation Rate Was Low**

GAO/GGD-94-99, May 2 (43 pages).

This report provides information on the health insurance tax credit, which was established to encourage low-income workers to buy private health insurance for their families. GAO discusses (1) the estimated participation rate, in part to determine whether the potentially eligible population was aware of the health insurance credit, and (2) the health insurance tax credit's influence on low-wage workers' purchase of health insurance.

### **Tax Policy: Pharmaceutical Industry's Use of the Research Tax Credit**

GAO/GGD-94-139, May 13 (38 pages).

In 1991, Congress enacted the research and experimentation tax credit to encourage businesses to do research. GAO estimates that the pharmaceutical industry earned \$1.24 billion worth of these tax credits between 1981 and 1990. The industry's credits as a share of the credits earned by all industries rose from four percent in 1981 to 12 percent in 1990. These credits were earned primarily by large companies—those with

assets of \$250 million or more. The biotechnology sector benefitted very little from the tax credit. The research and experimentation tax credit is difficult for the Internal Revenue Service (IRS) to administer because (1) auditors have to distinguish stages of research, (2) audit issues are often highly technical, and (3) successive proposed regulations cause uncertainty.

**Tax Administration:  
More Improvement Needed in IRS Correspondence**

GAO/GGD-94-118, June 1 (36 pages).

During the past six years, GAO, IRS, and others have cited delayed, inaccurate, incomplete, and confusing responses to taxpayer letters as chronic IRS problems. Although IRS has made progress in correcting its correspondence problems by adopting quality and timeliness standards and by expanding quality reviews of outgoing mail, some problems persist. A GAO review of nearly 1,900 closed correspondence cases in IRS' Atlanta and Cincinnati service centers found that 15 percent of the cases were incorrect, unclear, incomplete, or nonresponsive. Also, 11 percent of the cases resulted from taxpayers repeatedly trying to contact IRS to resolve a matter. Problems such as these increase IRS' costs, frustrate taxpayers, and ultimately discourage taxpayer compliance with the tax laws. GAO outlines several opportunities for IRS to improve its responsiveness to taxpayers, including resolving more taxpayer issues by telephone, clarifying the situations that warrant an IRS response to taxpayer correspondence, making timeliness indicators more useful, and improving interim letters.

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## Transportation

**Highway User Fees:  
Updated Data Needed to Determine Whether All Users Pay Their Fair Share**

GAO/RCED-94-181, June 7 (27 pages).

The nation's deteriorating roads and highways impose billions of dollars in additional costs to their users each year. In 1991, U.S. motorists and truck drivers spent an estimated \$17.4 billion on wasted fuel, added tire wear, and extra vehicle repairs as a result of driving on roads in poor condition. To build and maintain the nation's highway system, the federal government collects users fees, mainly in the form of fuel taxes. Concerns have arisen, however, that fuel taxes, along with other federal user fees,

may not be the fairest way to allocate highway costs because such taxes bear no relation to the amount of road damage caused by different vehicles. Highway wear increases exponentially with the weight of a vehicle's axle load, and past studies have suggested that heavy trucks, in particular, may not be paying their fair share of highway costs. This report (1) summarizes the rationale for and the arguments against assessing fees according to the wear that a driver causes to highways, (2) evaluates the recent experiences of states that assess or have rescinded wear-based fees, and (3) identifies potential approaches that might be used to overcome the obstacles to implementing such fees.

## Testimony

Interstate Commerce Commission: Transferring ICC's Rail Regulatory Responsibilities May Not Achieve Desired Effects, by Kenneth M. Mead, Director of Transportation Issues, before the Subcommittee on Transportation and Hazardous Materials, House Committee on Energy and Commerce, and the Subcommittee on Surface Transportation, House Committee on Public Works and Transportation. GAO/T-RCED-94-222, June 9 (17 pages).

The Interstate Commerce Commission (ICC) continues to perform several important rail regulatory functions that are essential as long as there are captive shippers and market-dominant railroads. These duties could conceivably be transferred to the Transportation and Justice Departments, but it is unclear whether the benefits would be significant and the potential exists for loss of independence in decision-making. There is greater potential for budgetary savings in the motor carrier area. Although many shippers and transportation brokers question the need for the current system of motor carrier rate and entry regulation, Congress needs to answer basic questions about the appropriate extent of motor carrier tariff filing and entry application requirements in a deregulated environment. These functions constitute about one-third of ICC's annual budget. ICC's ancillary motor carrier functions, such as providing consumer protection for the movement of household goods, continue to be important and will likely need to either be performed by ICC or transferred to another agency along with the resources needed to carry them out adequately.

Smart Highways: Challenges Facing DOT's Intelligent Vehicle Highway Systems Program, by Barry T. Hill, Associate Director for Transportation Issues, before the Subcommittee on Investigations and Oversight, House

Committee on Public Works and Transportation. GAO/T-RCED-94-253, June 29 (26 pages).

The Transportation Department's (DOT) Intelligent Vehicle Highway Systems Program applies to surface transportation many cutting-edge technologies, ranging from electronic toll collections to futuristic fully automated highways. The Intelligent Vehicle Highway System Act of 1991 established a federal program to research, test, and promote the use of these systems. For fiscal years 1992 through 1994, the program received its full authorizations, as well as additional appropriations, for a total of \$580 million. This testimony discusses DOT's obligation of system funds to date, the progress made in implementing system technologies, and issues that may affect the attainment of system goals.

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## Veterans Affairs

### **VA Health Care: Delays in Awarding Major Construction Contracts**

GAO/HEHS-94-170, June 17 (nine pages).

For major construction projects costing \$3 million or more, the Department of Veterans Affairs (VA) is required to award (1) construction documents contracts by September 30 of the fiscal year in which funds are appropriated and (2) construction contracts by September 30 of the following fiscal year. VA is required to report to Congress and to GAO on the projects that did not meet these time limits. VA's January 1994 letter to Congress and GAO correctly identifies 15 projects that were required to but did not have construction documents contracts or construction contracts awarded by September 30, 1993. GAO believes that the contracting delays for these projects do not constitute impoundments of budget authority under the Impoundment Control Act. In GAO's view, VA has shown no intent to refrain from using the funds appropriated. Information VA provided to GAO indicates that programmatic considerations caused the contracting delays. The reason cited most often for delays was changes in project scope or design. VA expects to award 13 of the 17 required contracts for these 15 projects by September 30, 1994.

### **Veterans' Benefits: Status of Claims Processing Initiative in VA's New York Regional Office**

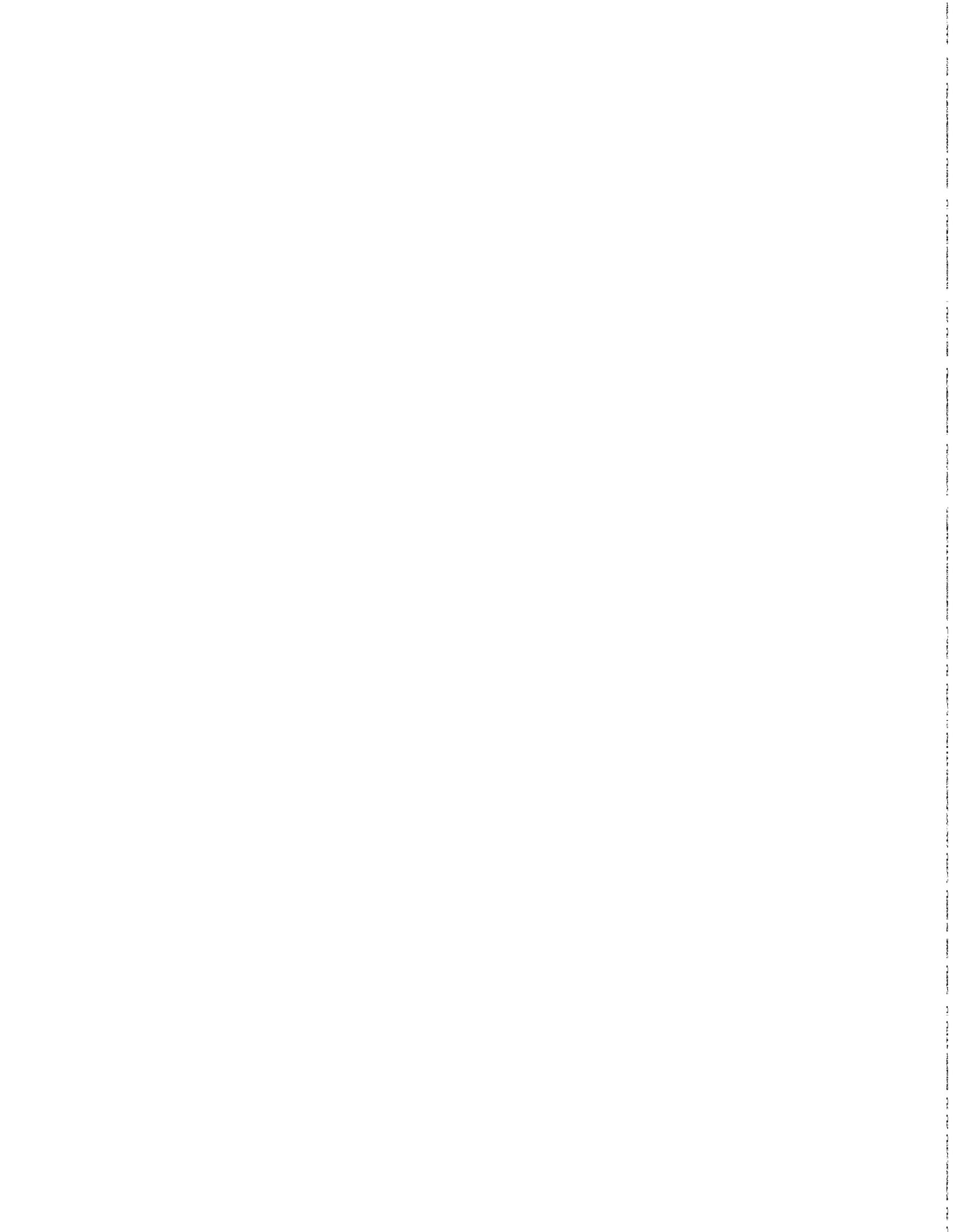
GAO/HEHS-94-183BR, June 17 (28 pages).

The Department of Veterans Affairs (VA) recognizes slow claims processing and poor customer service as critical concerns. Claims processing time is increasing as are claims backlogs. In 1993, more than 500,000 claims were pending in VA regional offices nationwide. One of the most highly publicized initiatives to reduce claims processing time and improve service to veterans and their families is the restructuring of the claims processing system in VA's New York Regional Office. In May 1993, the regional office began processing a quarter of its claims in a prototype unit. This new unit differs substantially from the traditional "assembly line" organization used by the rest of the New York office and most other VA regional offices. This briefing report determines (1) how the operation of the prototype unit differs from the traditional operation in New York, (2) how VA is assessing the effectiveness of the prototype and how the prototype's performance compares to the rest of the New York office's, and (3) what plans New York has for expanding the use of the prototype.

## Testimony

Veterans' Health Care: Efforts to Make VA Competitive May Create Significant Risks, by David P. Baine, Director of Federal Health Care Delivery Issues, before the Subcommittee on Oversight and Investigations, House Committee on Veterans Affairs. GAO/T-HEHS-94-197, June 29 (36 pages).

GAO is undertaking several studies of the potential effects of health care reform on the Department of Veterans Affairs (VA) health care system and options for restructuring veterans' health benefits. This testimony draws on the preliminary work of one of those studies and discusses (1) legal and structural barriers that could limit VA's ability to restructure its health care facilities into managed care plans and compete with private-sector health plans, (2) the extent to which the Health Security Act would overcome these barriers, and (2) the potential risks associated with efforts to make VA competitive with private-sector managed care plans.





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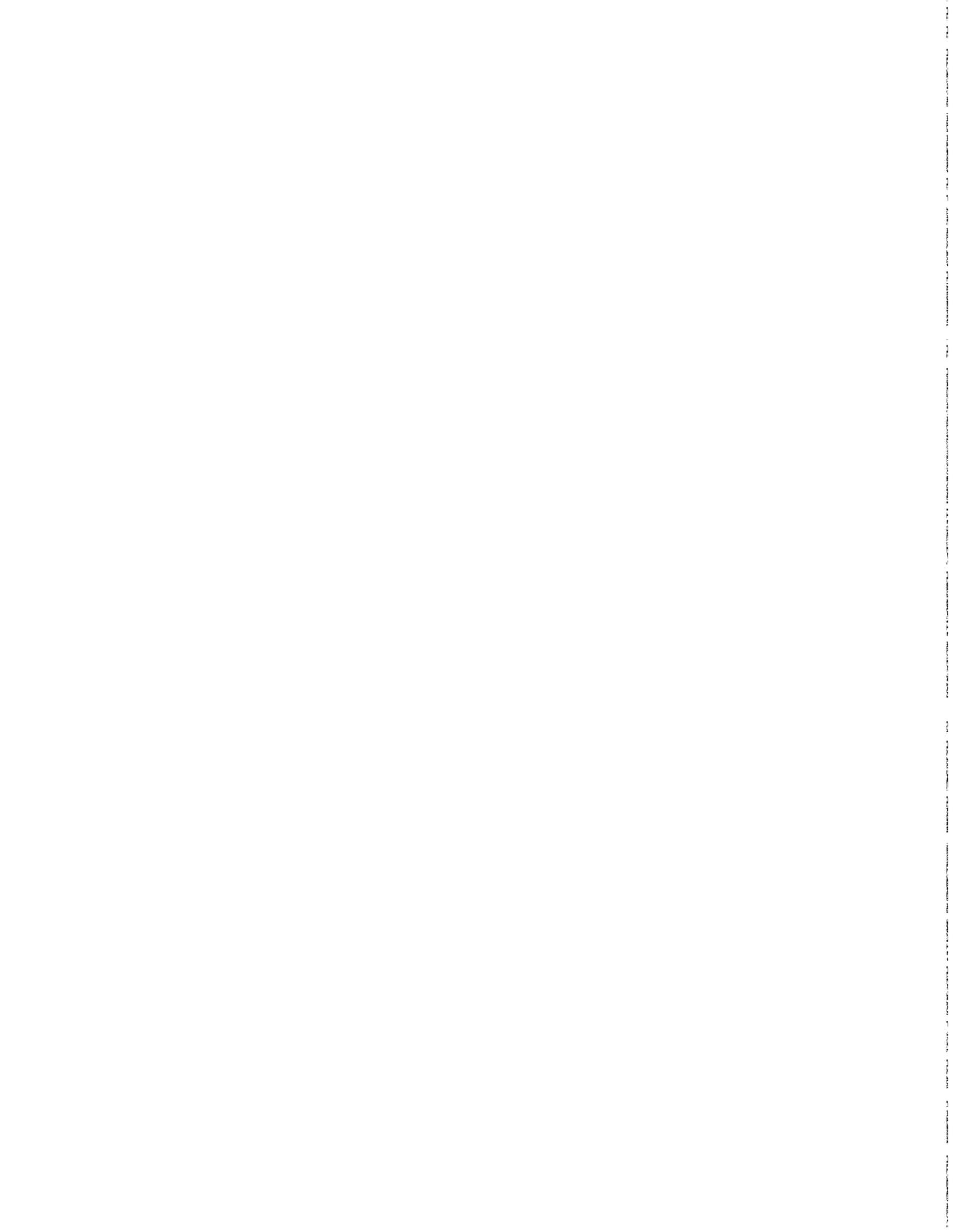
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| <input type="radio"/> GGD-94-118        | <input type="radio"/> NSIAD-94-138   | <input type="radio"/> RCED-94-133  | <input type="radio"/> T-HEHS-94-196     |  |
| <input type="radio"/> GGD/AIMD-94-122   | <input type="radio"/> NSIAD-94-140   | <input type="radio"/> RCED-94-162  | <input type="radio"/> T-HEHS-94-197     |  |
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| <input type="radio"/> GGD-94-148        | <input type="radio"/> NSIAD-94-182BR |                                    |   |  |
| <input type="radio"/> GGD-94-165FS      | <input type="radio"/> NSIAD-94-190BR |                                    |   |  |
| <input type="radio"/> HEHS-94-30        | <input type="radio"/> NSIAD-94-195BR |                                    |   |  |
| <input type="radio"/> HEHS-94-42        | <input type="radio"/> NSIAD-94-201BR |                                    |   |  |
| <input type="radio"/> HEHS-94-107       | <input type="radio"/> NSIAD-94-202   |                                    |   |  |
| <input type="radio"/> HEHS-94-111       | <input type="radio"/> NSIAD-94-220   |                                    |   |  |
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