
Reports and Testimony: April 1994

Highlights

Financial Management at Defense

The Defense Department continues to experience severe problems in its financial operations. One example is the return of hundreds of millions of dollars by contractors who had been overpaid, largely because of errors or breakdowns in government controls. Pages 13 and 26.

Air Traffic Control Modernization

Problems continue to plague the Federal Aviation Administration's (FAA) Advanced Automation System, the largest acquisition in FAA's \$36 billion effort to modernize the air traffic control systems. Costs, estimated at \$4.3 billion in 1988, have risen to \$5.9 billion, and may increase further. Page 46.

Foster Care

A comparison of young children in foster care between 1986 and 1991 reveals not only a large increase in numbers, but also that more of the children entered foster care because of neglect and that more than half had serious health problems, including prenatal exposure to drugs. Page 38.

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Reports and Testimony:

April 1994

Agriculture and Food

Testimony

Disaster Assistance: Problems in Administering Agriculture Payments, by William E. Gahr, Associate Director for Food and Agriculture Issues, before the Senate Committee on Agriculture, Nutrition, and Forestry. GAO/T-RCED-94-187, Apr. 13 (11 pages).

This testimony focuses on efforts to reform the disaster assistance and federal crop insurance programs. The Agriculture Department has experienced difficulties in administering disaster assistance and in ensuring that disaster assistance payments, combined with crop insurance payments, do not exceed legal limits. The problems in administering ad hoc disaster payments and crop insurance indicate that Agriculture needs to develop a more effective approach to providing risk management alternatives to producers. GAO believes that integrating disaster assistance and crop insurance programs could guarantee producers continuous disaster coverage. At the same time, this integrated program, if properly designed and implemented, could better protect government funds.

Food Assistance: Early Results of USDA's No-Fee School Meal Pilot Program, by Robert A. Robinson, Associate Director for Food and Agriculture Issues, before the Subcommittee on Elementary, Secondary, and Vocational Education, House Committee on Education and Labor. GAO/T-RCED-94-184, Apr. 14 (15 pages).

Under the existing lunch and breakfast programs, the federal government, to reduce the cost to students, pays schools a nationally established subsidy for each meal served. The programs require that meals be provided free, or at a greatly reduced price, to poor children. Reimbursement rates differ depending on the incomes of the students' families. Schools must determine and verify students' eligibility and must keep accurate records of meals served to all students to support their claims for federal reimbursement. To reduce this administrative burden and to boost student participation, Congress encouraged the Agriculture Department (USDA) to explore alternatives to the current program's administrative requirements. The result was USDA's no-fee school pilot program. This testimony discusses the (1) differences between the no-fee pilot program and the traditional school meal programs; (2) different approaches used by the four school food authorities participating in the

pilot program; and (3) program outcomes relating to administrative costs and workloads, student participation, and federal costs.

Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry, by John W. Harman, Director of Food and Agriculture Issues, before the Subcommittees on Livestock and Department Operations and Nutrition, House Committee on Agriculture.
GAO/T-RCED-94-189, Apr. 19 (15 pages).

Because of outdated statutory requirements for visual inspection of meat and poultry, the federal Food Safety and Inspection Service cannot target scarce resources to detect microbial contamination, a primary cause of food-borne disease. Over the past 15 years, GAO and others have reported repeatedly that the federal meat and poultry inspection system is obsolete and must be replaced with a scientific, risk-based system that can better protect the public. This testimony, in addition to discussing why the federal system falls short in addressing microbial contamination, examines industry use of microbial-testing programs. GAO also critiques the Food Safety and Inspection Service's proposal that meat and poultry plants implement a quality control system known as hazard analysis and critical control point.

Budget and Spending

Impoundments: Status of Budget Authority Proposed for Rescission or Deferral

GAO/OGC-94-21, Apr. 7 (three pages).

On February 7, 1994, the President submitted to Congress his fourth special impoundment message for fiscal year 1994. The message reports 27 proposed rescissions of budget authority and revises the amounts of three rescissions already reported. On February 11, Congress passed legislation, which the President signed into law, approving 25 of the proposed rescissions. Congress took no action on five rescissions of budget authority. GAO reviewed these five proposals and found the information on the budget authority presented in the President's message to be correct. GAO and the Office of Management and Budget agree that the 45-day period for Congress to act on these outstanding rescissions will end on April 19, 1994.

**Budget Issues:
GDP Analysis Broadens Budget Debate**

GAO/AIMD-94-41, Apr. 27 (38 pages).

The gross domestic product (GDP) budgeting concept can be a useful tool because it broadens the debate beyond federal revenue and spending policies by including information on the allocation of total GDP. In a mixed economy, national goals are achieved both through federal tax or spending programs and other policy options, such as regulation, and through the actions of the state, local, and private sectors. Federal policy decisions affect the behavior of individuals, private entities, and state and local governments. The country achieves its national objectives through use of all economic resources, not just those allocated through the federal budget process. Considering all economic sectors when developing federal taxing and spending policies could help budget decisionmakers better achieve desired economic outcomes. Although international comparisons can improve policy decisionmaking, there are limits to the data. Data for these type of comparisons are not always readily available, and achieving comparability can be difficult because of socioeconomic or demographic factors. More important, data on resources allocated to economic sectors do not necessarily reflect the outcomes.

Testimony

Budget Process: Biennial Budgeting for the Federal Government, by Susan J. Irving, Associate Director for Budget Issues, before the Senate Committee on Rules and Administration. GAO/T-AIMD-94-112, Apr. 28 (13 pages).

GAO supports the provisions of S. 1824 that deal with multiyear authorizations and biennial budget resolutions. GAO believes that although multiyear fiscal policy agreements and multiyear authorizations make a great deal of sense, they do not require changing the appropriations decision cycle from annual to biennial. Biennial appropriations could save time for federal agencies, but they also could shift control and oversight over federal programs away from Congress. Moreover, although budgeting always involves forecasting, the longer the period of the forecast, the greater the uncertainty. Increased difficulty in forecasting is one of the main reasons that states have switched from biennial to annual cycles. Dramatic changes in program design or agency structure, such as those that Congress is considering in many areas, will make budget forecasting even more difficult. Moving from an annual to a biennial appropriations

cycle at the same time may be unwise, given the potential for program changes that could require major budgeting changes in the second year of a biennium. If this were to happen, biennial budgeting would exist only in theory. In GAO's view, biennial appropriations would hardly be a cure-all for the nation's budget problems. Congress will have to decide how it wants to exercise its constitutional authority over appropriations and in what forum it will carry out its oversight responsibilities.

Business, Industry, and Consumers

Small Business: Information on Participation in SBA's Bonding Activities

GAO/RCED-94-134, Mar. 24 (22 pages).

The Small Business Administration's (SBA) Preferred Surety Bond Guarantee Program allows approved insurance companies to issue SBA-guaranteed surety bonds without SBA's prior approval of individual bonds. Surety bonds ensure that a contract will be completed, and suppliers and workers paid, should the contractor fail to perform the contract. The goal is to encourage large insurance companies to issue SBA-guaranteed bonds and, in turn, increase access to surety bonds by small businesses owned and operated by minorities and disadvantaged individuals. GAO found that the program had boosted large insurance company participation in SBA's bonding activities. The impact on minority firms is unclear, however.

Small Business Administration: Inadequate Documentation of Eligibility of Businesses Receiving SSBIC Financing

GAO/RCED-94-182, Apr. 26 (16 pages).

Specialized small business investment companies (SSBIC) often do not comply with the Small Business Administration's (SBA) guidance for documenting the eligibility of the small businesses they finance. GAO estimates that for more than a third of the small businesses financed, SSBIC's did not prepare eligibility profiles documenting that the businesses were owned by socially or economically disadvantaged persons. Even when SSBICs did prepare eligibility profiles, they often cited a single factor as the basis for eligibility—typically minority ownership—although SBA has told SSBICs to base eligibility on a composite of factors, such as owners' minority status, limited education, and low income. One possible reason

for the lack of compliance with SBA guidance is that SSBICS do not believe documentation is always needed, particularly when the small business is minority owned. SBA's requirement that examiners accept eligibility determinations on the basis of minority status alone continues to be inconsistent with the agency's instructions that SSBICS use a composite of factors in determining eligibility. Consequently, examiners would not be expected to spot cases in which SSBICS are financing businesses owned by ineligible persons.

**U.S. Credit Card Industry:
Competitive Developments Need to Be Closely Monitored**

GAO/GGD-94-23, Apr. 28 (64 pages).

Credit card interest rates in the United States hovered at about 18 percent for years despite wide fluctuations in the amount that lenders paid for money that they loaned out, known as the "cost of funds." The wide spread between the cost of funds and average credit card interest rates since the late 1980s has reignited congressional concern about the adequacy of price competition among credit card issuers. This report reviews the (1) assessments of whether the industry's structure supports competition, (2) explanations offered for the credit card industry's relatively stable interest rates and high earnings, and (3) proposed interest rate cap and other policy options. GAO concludes that a nationwide interest rate cap could lower the cost of credit card borrowing for some cardholders, but it might also prompt the cancellation of cards and restrict credit for cardholders who presented higher default rates.

Civil Rights

**Employment Discrimination:
How Registered Representatives Fare in Discrimination Disputes**

GAO/HEHS-94-17, Mar. 30 (33 pages).

To work in the securities industry, registered representatives—mainly stockbrokers—must agree to submit any employment controversy, including discrimination disputes, to arbitration panels consisting of neutral third parties. In recent years, the number of discrimination cases filed by registered representatives for arbitration at the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) has remained low and relatively constant. Six discrimination cases were filed for arbitration with NYSE in 1990 and 14 in both 1991 and 1992.

Between August 1990 and December 1992, NASD's New York Office and NYSE decided 18 discrimination cases. In four of the 10 cases involving financial awards, the monetary compensation was directly linked to discriminatory practices. Sex and age discrimination were cited most often in such cases. Some NYSE and NASD procedures for selecting arbiters need improvement. For example, NASD lacks written criteria for excluding potential arbiters with histories of disciplinary actions or regulatory infractions while working in the securities industry. In addition, NYSE and NASD differ in their requirements for arbiter disclosure of criminal convictions. The Securities and Exchange Commission's (SEC) oversight of arbitration programs focuses on customer-firm disputes rather than on employee-employer disputes. Because SEC does not review discrimination cases during its inspection of arbitration programs, it does not know the extent to which discrimination cases are filed and whether the industry had fairly and impartially resolved them. In addition, SEC has not established a formal inspection cycle—a set time for conducting inspections of securities' arbitration programs—to ensure that all programs are inspected regularly. SEC also does not know whether the securities industry corrects problems flagged by its inspections.

Economic Development

Flood Insurance: Financial Resources May Not Be Sufficient to Meet Future Expected Losses

GAO/RCED-94-80, Mar. 21 (33 pages).

The National Flood Insurance Program, a key component of federal flood disaster relief, was always intended to be subsidized. Yet overall premium income for the program is not enough to build reserves that can cover anticipated flood losses. Forty-one percent of the program's policies are subsidized, and it is inevitable that claims losses and program expenses will at some point exceed program funds. In the event of a catastrophe, not even the Federal Emergency Management Agency's borrowing authority would be enough to cover potential claims. Raising premiums would improve the program's financial health but could lead to canceled policies, creating a burden on other flood relief programs. On the other hand, greater program participation by property owners, although likely to cut the cost of other federal disaster assistance programs, would place a greater financial burden on the National Flood Insurance Program because of the need to cover additional subsidized properties.

Education

Testimony

Immigrant Education: Federal Funding Has Not Kept Pace With Student Increases, by Linda G. Morra, Director of Education and Employment Issue, before the Subcommittee on Education, Arts, and Humanities, Senate Committee on Labor and Human Resources. GAO/T-HEHS-94-146, Apr. 14 (13 pages).

More than two million immigrant students enrolled in the nation's schools during the past decade. The geographic concentration of these students has increased the financial burden of some school districts. This testimony focuses on a March 1991 report (GAO/HRD-91-50) on the Emergency Immigrant Education Act Program, which found that (1) program funds are provided to school districts with large numbers of immigrant students; (2) program funding is not keeping pace with the increasing number of eligible students; and (3) many students eligible for program funds also participate in other federally funded education programs, but estimates are hard to obtain. Proposed legislative changes in allocating program funding must consider that immigrant students pose costly and increasing challenges for many districts but that chances are slim for substantially increased federal appropriations. H.R. 6 funding provisions run the risk of allowing per student funding to decline to the point that program funding could have little impact. S. 1513 could concentrate needed assistance but also eliminate funding for many districts that found even small amounts of aid to be critical.

Military Dependents' Education: Current Program Information and Potential Savings in DODDS, by Cornelia M. Blanchette, Associate Director for Education and Employment Issues, before the Subcommittee on Readiness, House Committee on Armed Services. GAO/T-HEHS-94-155, Apr. 26 (37 pages).

This testimony provides information on the current costs and the enrollments for the following four military education programs: Department of Defense Dependents Schools (DODDS), which educate military dependents overseas; the Section 6 schools, which the Defense Department (DOD) runs on some military bases in the United States; the Impact Aid program, which provides money to local school districts to replace revenues lost due to federal activities and which is run by the Education Department; and the DOD program that provides supplemental

financial aid to school districts with large numbers of students who are military dependents. GAO testified that the military downsizing overseas had reduced DODDS enrollment considerably, Section 6 schools had been relatively unaffected, and the number of military Impact Aid children had increased slightly. GAO also discussed savings that could be achieved in DODDS but that would require changing long-standing policies and practices.

Special Education Reform: Districts Grapple With Inclusion Programs, by Linda G. Morra, Director of Education and Employment Issues, before the Subcommittee on Select Education and Civil Rights, House Committee on Education and Labor. GAO/T-HEHS-94-160, Apr. 28 (19 pages).

In an inclusion program, all students, no matter what their disabilities, are taught in a general education classroom. If inclusion programs become widespread, 3.2 million disabled students now assigned to segregated special education classrooms could be affected. This is one of the most hotly debated, high-visibility issues in the education of disabled students. GAO testified that inclusion programs could work, but that they require tremendous effort and considerable resources. Some of those GAO spoke with—parents, teachers, and administrators—generally supported these programs because of the positive effects observed for the students with disabilities, their nondisabled classmates, and school staff. But the necessary levels of effort and resources may not be possible for many districts. A number of educators and parents gave the following advice to districts attempting inclusion programs: Go slowly.

Energy

Nuclear Nonproliferation: Concerns With U.S. Delays in Accepting Foreign Research Reactors' Spent Fuel

GAO/RCED-94-119, Mar. 25 (29 pages).

A key nonproliferation goal of the United States is to discourage the use of highly enriched uranium, a material that can be used to make nuclear bombs, in civilian nuclear programs worldwide. Research reactors are of particular concern because the major civilian use of highly enriched uranium is as fuel in these reactors. U.S. officials question the safety of spent highly enriched uranium fuel left in interim storage at reactor sites worldwide and, for security reasons, would prefer that this spent fuel be consolidated and stored permanently in the United States. Under its

Off-Site Fuel Policy, the Energy Department (DOE), beginning in 1968, took back the spent fuel, reprocessed it, and stored the resulting waste at the Savannah River Site in South Carolina. But DOE dropped this policy in the late 1980s, arguing that the fuels policy could not be renewed until environmental studies were done. No spent fuel of U.S. origin has been taken back since the fuels policy was dropped, despite warning from operators of foreign research reactors that they were facing fuel storage problems. This report provides information on (1) the effects of delays in renewing the Off-Site Fuels Policy on U.S. nonproliferation goals and programs—specifically, the reduced enrichment program; (2) DOE's efforts to renew the fuels policy; and (3) the price to be charged to the operators of foreign reactors for DOE's activities in taking back the spent fuel.

Environmental Protection

Superfund: EPA's Community Relations Efforts Could Be More Effective

GAO/RCED-94-156, Apr. 8 (51 pages).

The Environmental Protection Agency (EPA), in cleaning up hazardous waste sites, is required to provide information to residents living near the sites and involve them in decisions. Legislation passed in 1980 further requires EPA to conduct specific community relations efforts, such as public meetings and comment periods, during Superfund cleanups. Although EPA has carried out the community relations efforts required by law, many residents GAO spoke with were dissatisfied, believing that EPA needed to reach out earlier to communities and to continue that outreach throughout the cleanup process. EPA provided the mandated public notices and opportunities for public comment, held meetings, and made information available in locations accessible to the public. EPA also usually informed residents that technical assistance grants were available. Given concerns about health and property values around Superfund sites, achieving consensus about cleanup decisions may be difficult and EPA may not be able to earn the public's trust even with the best intentions and community relations outreach.

Financial Institutions

Resolution Trust Corporation: Real Estate Recoveries in 1993

GAO/GGD-94-84FS, Mar. 25 (24 pages).

Recoveries on assets sold by the Resolution Trust Corporation (RTC) to help pay for the savings and loan bailout are falling. From June 1991 to December 1992, estimated recovery rates for assets declined 9 cents per dollar of book value, from 60 cents on the dollar to 51 cents on the dollar. In a June 1993 report (GAO/AIMD-93-6), GAO indicated that although RTC's estimated recovery rates for receivership assets were based on the best available information, changes in economic conditions, interest rates, and real estate markets could affect the value of assets in resolved and unresolved institutions. Because of improving economic conditions, RTC has realized higher rates of recovery on its asset sales than previously estimated. Because RTC's remaining assets are considered hard to sell, however, it is difficult for RTC to predict the recovery rates and the timing of sales.

Failed Bank:

FDIC Sale of CrossLand Conservatorship Satisfied Least-Cost Test

GAO/GGD-94-109, Apr. 20 (19 pages).

CrossLand Federal Savings Bank in Brookland, New York, represents the most costly bank failure since the passage of the Federal Deposit Insurance Corporation (FDIC) Improvement Act of 1991. FDIC estimates the cost of the CrossLand failure to the insurance fund at nearly \$890 million. GAO concludes that FDIC's decision to sell the CrossLand conservatorship to institutional investors through a public offering complied with the law's least-cost calculation and documentation requirements. FDIC did not, however, realize the \$517 million in projected cost savings from its January 1992 decision to take interim ownership of CrossLand upon its failure and run it until a decision on final resolution was reached. The alternative was to sell the bank's insured deposits and other liabilities but none of its assets to an acquirer. FDIC now pegs those savings at about \$333 million. FDIC officials said that the projected savings had not been realized mainly because CrossLand's assets proved to be in worse shape than indicated in FDIC's initial valuation before the January 1992 resolution decision.

**Financial
Management**

Financial Audit:

Senate Restaurants Revolving Fund for Fiscal Years 1992 and 1991

GAO/AIMD-94-64, Apr. 8 (15 pages).

GAO audited the balance sheets of the Senate Restaurants Revolving Fund for fiscal years 1992 and 1991. The Fund operates restaurants for Senators, Senate employees, and the public. GAO found that the financial statements were reliable in all material respects; internal controls reasonably ensured that losses, noncompliance with laws and regulations, and misstatements affecting the financial statements would be prevented or detected; and there was no material noncompliance with laws and regulations.

**House Restaurant System:
Response to Questions on Service America Corporation's
Operations of House Food Services**

GAO/AIMD-94-32, Apr. 8 (37 pages).

This report responds to questions about Service America Corporation's operation of the House Restaurant System from January 1987 through August 1991. GAO also discusses an issue involving payroll benefit costs that Service America asked GAO to help resolve. Specifically, GAO addresses (1) how much in additional contributions is due the federal retirement and savings programs on behalf of Service America food service personnel covered by the federal programs, (2) how accurate the fees paid the government covering vending services between January 1987 and August 1991 were, (3) whether reported dining service sales and fees paid the government during that period appeared accurate, and (4) whether checks that Service America received and retained from House restaurant customers represented collections due the government.

**Financial Audit:
Expenditures by Three Independent Counsels**

GAO/AIMD-94-76, Apr. 15 (21 pages).

This report presents the results of GAO's audits of expenditures by three active independent counsels for various periods ending in March 1993. For the periods GAO audited, the three independent counsels—Arlin M. Adams, Lawrence E. Walsh, and Joseph E. diGenova—reported expenditures of \$6.4 million. GAO found the reported expenditures to be reliable in all material respects. In earlier reports on independent counsel audits, GAO flagged a number of serious internal control weaknesses, including inadequate internal control procedures designed to ensure that expenditures were properly charged and inadequate segregation of duties. GAO also identified instances of noncompliance with laws and regulations,

including improper pay and travel expenses. In response to the problems GAO indentified, the independent counsels and the Administrative Office of the U.S. Courts, which does disbursing and accounting for the independent counsels, have begun to strengthen controls and ensure compliance with laws and regulations. In future audits, GAO plans to evaluate the extent to which these efforts have resolved the problems GAO identified.

Testimony

Financial Management: Financial Control and System Weaknesses Continue to Waste DOD Resources and Undermine Operations, by Charles A. Bowsher, Comptroller General of the United States, before the Senate Committee on Governmental Affairs. GAO/T-AIMD/NSIAD-94-154, Apr. 12 (58 pages).

The Comptroller General testified on the Pentagon's efforts to improve accountability and controls over operations. Recently, GAO has seen encouraging signs from the Defense Department's (DOD) new leadership, including frank admissions of financial management problems and a heightened interest in bringing about their resolution. The Comptroller General focused on the status of DOD's progress in addressing problems in the following five areas: contractor overpayments, military payroll, unmatched disbursements, "M" accounts, and the Defense Business Operations Fund. The severe shortcomings in DOD's financial operations spelled out in this testimony underscore the need to expand the requirements of the Chief Financial Officers Act. Specifically, expanding and making permanent the requirement for audited financial statements in DOD, as well as for all government agencies, is critical to ensuring basic accountability and to making available the facts needed to run the government more efficiently.

Financial Management: Status of BIA's Efforts to Reconcile Indian Trust Fund Accounts and Implement Management Improvements, by George H. Stalcup, Associate Director for Financial Integrity Issues, before the Subcommittee on Interior and Related Agencies, House Committee on Appropriations. GAO/T-AIMD-94-99, Apr. 12 (24 pages).

The Bureau of Indian Affairs (BIA) is continuing its efforts to reconcile Indian trust fund accounts and to obtain an independent certification on the results of the reconciliation. After three years, BIA's reconciliation contractor has nearly finished the first of eight major tribal reconciliation tasks and a certification contractor is on board. Overall progress has been slow, however, and BIA has yet to address many critical, long-standing trust

fund management problems that have affected proper control and accountability over trust fund accounts. BIA has been criticized for erroneous allocations of receipts, erroneous payments to account holders, failure to consistently invest trust fund balances, and failure to pay interest. Tribes and individual Indians continue to express concern about the accuracy of BIA's accounting for trust fund receipts and disbursements and the effectiveness of BIA's investment practices. Past audits and GAO's current work on BIA trust funds management continue to show (1) the lack of a strategic plan to guide trust fund management in the future; (2) inadequate staffing and training; (3) a lack of consistent, written trust fund management policies and procedures; and (4) inadequate systems for ensuring reliable accounting and reporting. GAO makes several recommendations aimed at ensuring better control and accountability over Indian trust funds. GAO continues to urge BIA to develop a strategic management plan for improving Indian trust fund operations.

Defense Management Initiatives: Limited Progress in Implementing Management Improvement Initiatives, by David O. Nellemann, Director of Information Resources Management/National Security and International Affairs, before the Subcommittee on Readiness, House Committee on Armed Services. GAO/T-AIMD-94-105, Apr. 14 (32 pages).

GAO testified on two major Defense Department (DOD) initiatives: the Defense Business Operations Fund and the Corporate Information Management (CIM) initiatives. These efforts, if implemented as intended, could improve the effectiveness of DOD operations and yield cost savings and other efficiencies. To date, however, DOD has had only limited success in achieving the objectives of the Fund and CIM. GAO discusses DOD's progress in implementing these two initiatives and the problems that must be overcome in order to achieve success.

Financial Management: DOD's Efforts to Improve Operations of the Defense Business Operations Fund, by David O. Nellemann, Director of Information Resources Management/National Security and International Affairs, before the Subcommittee on Military Readiness and Defense Infrastructure, Senate Committee on Armed Services. GAO/T-AIMD/NSIAD-94-170, Apr. 28 (21 pages).

This testimony presents GAO's views on the Defense Department's (DOD) operation and management of the Defense Business Operations Fund. The fund, which started up in 1989, will have estimated revenues of about \$77 billion in fiscal year 1995, making it equivalent to some of the world's

largest corporation. The fund operates on a break-even basis and provides the military services with goods and services, such as the overhaul of ships, tanks, and aircraft, as well as more than five million types of vital inventory, such as aircraft landing gear. GAO discusses DOD's (1) progress in improving Fund operations, (2) development of the fiscal year 1995 prices the Fund will charge its customers, and (3) management of the Fund's capital asset program.

Government Operations

Federal Hiring: Testing for Entry-Level Administrative Positions Falls Short of Expectations

GAO/GGD-94-103, Mar. 30 (29 pages).

Administrative Careers With America (ACWA), the government's most recent program to test applicants for entry-level jobs, was established by the Office of Personnel Management (OPM) in 1990 to replace an examination system that had allegedly limited hiring opportunities for minorities. Many agency officials prefer not to use ACWA because it is so time-consuming. Although agency officials promptly receive ACWA certificates from OPM, it can take weeks to contact the job applicants, receive and review their applications, conduct interviews, and verify education and employment experience. Furthermore, the law requires agencies to choose from the top three candidates on certificates and gives hiring preference to veterans. Because most veterans are men, agencies have difficulty meeting affirmative actions goals for women through ACWA certificates. Many applicants are also frustrated with the ACWA hiring process, in part because they are not contacted about openings after they have taken the ACWA exam. Further, applicants often overestimate their chances of obtaining government jobs because they receive little or no information from OPM on hiring patterns. Under changes being considered by OPM, applicants would apply for specific vacancies rather than be considered for potential openings, agencies would help decide the criteria used to score applicants, and the ACWA exam would become optional. In addition, OPM has started providing applicants with more-specific information on openings, including the number of eligible candidates who have applied for jobs and the average scores of candidates hired from certificates. But seven of the largest ACWA job categories, such as Internal Revenue Officer, Customs Inspector, and Social Insurance Claims Examiner, are exempt from the changes.

**Postal Service:
Planned Benefits of Iowa Automated Mail Facility Not Realized**

GAO/GGD-94-78, Apr. 8 (14 pages).

Automation at the Waterloo, Iowa, mail-processing facility did not yield expected financial savings, nor did it improve productivity and service delivery. After the consolidation of mail operations in Mason City and Waterloo, mail-processing work-hours declined as expected in Mason City. But the work-hour increase in Waterloo was larger than anticipated, and the combined hours for both facilities rose sharply. Despite the introduction of automation equipment, labor productivity declined. Transportation costs, instead of decreasing as planned, increased because of equipment upgrades and route changes. Although local overnight service in Mason City was maintained, some locations were no longer scheduled to receive overnight mail delivery and the percentage of mail delivered on time to other overnight locations fell. Contrary to Postal Service guidelines, officials have not reviewed the consolidations to determine whether their goals were attained. GAO believes that the Service should do such reviews to determine if consolidations in rural areas benefit the Service and its customers.

**INS User Fees:
INS Working to Improve Management of User Fee Accounts**

GAO/GGD-94-101, Apr. 12 (39 pages).

This report provides information on the Immigration and Naturalization Service's (INS) two major user fee accounts: the Immigration Examinations Fee Account and the Immigration User Fee Account. GAO discusses (1) the methods INS used to set its fees, (2) if the fees reflected the actual costs of providing services, (3) if the expenditures from fee accounts were consistent with the purposes of the accounts and management and control of the fees were enough to prevent misuse of fee revenue, and (4) whether staff were allocated in proportion to workload among the districts providing services that were financed by the fees.

**Government Printing:
Legal and Regulatory Framework Is Outdated for New
Technological Environment**

GAO/NSIAD-94-157, Apr. 15 (40 pages).

With the emergence of various electronic technologies, the traditional definitions of "printing" and "duplicating" have become blurred. As a result, the framework of laws and regulations used to manage government publishing has become outdated. Because outdated definitions drive federal publishing decisions—rather than sound business practices that stress cost-effectiveness and customer service—agencies are confused about how best to manage their publishing activities. Moreover, the federal government's two largest printers, the Government Printing Office (GPO) and the Defense Printing Service (DPS), are operating with excess capacity. In fiscal year 1993, GPO reported revenues of \$817 million and DPS reported revenues of \$403 million. Both GPO and DPS are challenged with managing current operations under existing laws, regulations, and guidance, while planning future operations that respond to the rapid technological change. Both are experiencing operating losses as a result of diminishing workloads and excess capacity. Some DPS practices are inconsistent with applicable laws, regulations, and congressional guidance. For example, DPS has procured some printing work that should have gone to GPO, has filled a small amount of printing orders for non-DOD agencies, and has acquired duplicating equipment without certification from either the Joint Committee on Printing or the Public Printer of the United States.

**Regulatory Flexibility Act:
Status of Agencies' Compliance**

GAO/GGD-94-105, Apr. 27 (23 pages).

The Regulatory Flexibility Act requires federal agencies to assess the effects of their proposed rules on small entities, which include small businesses, small government jurisdictions, and small not-for-profit groups. As a result of their assessments, agencies must either do an analysis describing the impact of the proposed rules on small entities or certify that their rules will not have "a significant economic impact on a substantial number of small entities." This report reviews the (1) Small Business Administration's (SBA) annual compliance with the act and generalizes from the reports about which agencies have or have not implemented the act effectively and (2) SBA's annual report and related documents regarding the extent to which agencies have complied with the requirement that they periodically examine their rules.

**Federal Personnel:
Architect of the Capitol's Personnel System Needs Improvement**

GAO/GGD-94-121BR, Apr. 29 (56 pages).

The Office of the Architect of the Capitol (AOC), which maintains congressional buildings, the Supreme Court, and the Library of Congress, lags behind other federal and private sector organizations in hiring women and minorities. Although GAO noted progress in some areas, many generally accepted principles of modern personnel management are absent in AOC's system. GAO concludes that this situation has led to a demoralized and distrustful working environment, as evidenced by the views expressed to GAO by employees working at the Senate Office Buildings and Senate Restaurants. AOC lacks an Equal Employment Opportunity Program with affirmative action features to ensure a diverse workforce. As a result, women and minorities at AOC were underrepresented in higher-paying skilled and managerial jobs. AOC's hiring and promotion policies and procedures are not defined in an agencywide staffing plan or another document. Case file reviews revealed that hiring and promotion procedures were not uniform or fully documented. Moreover, supervisors were not required to provide employees with annual performance appraisals or routine feedback on job performance, and AOC employees had little chance of receiving agency-funded skill-based training.

Health

**Health Care Alliances:
Issues Relating to Geographic Boundaries**

GAO/HEHS-94-139, Apr. 8 (21 pages).

A common feature of many health reform bills is the creation of public or private health purchasing groups, known as alliances. These entities have been proposed mainly as a way to broaden coverage, pool risks, give consumers a choice of health care plans, and disseminate information on the costs and the quality of plans. The major health reform proposals relying on alliances, however, have boundary provisions that raise concerns. These concerns include the potential for gerrymandering, changing the provision and the receipt of health care, segmenting high-risk groups, and isolating underserved areas.

**Medicare:
Beneficiary Liability for Certain Paramedic Services May
Be Substantial**

GAO/HEHS-94-122BR, Apr. 15 (21 pages).

Volunteer ambulance companies often transport Medicare patients to hospitals. Patients may require the services of paramedics trained in advanced life support services. GAO found that Medicare contractors relied on states to certify ambulance companies for participation in the Medicare program, and states set their own certification requirements. Most volunteer ambulance companies do not charge for their services and do not have their own paramedics. Medicare does not pay separately for paramedics, who are covered only if they are an integral part of the ambulance service. Although data are limited, GAO believes that the potential liability of Medicare beneficiaries for paramedic services may be substantial. For example, two providers of paramedic services in Connecticut charged Medicare patients in excess of \$600,000. The Health Care Financing Administration (HCFA) has tried to minimize this liability by allowing ambulance companies to submit a single bill to Medicare for both the ambulance and paramedic services. Because volunteer ambulance companies seldom bill for services, however, this arrangement may not help patients minimize their liability. HCFA officials have agreed to reexamine their policy but, as of March 1994, had not yet reached a decision on this matter.

**Medicare:
Impact of OBRA-90's Dialysis Provision on Providers and
Beneficiaries**

GAO/HEHS-94-65, Apr. 25 (21 pages).

To control soaring Medicare costs, Congress has required that in some cases employer-sponsored group health plans covering Medicare beneficiaries pay medical claims before Medicare begins to foot the bill. Since 1981, such a requirement has been in place for patients with advanced kidney disease, which requires regular dialysis or a kidney transplant. The Omnibus Budget Reconciliation Act of 1990 (OBRA-90) extended the period during which these plans must pay before Medicare kicks in. The OBRA extension of the plans' obligation as primary payers has increased the amount that providers received for dialysis by an estimated \$41 million per year. This happened because employer-sponsored plans

generally paid dialysis providers more than the cost-based Medicare rates. Although the additional revenue is relatively small when viewed in the aggregate, boosting total provider revenues for dialysis by about 1.8 percent, it represents pure profit for providers. The extension should not affect most kidney disease patients' out-of-pocket expenses because provisions insulate patients with dual coverage from being singled out for increased out-of-pocket expenditures.

**Public Health Services:
Agencies Use Different Approaches to Protect Public Against
Disease and Injury**

GAO/HEHS-94-85BR, Apr. 29 (26 pages).

The Public Health Service (PHS) conducts or supports national programs of health services delivery, disease prevention, health promotion, and biomedical research through eight PHS agencies. Because agencies' programs often address the same diseases or conditions, the potential exists for duplication of effort. Congressional concerns have also been raised about the expansion of funding for the Centers for Disease Control and Prevention (CDC), which rose from \$587 million to about \$1.5 billion between fiscal years 1987 and 1992. Concerns have likewise been raised that the scope of CDC's programs and activities today extends well beyond the agency's early focus on communicable disease. GAO found that no PHS agency was duplicating another agency's public health activities in the programs GAO reviewed. Also, CDC's programs were appropriate considering the agency's legislative authority and its history of prevention and control efforts regarding chronic diseases and other health conditions. Public health experts GAO consulted support CDC's activities.

Testimony

Health Care Quality: How Does the United States Compare With Other Countries on Cancer Survival and Access to Bone Marrow Transplantation?, by Eleanor Chelimsky, Assistant Comptroller General for Program Evaluation and Methodology, before the Subcommittee on Health, House Committee on Ways and Means. GAO/T-PEMD-94-21, Apr. 14 (17 pages).

This testimony discusses two recent GAO reports (GAO/PEMD-94-5 and GAO/PEMD-94-10), each of which examines health care quality from an international, comparative perspective. The first compares survival rates for cancer patients in the United States and Ontario, Canada, while the

second examines patterns in 10 countries in the use of bone marrow transplants to treat leukemia. Both studies focus on dimensions commonly associated with the quality of a health care system. The survival study compares outcomes for cancer patients, while the bone marrow study measures the availability and the appropriateness of bone marrow transplants.

Housing

Housing Finance: Characteristics of Borrowers of FHA-Insured Mortgages

GAO/RCED-94-135BR, Apr. 6 (31 pages).

The Federal Housing Administration (FHA), created during the Depression to insure lenders against losses on home mortgages and to expand opportunities for low- and moderate-income persons to buy homes, had nearly \$330 billion in mortgages outstanding as of September 1992. FHA insured 5.6 percent of all single-family mortgages made in 1992. This briefing report provides information on the characteristics of borrowers with single-family home loans insured by FHA through its Mutual Mortgage Insurance Fund. GAO examines how the incomes, the ages, and the races of borrowers of FHA-insured mortgages and the location of their homes have changed since the 1970s, when FHA first began collecting data on these characteristics.

Multifamily Housing: Information on Selected Properties Owned by HUD

GAO/RCED-94-163FS, Apr. 11 (28 pages).

The Department of Housing and Urban Development's (HUD) inventory of foreclosed multifamily properties has swollen in the past four years. HUD acquired this inventory mostly through foreclosures on properties that had loans insured by its Federal Housing Administration. To help Congress evaluate the impact of new legislation intended to improve HUD's ability to dispose of this inventory, GAO collected information on HUD-owned multifamily properties in Dallas, Texas, and Kansas City, Missouri. GAO analyzed a total of 19 properties. This fact sheet discusses (1) the sizes and the vacancy rates of the properties, the number of units receiving project-based Section 8 assistance, and the distribution of the units by the number of bedrooms; (2) HUD's estimates of the money needed to

rehabilitate the properties; and (3) the current tenants' income levels and percentages of income spent on rent.

**Multifamily Housing:
Status of HUD's Multifamily Loan Portfolios**

GAO/RCED-94-173FS, Apr. 12 (20 pages).

The Department of Housing and Urban Development (HUD), through the Federal Housing Administration (FHA), insures mortgages on multifamily properties. In cases of default, lenders may turn over the mortgages to HUD and be paid for insurance claims—HUD, in effect, becomes the new lender for the mortgages. The number of insured multifamily loans that have defaulted and been assigned to HUD has grown significantly, and the agency believes that even greater numbers of multifamily loans could default in the future, producing additional losses. This fact sheet provides information on the financial status of HUD's multifamily insured and assigned loan portfolio. For the insurance-in-force portfolio, GAO discusses the number of current and delinquent loans. For the HUD-held portfolio, GAO discusses the number of current and delinquent loans, the ratio of loan delinquencies to the unpaid principal balances, and steps that HUD has taken to resolve the delinquencies.

**Multifamily Housing:
Information on Projects Eligible for Preservation Assistance**

GAO/RCED-94-177FS, Apr. 15 (136 pages).

This fact sheet discusses the Department of Housing and Urban Development's (HUD) multifamily housing stock that is eligible for incentives under either title II of the Housing and Community Development Act of 1987 or title VI of the National Housing Affordability Act of 1990. These incentives are offered to preserve housing for lower-income households. This fact sheet details the characteristics of these projects, such as their number and locations, and identifies those projects whose owners have filed for incentives. GAO also discusses the cost of the incentives provided to project owners as of September 30, 1993, the end of the most recent fiscal year for which data are available.

Income Security

Testimony

Underfunded Pension Plans: Federal Government's Growing Exposure Indicates Need for Stronger Funding Rules, by Joseph F. Delfico, Director of Income Security Issues, before the House Committee on Ways and Means. GAO/T-HEHS-94-149, Apr. 19 (16 pages).

Sponsors of underfunded pensions are required by law to make additional contributions to their funds, but there is no evidence that the problem of underfunding has abated. The total underfunding in single-employer plans insured by the Pension Benefit Guaranty Corporation (PBGC) rose from \$31 billion in 1990 to more than \$50 billion in 1992. In a random sample of plans paying PBGC's variable-rate premium, GAO discovered that only 40 percent of the plan sponsors subject to the law were making additional contributions in 1990 and that the amount of additional contributions was less than three percent of the plans' underfunding. GAO also found that the amounts that sponsors were allowed to use to reduce their additional contributions were much larger than the unreduced additional contributions for some plans, suggesting that the design of the offset is flawed and needs to be changed. H.R. 3396 contains provisions to improve funding in underfunded plans, including a measure to correct the design flaw in the offset. Although the bill is a step in the right direction, GAO believes that the provisions of H.R. 3396 should be strengthened to ensure that more sponsors of underfunded plans make additional contributions.

Information Management

Defense Management: Stronger Support Needed for Corporate Information Management Initiative to Succeed

GAO/AIMD/NSIAD-94-101, Apr. 12 (28 pages).

GAO remains very supportive of the Defense Department's (DOD) Corporate Information Management initiative, which seeks to streamline the military's business processes, upgrade information systems, and improve data administration and other technical areas. If the initiative is implemented successfully, billions of dollars can be saved. After four years of effort, however, much work remains to be done toward achieving these substantial savings. DOD's approach to managing the initiative is not working. A strategic plan does not exist, insufficient attention is being paid

to business process reengineering, and authority and responsibilities are unclear. Further, DOD has not assessed the initiative's costs and benefits by collecting reliable cost information, doing functional economic analyses, and doing postaudits of claimed savings. DOD is at a point where it must reassess its implementation approach. This is a large, difficult management task that will require a major effort within the Pentagon and assistance from others.

**HUD Information Resources:
Strategic Focus and Improved Management Controls Needed**

GAO/AIMD-94-34, Apr. 14 (51 pages).

The Department of Housing and Urban Development (HUD) continues to be plagued by poorly integrated, ineffective, and unreliable information systems that neither satisfy management needs nor provide adequate controls. It will take years to fully resolve these problems. This situation exists because HUD's information resource management resources have not been planned and managed to carry out the Department's missions and meet its strategic objectives. In addition, HUD had not established adequate security for its computers that process sensitive and privacy data and lacked contingency plans for data processing in the event of a major disruption or disaster. Finally, HUD's efforts to develop and implement integrated financial systems have been impeded by ineffective planning and management oversight. HUD's recent commitment to strategic planning and its initial steps to address strategic planning represent the first substantive actions taken since GAO reported on the absence of strategic information resources planning a decade ago.

Testimony

Social Security Administration: Major Changes in SSA's Business Processes Are Imperative, by Frank W. Reilly, Director of Information Resources Management/Health, Education, and Human Services. GAO/T-AIMD-94-106, Apr. 14 (eight pages).

The Social Security Administration's (SSA) current disability determination process is extremely stressed, burdened with increasing workloads and enormous backlogs. SSA has turned to automation to improve operations, but these efforts have had only a minimal impact because they have focused on automating existing processes that are inefficient. SSA's April 1994 proposal for redesigning the disability process is a credible proposal that would make the basic changes needed to realistically cope

with disability determination workloads. The proposal, which combines top management leadership with the necessary staff and money, documents the existing disability determination problems and recommends a solution to dramatically change the process. As with any major reform, however, many implementation issues still need to be addressed, including addressing new staffing and training demands, developing necessary automation requirements, and confronting the entrenched cultural barriers to changes.

International Affairs

Enterprise Funds: Evolving Models for Private Sector Development in Central and Eastern Europe

GAO/NSIAD-94-77, Mar. 9 (83 pages).

Enterprise funds are an experimental way of delivering aid to the private sectors in central and eastern European countries making the transition from centrally planned to market-oriented economies. The enterprise funds are private U.S. corporations authorized by Congress and staffed by experienced business managers. Authorized funding for the first four funds, which involve Poland, Hungary, the Czech and Slovak Republics, and Bulgaria, totals about \$440 million. Federal contributions to enterprise funds represented about 28 percent of all budgeted U.S. assistance for the region between fiscal years 1990 and 1993. This report reviews the first four enterprise funds' (1) investment and program strategies and plans for sustainability, (2) overall performance, (3) management practices, and (4) oversight by U.S. government agencies.

Humanitarian Intervention: Effectiveness of U.N. Operations in Bosnia

GAO/NSIAD-94-156BR, Apr. 13 (45 pages).

Evidence does not exist to support allegations that the United Nations withheld humanitarian assistance to pressure the Bosnian Muslims into an unfavorable peace settlement. On the contrary, U.N. and international relief efforts are credited with preventing starvation in Bosnia over the course of two winters. Too few troops and weakness in U.N. leadership and coordination, however, have hindered efforts to deliver aid and to protect Bosnians. These factors, coupled with the Serbs' encirclement of Muslim enclaves, such as Gorazde, and the international community's

sense of urgency in finding a peace formula, created an environment in which the allegations seemed plausible. At the time of GAO's review, the U.N. High Commissioner for Refugees and the U.N. Protection Force had improved coordination and were working with NATO to deliver humanitarian assistance and to protect designated areas.

Justice and Law Enforcement

Money Laundering: U.S. Efforts to Fight It Are Threatened by Currency Smuggling

GAO/GGD-94-73, Mar. 9 (49 pages).

U.S. banking and tax laws require the filing of reports on currency transactions exceeding \$10,000. People disguising illicit income are sidestepping U.S. reporting rules by smuggling cash out of the country—apparently with relative ease. Once the funds are deposited in a foreign financial institution, they are much harder to trace and can be spent or transferred back to the United States with less risk of exposure. Treasury Department and U.S. Customs Service officials have no way to estimate the amount of currency being smuggled, although law enforcement officials GAO spoke with believe that the amount is substantial—potentially billions of dollars each year. In addition to discussing the extent of currency smuggling, this report describes the techniques used to smuggle currency and U.S. efforts to curtail it.

National Defense

DOD Procurement: Millions in Overpayments Returned by DOD Contractors

GAO/NSIAD-94-106, Mar. 14 (14 pages).

During the six months ending in April 1993, the Defense Finance and Accounting Service in Cleveland, Ohio, processed \$751 million in checks from defense contractors. GAO researched checks totaling \$392 million and found that \$305 million were returned contract overpayments. Most of these payments resulted because the Columbus Center either (1) paid contractors' invoices without recovering progress payments or (2) made duplicate payments. Overpayments also occurred for a variety of other reasons, including government contractual errors and contractor errors. Virtually all the overpayments GAO examined were detected by the contractors rather than by the government. For \$240 million of the \$305 million in overpayments, government records were adequate to

pinpoint when the overpayments occurred. GAO determined that these overpayments remained outstanding an average of 108 days from the date of overpayment to the date of refund, with about 40 percent of the overpayments outstanding for more than 90 days. Using a 6.5-percent interest rate, GAO estimated the interest cost on the \$240 million at \$2.3 million. In some cases, contractors planned to return overpayments but were told to hold the money until the contract could be reconciled and a demand letter issued. The Defense Department (DOD) is trying to bolster internal controls designed to prevent overpayments and more rapidly detect such payments when they occur. DOD officials also said that DOD is attempting to streamline complex regulatory policies and procedures and that a high-level council has been established to oversee major financial management changes.

**Defense Production Act:
Foreign Involvement and Materials Qualification in the
Title III Program**

GAO/NSIAD-94-74, Mar. 14 (30 pages).

The U.S. reliance on foreign sources for critical defense materials has been a source of concern for years. In response to these concerns, title III of the Defense Production Act was reactivated in 1985. The purpose of title III is to establish, expand, or maintain domestic production capacity for materials considered essential to national defense. This report discusses (1) the extent and nature of foreign involvement in the title III program, Defense Department (DOD) oversight of such involvement, and its impact of the program's effectiveness and (2) the adequacy of DOD efforts to qualify materials for defense weapon systems.

**Chemical Weapons Destruction:
Advantages and Disadvantages of Alternatives to Incineration**

GAO/NSIAD-94-123, Mar. 18 (28 pages).

The most feasible technological alternatives to the incineration of chemical weapons are in the initial stages of development and are more than a decade away from becoming fully operational. It is unlikely that any of these technologies will be ready in time to destroy the entire U.S. chemical weapons stockpile by the December 2204 deadline. Any of these alternative technologies could not, by itself, dispose of an entire chemical weapon. As a result, multiple technologies would have to be developed

and tested. Because the alternative technologies are in the earliest stages of development, cost estimates are either nonexistent or unreliable. Similarly, their performance cannot be compared with that of incineration. GAO did, however, identify advantages and disadvantages of each technology. This report also discusses the operational safety of the Army's incineration facility on Johnston Atoll and the cryofracture process, which involves soaking munitions in liquid oxygen to make them brittle. The munitions are then crushed in a large hydraulic press before being incinerated. GAO summarized this report in testimony before Congress; see

Chemical Weapons: Issues Involving Destruction Technologies, by David R. Warren, Associate Director for Defense Management and NASA Issues, before the Subcommittee on Nuclear Deterrence, Arms Control, and Defense Intelligence, Senate Committee on Armed Services. GAO/T-NSIAD-94-159, Apr. 26 (23 pages).

**Reserve Forces:
DOD Policies Do Not Ensure That Personnel Meet Medical and
Physical Fitness Standards**

GAO/NSIAD-94-36, Mar. 23 (74 pages).

Extremely lax Defense Department (DOD) oversight of medical and physical fitness programs for reserve forces allowed the deployment of thousands of Army reservists during the Persian Gulf War who suffered from serious health problems or who were out of shape. DOD's medical policy allows the services to retain nondeployable reservists. As a result, the Army retained more than 22,000 reservists with serious medical conditions, including cancer; heart disease; double kidney failure; and, in one case, a gunshot wound to the head. The Air Force, the Marine Corps, and the Navy, on the other hand, do not retain reservists with serious medical problems. The services' physical fitness testing programs assess only general fitness and do not measure reservists' preparedness for specific military missions. The Army, for example, does not test whether reservists can complete a road march. DOD was unaware of these problems because the services failed to report required fitness information. Also, most of the services lacked controls to prevent the alteration of test scores.

**Industrial Base:
Assessing the Risk of DOD's Foreign Dependence**

GAO/NSIAD-94-104, Apr. 1 (47 pages).

Congress has raised concerns that the Pentagon has not established criteria for determining acceptable levels of dependence on foreign sources. In response, this report proposes a framework for evaluating the national security risk of buying military goods and technology from foreign sources. GAO answers the following four questions: What basic factors determine the national security risks of buying from foreign sources? How can these factors be measured and evaluated? Is appropriate data for assessing foreign sourcing being collected? What are some U.S. policy options for dealing with the risks of buying goods and technology from foreign sources?

**DOD Contracting:
Extent and Impact of Contract Bundling Is Unknown**

GAO/NSIAD-94-137, Apr. 14 (13 pages).

The Defense Department's (DOD) centralized contracting data does not identify contracts that have been bundled. Bundling occurs when agencies package contract requirements into acquisitions, a practice that can effectively preclude small businesses from competing. The Small Business Administration (SBA) has begun to collect data on the extent of contract bundling where it has assigned resident representatives, but only about half of DOD's contract dollars are obligated at these locations. SBA's data-gathering effort could yield empirical data on the magnitude of the problem. Should such data be deemed insufficient, however, GAO believes that there should be reasonable assurances that any new collection effort will accomplish its objectives without the cost exceeding the expected benefits. DOD officials and others believe that bundling could harm small businesses that want to compete for government contracts but could also benefit government procurement activities by reducing their workload. GAO found no empirical evidence proving the costs or benefits of bundling. Existing guidance in the Federal Acquisition Regulations does not ensure that contracting officers properly identify all bundled contracts. Further, the existence of multiple definitions creates confusion about what constitutes bundling.

**Military Airlift:
C-17 Settlement Is Not a Good Deal**

GAO/NSIAD-94-141, Apr. 15 (16 pages).

The recent settlement between the Pentagon and McDonnell Douglas on the troubled C-17 transport plane is not a good deal for the government, which will have to waive all potential financial claims against the aircraft maker, lower the C-17's performance standards, and pay more for fewer aircraft. To acquire 120 aircraft will now cost an estimated \$43 billion—\$1.3 billion more than the Pentagon's last estimate to acquire 210 aircraft. In an effort to overcome the contentious relationship between the government and the contractor, the government has agreed to waive all of its potential claims arising from the contractor's failure to meet the original contract specifications and delivery schedule, without establishing the value of those claims. The government also agreed to resolve filed and unfiled contractors' claims by adding \$237 million to the contract price. DOD officials acknowledge that the claims were never subjected to a full legal or price analysis. At the same time, McDonnell Douglas' out-of-pocket expenses are hundreds of millions of dollars less than the agreement implies. GAO urges DOD to determine immediately the minimum number of C-17s needed and pursue a strategy to acquire alternative wide-body aircraft that can meet its needs. DOD, in deciding whether to continue the program, also needs to establish specific cost-schedule and performance criteria to evaluate improvement in the contract's performance. GAO summarized this report in testimony before Congress; see:

Military Airlift: The C-17 Program Update and Proposed Settlement, by Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs, before the Subcommittee on Regional Defense and Contingency Forces, Senate Committee on Armed Services. GAO/T-NSIAD-94-166, Apr. 19 (44 pages); and

Military Airlift: The C-17 Proposed Settlement and Program Update, by Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs, before the Subcommittee on Military Acquisition, House Committee on Armed Services. GAO/T-NSIAD-94-172, Apr. 28 (43 pages).

**Acquisition Requirements:
Impact on Company Structures and Operations**

GAO/NSIAD-94-20, Apr. 19 (nine pages).

Several efforts are underway to overhaul the Pentagon's acquisition system. Widespread support exists for streamlining the defense acquisition process to ease the administration burden on the Defense Department and its contractors and to integrate the defense and commercial sectors of industry. GAO, which strongly supports acquisition reform, recently visited eight contractors and talked to experts and trade associations about this issue. This report discusses (1) how the eight contractors integrate or separate their structures and operations to do business with the defense and commercial structures and (2) whether these structures and operations are caused or influenced by defense acquisition laws, regulations, practices, and specifications.

**DOD Budget:
Evaluation of Defense Science Board Report on Funding Shortfalls**

GAO/NSIAD-94-139, Apr. 20 (24 pages).

In February 1993, the Secretary of Defense convened a Defense Science Board task force to review the fiscal years 1994-99 Future Years Defense Program (FYDP) that the Pentagon had prepared in late 1992 and to determine the validity of the plan's funding assumptions. The task force was asked to assess the (1) savings from the Defense Management Review Decisions; (2) development and acquisition costs for weapon systems under development, including any potential procurement "bow wave" beyond fiscal year 1999; (3) operation and maintenance funding levels to support the planned force structure and projected personnel levels; (4) environmental cleanup and compliance costs; and (5) defense health care costs. Overall, the task force estimated a shortfall for the 1994-99 FYDP in the range of \$20 billion to \$26.5 billion. This report evaluates the reasonableness of the task force's findings and recommendations.

**Air Force Logistics:
Improved Backorder Validation Procedures Will Save Millions**

GAO/NSIAD-94-103, Apr. 20 (27 pages).

The Air Force continues to have large quantities of invalid backorders in its wholesale and retail supply systems because they are not detected and canceled when they are no longer needed. GAO and the Air Force have worked together to identify invalid backorders valued at more than \$209 million at 17 retail supply activities that the Air Force later canceled. Also, since 1987, the Air Force has suspended a program for automatically canceling backorders when retail supply activities do not respond to quarterly requests to reconcile wholesale and retail backorder records. The suspension has resulted in lost opportunities to cancel millions of dollars worth of invalid backorders each quarter. The failure to identify and cancel invalid backorders was due to (1) a lack of detailed validation guidance, (2) inadequate management oversight and resolution of problems flagged by quarterly backorder reconciliation reports, and (3) the prolonged suspension of the automatic cancellation program.

Testimony

Depot Maintenance: Issues in Allocating Workload Between the Public and Private Sectors, by Donna M. Heivilin, Director of Defense Management and NASA Issues, before the Subcommittee on Readiness, House Committee on Armed Services. GAO/T-NSIAD-94-161, Apr. 12 (29 pages).

The Pentagon spends about \$15 billion each year for depot maintenance, modifications, and upgrades to support aircraft, combat vehicles, wheeled vehicles, ships, and other equipment. In the context of the military's downsizing, the Defense Department (DOD) needs to acquire depot maintenance activities cost effectively while supporting industrial base needs in both the public and private sectors. Central to the debate over defense depot maintenance are questions about how much workload should be retained in the public depots as "core" capability, whether a service should be allowed to have its own core capability, and how the remaining noncore workload should be allocated between the public and private sectors. GAO testified that the amount of money going to the private sector is much higher than reported—at least half of the current depot maintenance funding. Although GAO has concerns about public-private competition and the amount of savings is hard to quantify, GAO believes that the program can cut depot maintenance costs. GAO supports many of the task force's findings and recommendations, but areas of disagreement exist. For example, GAO agrees that a rational maintenance core policy needs to be identified but believes that this should be done throughout DOD rather than on a service-specific basis. None of the maintenance depots targeted for closure have shut down yet. DOD appears to have an effective program to help employees find new jobs, although some workers may

have to settle for lower-paying positions. Concerns have also been raised about other aspects of the depot closures.

Military Space Programs: Comprehensive Analysis Needed and Cost Savings Available, by Louis J. Rodrigues, Director of Systems Development and Production Issues, before the Subcommittee on Military Acquisition, House Committee on Armed Services. GAO/T-NSIAD-94-164, Apr. 14 (10 pages).

Originally designed to relay messages during global nuclear war, the costly Milstar satellite system could be scaled back to save more than \$2 billion. Both Milstar and the Defense Support Program (DSP), meant to detect ballistic missile launches, are products of the Cold War and need to be adapted to tactical warfare in regional conflicts. The Pentagon's decision to scrap the most recent DSP follow-on program and start anew provides an opportunity to fully assess the need for early missile warning information. The Defense Department's (DOD) plans to replace DSP with Alert, Locate, and Report Missiles (ALARM) require a comprehensive analysis that includes (1) reviewing and validating operational requirements, (2) selecting the most cost-effective alternative from plausible candidate systems, (3) ensuring that the system selected is affordable, (4) demonstrating that the transition from DSP to ALARM will avoid coverage gaps, and (5) evaluating the launch vehicle implications for DSP. Regarding Milstar, GAO believes that DOD could save more than \$2 billion if it opted not to acquire the last two satellites under the current plan. This decision would require the accelerated development of an enhanced Milstar that is smaller, lighter, cheaper, and capable of being launched on a smaller vehicle than the Titan IV. This accelerated development would entail some additional investment in the short run.

Defense Health Care: Challenges Facing DOD in Implementing Nationwide Managed Care, by David P. Baine, Director of Federal Health Care Delivery Issues, before the Subcommittee on Military Forces and Personnel, House Committee on Armed Services. GAO/T-HEHS-94-145, Apr. 19 (15 pages).

The Defense Department (DOD) has made great strides in implementing TRICARE, its nationwide managed health care program. GAO commends DOD for tackling this ambitious but necessary undertaking. TRICARE embodies many of the lessons learned from DOD's managed health care demonstration projects over the last several years. GAO believes that it has the potential to improve beneficiary access to care, maintain high-quality care, and gain control of health care costs. Yet some analyses suggest that TRICARE may not be more cost effective than other health care options

available to DOD. Much will depend on TRICARE's benefit and cost-sharing packages, which DOD still needs to finalize. Also, several implementation and contracting issues remain unresolved.

Department of Defense: Weaknesses in Humanitarian and Civic Assistance Programs, by Joseph E. Kelley, Director of International Affairs Issues, before the Subcommittee on Oversight and Investigations, House Committee on Armed Services. GAO/T-NSIAD-94-158, Apr. 19 (13 pages).

The Defense Department's (DOD) Humanitarian and Civic Assistance program oversees donations of excess military property and supplies, coordinates civic assistance and disaster assistance, and transports food and supplies from private donors to foreign countries. At least 117 countries have received equipment and supplies under the program. In fiscal year 1993, National Guard units from 29 states traveled to Latin America to work on civic assistance projects. The full extent and costs of the program are unknown, however, because DOD conducts some projects without State Department approval and does not report all program expenses. Coordination between the U.S. military and the U.S. embassies and missions in Panama and Honduras was minimal. Some DOD projects were not designed to contribute to foreign policy objectives, did not appear to enhance U.S. military training, and either lacked host country support or went unused. As for oversight, DOD has yet to issue regulations governing program activities. In addition, the Southern and Pacific commands have not systematically evaluated the success of projects, and program officials have not routinely visited projects to evaluate their progress.

Military Readiness: Current Indicators Need to Be Expanded for a More Comprehensive Assessment, by Neal P. Curtin, Director of Reporting in the National Security and International Affairs Division, before the Subcommittee on Readiness, House Committee on Armed Services. GAO/T-NSIAD-94-160, Apr. 21 (17 pages).

In a period of downsizing and shrinking budgets, maintaining forces that are highly trained and ready to fight is a formidable challenge. Concerns have been raised about the potential for reducing the U.S. military to the "hollow forces" that prevailed during the 1970s. GAO testified that the Pentagon's system for measuring readiness yields valuable data, but it is not comprehensive and cannot signal an impending change in readiness. The military commands are monitoring many additional indicators to supplement data now being reported, and GAO is examining these

indicators to see whether a consensus exists on which indicators are most important and have predictive value. A future readiness system should factor in jointness, have predictive capability, facilitate trend analyses, and provide more objective and candid assessments. The military commands have expressed concerns about the status of current and future readiness, but it is not feasible for GAO to present a bottom line given the absence of consensus on readiness indicators and how they should be viewed collectively.

Navy Modernization: Alternatives for Achieving a More Affordable Force, by Richard A. Davis, Director of National Security Analysis, before the Subcommittee on Military Acquisition, House Committee on Armed Services. GAO/T-NSIAD-94-171, Apr. 26 (22 pages).

The Navy will be asking Congress for billions of dollars in the coming years to recapitalize the fleet and maintain the defense industrial base. Even if Congress authorizes the programs being requested, the Navy will face an affordability problem. Past experience strongly suggests that some costs will be higher than projected and some savings will never materialize. More importantly, GAO believes that alternatives exist to the Defense Department and Navy proposals that could effectively protect national security at a significantly lower cost. These alternatives include using less costly means to provide overseas presence, using existing aircraft and missiles for deep attack, and changing shipbuilding industrial base-related decisions.

Strategic Mobility: Serious Problems Remain in U.S. Deployment Capabilities, by Norman Rabkin, Associate Director for Military Operations and Capabilities Issues, before the Subcommittee on Readiness, House Committee on Armed Services. GAO/T-NSIAD-94-165, Apr. 26 (15 pages).

The Pentagon has identified extensive mobility requirements for its sealift and airlift forces. During major regional conflicts, the requirements call for moving as much cargo in eight weeks as was moved during the first six months of the Persian Gulf War. In a 1993 report, GAO questioned many of the assumptions underlying these requirements. The Defense Department's (DOD) stated mobility requirements are likely to increase even further under a DOD study now under way. To help meet current requirements, more ships are being purchased to expand sealift capabilities. Further, the Army is repositioning more equipment and supplies at points around the globe, which means that they will be closer

to potential battlefields. Significant issues concerning U.S. mobility capabilities remain unresolved, however. The problems experienced in the C-17 program mean that the service life of aircraft in the current fleet will likely have to be extended. As the drawdown of U.S. forces in Europe continues, air bases that are critical to meeting DOD's stated mobility requirements could become candidates for closure. The Army is still years away from improving its rail deployment capabilities. The readiness levels of Ready Reserve Force ships are out of sync with current airlift capabilities and the Army's current ability to get cargo to the ports.

Natural Resources

Forest Service: Status of Efforts to Achieve Cost Efficiency

GAO/RCED-94-185FS, Apr. 26 (18 pages).

Congress requested that the Forest Service prepare a cost study for its timber program that would analyze how to achieve an annual cost reduction of at least five percent. The Forest Service's April 1993 report on timber cost efficiency discussed the overall timber program, the program's organization, the Timber Sale Program Information Reporting System, financial management, and attempts to monitor cost efficiency. In the year since the study was issued, the Forest Service has made progress toward completing 21 of 23 action items targeted for completion by October 1993 or October 1994. The results of the regional offices' cost efficiency efforts have been mixed. The Forest Service has also undertaken other, nontimber initiatives, such as reorganizing and downsizing, that could improve the agency's overall efficiency. Overall, from fiscal year 1992 to fiscal year 1993, the Forest Service reduced its timber program expenses nationally by about 7.2 percent. Total annual timber program expenses declined in six of the nine regions during this period. However, six of the nine regions' timber sales programs showed a net loss when annual expenses were deducted from revenues for fiscal year 1993.

Testimony

Mineral Resources: H.R. 3967—A Bill to Change How Federal Needs for Refined Helium Are Met, by John H. Anderson, Jr., Associate Director for Natural Resources Management Issues, before the Subcommittee on Energy and Mineral Resources, House Committee on Natural Resources. GAO/T-RCED-94-183, Apr. 19 (eight pages).

H.R. 3967 would change how the federal government's helium needs are met by shifting helium refinement from the Interior Department's Bureau of Mines to private industry. In addition, the bill would repay the helium program debt. Whether the federal budget will be helped or harmed by this legislation will depend on whether private industry can sell refined helium to the government at a lower price. Revenues from the disposal of the existing helium inventory could also affect the federal budget. The choice between Interior and private industry to meet federal helium needs is ultimately a public policy decision. GAO believes that H.R. 3967 provides a viable alternative for meeting current and foreseeable federal needs for helium with the potential for budgetary savings and repayment of the helium program debt.

Air Pollution: Regional Approaches Are Needed to Protect Visibility in National Parks and Wilderness Areas, by Bernice Steinhardt, Associate Director for Environmental Protection Issues, before the Subcommittee on the Environment, Energy and Natural Resources, House Committee on Government Operations. GAO/T-RCED-94-102, Apr. 29 (10 pages).

The Clean Air Act Amendments of 1977 set a national goal of correcting and preventing pollution that limits visibility in more than 150 national parks and wilderness areas. Seventeen years later, however, visitors to these areas are unable to enjoy spectacular views, such as those at the Grand Canyon, because of interference from air pollution. In view of the limited success of the Prevention of Significant Deterioration Program and other attempts to control air pollution and in light of increasing scientific evidence that regional sources are major contributors to impaired visibility, GAO believes that some type of regional approach is needed to address the problem. EPA has indicated its intention to wait for more information before deciding whether to issue regional haze regulations. It is unclear, however, when that information will be available given reductions in the number of monitoring sites in the national parks and wilderness areas and the fact that only one visibility transport commission has been established. As the same time, the National Research Council and the Park Service have both said that current scientific knowledge is adequate and that control technologies are available to take regulatory steps to improve visibility. Accordingly, GAO recommends that EPA begin to develop a control strategy for overcoming visibility impairment caused by regional sources.

Science, Space, and Technology

European Aeronautics: Strong Government Presence in Industry Structure and Research and Development Support

GAO/NSIAD-94-71, Mar. 23 (61 pages).

U.S. leadership in aeronautics is being challenged by Europe. During the last decade, European manufacturers have, with the support of their governments, boosted their share of the global civil aircraft market to more than 30 percent. This report provides information on (1) the structure of the aeronautics industries of France, Germany, and the United Kingdom; (2) the support that these countries' governments give to aeronautical research and development; and (3) the organization of the countries' aeronautical research and development establishments. GAO also obtained information on other aeronautical research and development efforts sponsored by the European Community and its member nations.

Social Services

Foster Care: Parental Drug Abuse Has Alarming Impact on Young Children

GAO/HEHS-94-89, Apr. 4 (29 pages).

The 1991 population of young foster care children differs significantly from the 1986 population in the three locations GAO reviewed—California, New York, and Pennsylvania, the states with the largest average foster care populations in 1991. The 1991 population is much larger; more of these children entered foster care due to some form of neglect; these children have more health-related problems and are at high risk for further problems due to prenatal drug exposure; and they are more likely to be eligible for federal payments. Both federal and state expenditures have felt the impact of the rising number of young foster children and the decline in their overall health. Further, two broad service needs overlap foster and health care programs. First, drug abuse treatment programs for biological mothers and pregnant women are needed to reduce the risks associated with prenatal drug exposure and the likelihood that children will be removed from their families. Second, services are needed to treat the health and developmental problems of drug-exposed children. Although few alternatives to foster care are now available to these families, meeting these needs should increase the chances for family reunification.

However, drug abuse, to the extent that it persists, will remain a hidden contributor to the costs of various federal programs.

**Infants and Toddlers:
Dramatic Increases in Numbers Living in Poverty**

GAO/HEHS-94-74, Apr. 7 (64 pages).

During the 1980s, the number of poor infants and toddlers increased by 26 percent, with 20 percent of all children under age two living in poverty by 1990, a trend that poses serious challenges to federally-funded early childhood programs. Cities and rural areas have been disproportionately affected. More than 45 percent of all infants and toddlers in some cities and urban areas were living in poverty by 1990. Poor infants and toddlers were more likely to live with families that (1) spoke little English, (2) were headed by single parents, (3) had limited education, and (4) had unemployed parents. Federal early childhood programs generally reach only a small percentage of these children. For example, the Head Start program now serves only about one percent of all poor infants and toddlers. In light of the proven benefits of such early childhood programs as the Women, Infants, and Children and the Childhood Immunization programs, federal and state governments may wish to reexamine their efforts to serve infants and toddlers. The reauthorization of Head Start provides an opportunity for including more infants and children in the program.

Testimony

Long-Term Care: Demography, Dollars, and Dissatisfaction Drive Reform, by Jane L. Ross, Associate Director for Income Security Issues, before the Senate Special Committee on Aging. GAO/T-HEHS-94-140, Apr. 12 (13 pages).

The long-term care system has evolved in a patchwork fashion and is today comprised of multiple programs that individuals find hard to access. Despite millions of dollars in outlays, the system often fails to meet the diverse needs of the disabled, and many believe that access to services could be improved with the same level of funding. This testimony focuses on three trends underlying the quest for reform. First, demographic changes make rising demand for long-term care inevitable across all ages, not just for the elderly. Second, spending will escalate sharply across all ages, not just for the elderly. Third, despite high costs, disabled persons are increasingly unhappy with available services and their ability to obtain them.

Long-Term Care Reform: Program Eligibility, States' Service Capacity, and Federal Role in Reform Need More Consideration, by Joseph F. Delfico, Director of Income Security Issues, before the Subcommittee on Aging, Senate Committee on Labor and Human Resources. GAO/T-HEHS-94-144, Apr. 14 (22 pages).

Passage of any long-term care reform legislation is merely the first step in a long journey toward meeting the nation's long-term care needs. Knowledge about determining long-term care needs and services, derived largely from the experience of innovative states, suggests that state flexibility is the best way to meet the diverse needs of individuals and communities. This flexibility requires a new, different federal role, largely one of partnership with the states in the design and management of programs. The administration's proposal would give states \$38 billion in federal funding each year for a new federal-state program of home and community-based services, to be phased in from 1996 to 2003. States will be given wide latitude to design and run programs to serve persons of all income ranges. The proposal would also liberalize Medicaid nursing home eligibility, provide tax credits to defray the costs of personal assistance for working persons with disabilities, and encourage and regulate private long-term care insurance. If the administration's proposal is to be the blueprint for long-term care reform, the new federal role should be spelled out more clearly. More thought should also be given to developing state guidance on determining eligibility and to helping states with less capacity to use program funds wisely.

Long-Term Care: The Need for Geriatric Assessment in Publicly Funded Home and Community-Based Programs, by Kwai-Cheung Chan, Issue Area Director for Program Evaluation and Methodology, before the Subcommittee on Aging, Senate Committee on Labor and Human Resources. GAO/T-PEMD-94-20, Apr. 14 (22 pages).

Because of advances in medicine and public health, Americans are living longer than ever before. Nearly one in every eight Americans was 65 years of age or older in 1990; by 2020, this ratio is expected to rise to one in five. To maintain their independence, many elderly need daily help with routine activities, such as bathing, dressing, shopping, and preparing meals. Home and community-based long-term care for the elderly is today financed and run through a host of federal and state programs. This fragmentation can result in elderly persons being reevaluated every time they apply for a new program or pass a particular milestone, such as being discharged from a hospital. Despite this potential for redundancy, geriatric assessment is a

potentially useful part of any program with frail elderly clients seeking community and home-based long-term care. This testimony discusses (1) what geriatric evaluation is and how it is used, (2) the extent to which it is available in public programs, (3) the professional requirements for persons who administer it, and (4) the pros and cons of standardizing the evaluation process.

Tax Policy and Administration

Tax Administration: Analysis of IRS' Budget Request for Fiscal Year 1995

GAO/GGD-94-129, Apr. 20 (38 pages).

The Internal Revenue Service's (IRS) fiscal year 1995 budget request totals \$7.6 billion, a 3.7 percent increase over the previous year's appropriation that is due mainly to a growth in tax systems modernization. At the same time, the budget could cut IRS' staffing level by 5.2 percent, the brunt of which would fall on IRS' enforcement programs. Apart from IRS' budget request, the President has proposed giving IRS another \$405 million for several compliance initiatives that would boost IRS staffing by about 5,000 positions and reverse the decline in enforcement staff. GAO's analysis of IRS' budget request and the proposed initiatives raises questions about unfunded costs, compliance initiatives and the use of telephone collections for delinquent accounts, user fees for taxpayer photocopies and other services, tax systems modernization, and trends in return filing.

Transportation

Aviation Safety: FAA and the State Department Can Better Manage Foreign Enforcement Cases

GAO/RCED-94-87, Mar. 17 (18 pages).

In November 1992, a foreign-operated aircraft departing from Miami International Airport experienced engine failure, ditched into the Atlantic Ocean, and sank. The aircraft was overweight on takeoff, could not climb to the proper altitude, and narrowly missed high-rises in a heavily populated area before it crashed. The operator had no liability insurance on the aircraft and the Federal Aviation Administration (FAA) discovered that the plane did not meet international safety standards. FAA has not effectively managed its enforcement workload, and as a result, foreign governments and FAA have not acted on all safety violations that they have

referred to one another. This inability to act was mainly due to the length of time FAA took to process cases, which FAA attributed to staffing shortages and other priority work. Furthermore, FAA did not follow up on foreign referrals and, consequently, could not say which governments were not acting or why. Delays in processing violations and following up have resulted in cases being closed without being investigated. FAA found deficiencies that weakened foreign countries' enforcement capabilities. Overall, 16 of the 26 countries that FAA assessed between August 1991 and September 1993 did not meet international safety standards. Deficiencies included a lack of inspectors to look into violations, no technical expertise to carry out inspection programs, and no regulations for taking enforcement action or assessing penalties. The Transportation Department assessed 28 penalties totaling about \$1.25 million against foreign carriers between 1989 and 1992. Only two of the carriers failed to pay up, and the Department revoked both carriers' operating authority.

**Coast Guard:
Improved Process Exists to Evaluate Changes to Small
Boat Stations**

GAO/RCED-94-147, Apr. 1 (24 pages).

In a March 1990 report (GAO/RCED-90-98) on the Coast Guard's proposal to close or curtail operations at 15 small boat stations, GAO found that the Coast Guard had neither developed comprehensive criteria nor applied a sound, methodical decision-making process. Small boat stations have been established near U.S. coastal waters, the Great Lakes, and inland lakes and waterways to perform rescue missions and to protect and save property. In its current report, GAO indicates that the Coast Guard's new process for determining the need for stations changes is reasonable and responds to the deficiencies noted in the 1990 report. The current process, for example, includes detailed criteria for considering such factors as a station's workload, the availability of alternative resources, boating and economic trends, and necessary upgrades to the facility. Using the new process, Coast Guard officials have done a comprehensive analysis of small boat stations, which they plan to complete by April 15, 1994. As a result of this evaluation, they expect to recommend closure, consolidation, or substantial downsizing of some stations. Coast Guard officials also expect a net reduction of about 100 jobs at small boat stations to meet fiscal year 1995 budget cuts being imposed agencywide. Coast Guard officials project that small boat stations' operating and facilities costs

would be cut by nearly \$4.5 million annually if the proposed changes are implemented.

**Coast Guard:
Cost for the Naval Academy Preparatory School and Profile of
Minority Enrollment**

GAO/RCED-94-131, Apr. 12 (16 pages).

Although the Coast Guard says that the cost for sending a Coast Guard cadet to the Naval Academy Preparatory School in the 1993-94 academic year averaged \$20,441, GAO estimates the cost at about \$15,900. GAO's estimate includes the cadet's pay; expenses for the cadet's food, clothing, and travel; pay for three Coast Guard instructors assigned to the school; and other miscellaneous expenses. The Navy does not charge the Coast Guard for the cost of tuition. GAO's estimate is lower because the Coast Guard did not use accurate pay rates and did not consider student dropout rates. Overall, GAO estimates that it will cost the Coast Guard about \$590,000 to send 37 students to the preparatory school during the 1993-94 academic year. The Coast Guard's use of the Naval Academy Preparatory School has improved the minority profile at the Coast Guard Academy, which is the program's main purpose.

**Air Traffic Control:
Status of FAA's Modernization Program**

GAO/RCED-94-167FS, Apr. 15 (80 pages).

The Federal Aviation Administration's modernization program, which began in 1981, is a \$36 billion dollar effort to modernize the nation's air traffic control system by acquiring new equipment, such as radars, computers, and communications systems. This fact sheet (1) provides background information on the air traffic control system and its modernization; (2) discusses the status of the overall modernization effort, emphasizing changes in cost estimates; (3) reviews in detail the changes from 1993 to 1994 in the costs and the schedules for 12 of the largest projects, including the Advanced Automation System and the Microwave Landing System; and (4) provides information on FAA's aviation weather program, including cost and schedule data on two key weather projects.

**Railroad Safety:
Continued Emphasis Needed for an Effective Track Safety
Inspection Program**

GAO/RCED-94-56, Apr. 22 (60 pages).

The Federal Railroad Administration (FRA) has improved its track inspection program and has a sound strategy for correcting weaknesses that GAO flagged in earlier reports. To further strengthen rail safety, FRA needs to incorporate site-specific data on passenger and hazardous materials traffic in its inspection plan and improve the reliability of accident and injury data. Because of gaps and inaccuracies in the plan's data, FRA officials do not believe the plan will help them develop annual strategies for targeting inspections of high-risk tracks. Also, the usefulness of the staffing and evaluation components is limited because they rely on the plan's questionable data. FRA has enhanced its daily oversight of track safety efforts. FRA has not, however, always enforced its policy that inspectors review a railroad's compliance history before physically inspecting tracks. FRA faces a difficult challenge in revising the safety standards for excepted tracks. FRA intended that exceptions apply to little-used lines that, for economic reasons, could not be brought up to minimal safety standards. Yet the number of reported accidents and cited defects on excepted track has increased, and FRA is concerned that railroads have abused the excepted track provision. Regulations prohibit FRA inspectors from writing violations for excepted tracks and do not require railroads to fix cited defects.

**Coast Guard:
Program to Inspect Intermodal Containers Carrying Hazardous
Materials Can Be Improved**

GAO/RCED-94-139, Apr. 27 (12 pages).

The U.S. Coast Guard estimates that up to 2.1 million intermodal freight containers carrying hazardous materials, such as explosives and poison gas, pass through U.S. seaports each year. The Coast Guard's draft procedures for inspecting hazardous materials, which have been implemented in pilot programs at two ports, are scheduled to be introduced nationwide in April 1994. GAO concludes that the effectiveness of the nationwide program will be jeopardized unless several problems are overcome. First, the Coast Guard's approach of inspecting relatively few containers, using locally developed inspection procedures, will not

achieve the maximum regulatory compliance for the inspection resources invested. A better approach would be to target high-risk shipments, such as those of shippers with a history of noncompliance. Second, Coast Guard inspectors are unsure about how to interpret some of the thousands of regulations to be enforced. Third, in most cases, shippers are not notified of violations that are corrected on the spot. As a result, they may be unaware of the problem and may repeat the same mistakes. Finally, an agreement under which Coast Guard inspectors are to train Customs Service inspectors on transportation regulations and Customs inspectors are to refer possible violations to the Coast Guard for enforcement has yet to be implemented.

Testimony

Mass Transit: Issues Related to Fiscal Year 1995 Appropriations, by Barry T. Hill, Associate Director for Transportation Issues, before the Subcommittee on Transportation, House Committee on Appropriations. GAO/T-RCED-94-180, Apr. 13 (18 pages).

Budgetary pressures affect not only federal dollars available to transit systems but state and local support as well. Moreover, unfunded federal mandates, such as the Americans With Disabilities Act and the Clean Air Act Amendments, are boosting transit system costs. These factors make it more imperative than ever that federal dollars be spent cost effectively. This testimony focuses on three issues: (1) What changes have occurred in capital investment planning for transit systems? (2) What challenges face transit agencies as they implement the paratransit requirements of the Americans With Disabilities Act? (3) What issues surround the administration's proposal to cut transit operating assistance?

Amtrak: Key Decisions Need to Be Made in the Face of Deteriorating Financial Condition, by Kenneth M. Mead, Director of Transportation Issues, before the Subcommittee on Surface Transportation, Senate Committee on Commerce, Science, and Transportation. GAO/T-RCED-94-186, Apr. 13 (34 pages).

The proposed fiscal year 1995 authorization should help Amtrak address its growing operating deficit. However, it will not resolve the costly challenges facing Amtrak in both the near and the longer term. For Amtrak to continue nationwide service at its present level, boost service quality and reliability, and improve its overall financial condition, it requires substantial operating and capital funding. In Europe, where competitive conditions are more conducive to rail travel, intercity passenger service

has required substantial public funding. In the United States, only a few well-traveled routes may ever generate enough revenues to cover operating costs. Amtrak and the federal and state governments must decide whether Amtrak is to continue its present course, expand into such areas as high-speed rail service outside the Northeast corridor, or limit its operations to those routes where losses can be minimized. Under any scenario, federal and state support will need to be commensurate with the assigned task.

Advanced Automation System: Implications of Problems and Recent Changes, by Allen Li, Associate Director for Transportation Issues, before the Subcommittee on Aviation, House Committee on Public Works and Transportation. GAO/T-RCED-94-188, Apr. 13 (25 pages).

The Advanced Automation System, one component of the Federal Aviation Administration's (FAA) \$36 billion effort to modernize the nation's air traffic control system, is intended to replace computer hardware and software, including workstations used by controllers at tower control facilities. The automation should help FAA cope with predicted increases in air traffic and provide operational benefits to users, such as more fuel-efficient routes. FAA's development of the system has been plagued from the start by major schedule delays and cost increases. Although FAA and IBM, the prime contractor, have been trying to overcome these problems, the problems continue and major changes have been made to the system. This testimony highlights (1) the problems confronting the system, (2) their causes, and (3) the implications of the problems and changes affecting the system.

FAA Budget: Agency Faces Key Management Challenges on Major Issues, by Kenneth M. Mead, Director of Transportation Issues, before the Subcommittee on Transportation and Related Agencies, House Committee on Appropriations. GAO/T-RCED-94-191, Apr. 19 (31 pages); and

FAA Budget: Management Attention Needed for Future Investment Decisions, by Allen Li, Associate Director for Transportation Issues, before the Subcommittee on Transportation and Related Agencies, Senate Committee on Appropriations. GAO/T-RCED-94-195, Apr. 21 (27 pages).

At just more than \$8.8 billion, the Federal Aviation Administration's (FAA) fiscal year 1995 budget request represents a two-percent increase over the previous year's appropriation. This amount includes \$2.3 billion for facilities and equipment; \$4.6 billion for operations; \$1.7 billion for the

Airport Improvement Program; and \$267 million for research, engineering, and development. About \$6.6 billion will be charged to the Airport and Airway Trust Fund and the rest will be charged to the General Fund. At these levels, expenditures would exceed trust fund receipts from user fees, which are estimated at under \$6 billion for fiscal year 1995. The fiscal year 1995 budget would continue the trend of drawing down the trust fund balance. Against this financial backdrop, FAA faces major challenges. How FAA meets them will affect profoundly the nation's airports and airlines as well as the traveling public. These two testimony focus on air traffic control modernization, workforce operations in a period of downsizing, the use of Airport Improvement Program money, and research and development for detecting explosives.

Veterans Affairs

VA Health Care: A Profile of Veterans Using VA Medical Centers in 1991

GAO/HEHS-94-113FS, Mar. 29 (54 pages).

In 1993, the President proposed a major overhaul of the nation's health care system that would guarantee universal coverage to all Americans. For many veterans, this reform would allow them, for the first time, to choose between the Department of Veterans Affairs' (VA) medical centers and other health care providers. Employment status and income levels are expected to be major factors affecting veterans' decisions. This fact sheet profiles veterans who, during 1991, used VA medical centers. It describes veterans' income, age, marital status, usage rates, disability status, employment, family size, and other characteristics. GAO collected this information using VA patient records and Internal Revenue Service tax records.

Veterans Health Care: Most Care Provided Through Non-VA Programs

GAO/HEHS-94-104BR, Apr. 25 (56 pages).

When the Department of Veterans Affairs' (VA) health care system was established in 1930, neither public nor private health insurance programs were available to American veterans. With the subsequent growth of public and private health insurance programs, most veterans today have alternatives to VA health care. National health care reform could further reduce the number of veterans lacking health insurance. This briefing

report determines (1) how many veterans are receiving services under other federal health programs and the cost of providing those services and (2) how many veterans using VA services are eligible to receive care under other federal programs.

Testimony

Veterans' Health Care: Veterans' Perceptions of VA Services and Its Role in Health Care Reform, 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-94-150, Apr. 20 (16 pages).

GAO conducted a series of focus group meetings with veterans to explore their views on the current veterans' health care system and the future role of the Department of Veterans Affairs (VA) under health care reform. Among the topics discussed were the reasons and extent to which veterans used VA health care services; their overall satisfaction with the care VA provides; the need to maintain a separate VA health care system; whether the VA health care system should be expanded to cover dependents; whether VA should set up managed care plans to compete with private sector plans and the potential competitiveness of VA plans; the factors they would consider in deciding whether to select a VA health plan; and improvements that would make VA a more competitive provider. The veterans expressed a wide range of opinions on these topics. Although their views may not be representative of the nation's 27 million veterans, many of the concerns expressed—such as the excessive waiting times and poor customer service—have been the focus of earlier GAO reports and congressional hearings.

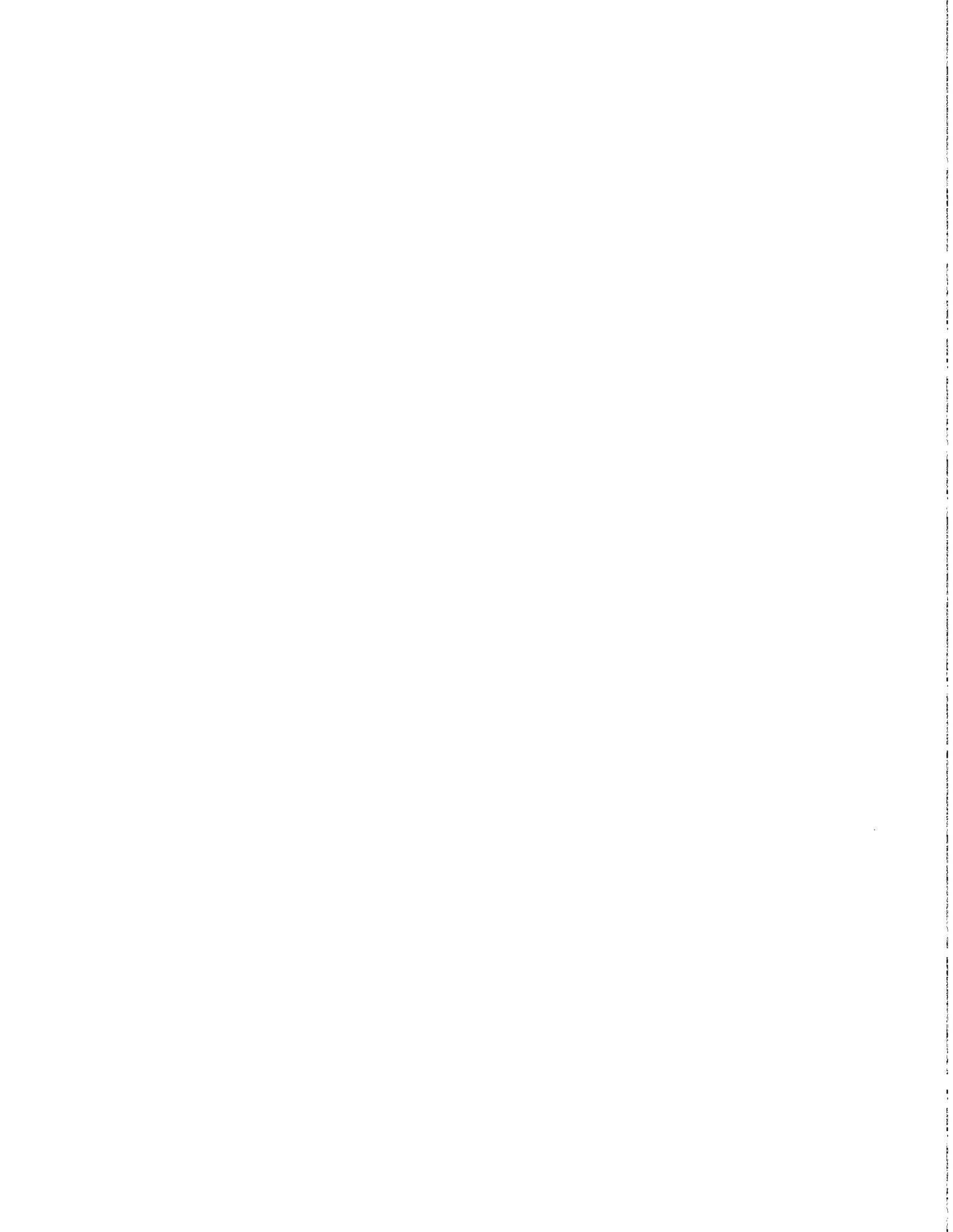
Special Publications

Desert Shield and Desert Storm Reports and Testimonies: 1991-93

GAO/NSIAD-94-134W, March 1994 (42 pages).

Following the August 1990 Iraqi invasion of Kuwait, sizable numbers of U.S. forces were deployed to the Persian Gulf as part of Operations Desert Shield and Desert Storm, the largest U.S. military action since Vietnam. The two operations provided an environment for testing U.S. modern military capabilities and helped indicate the military forces and equipment that would be needed for future contingencies. For the last three years, GAO has reported on the financial aspects of the conflict, the mobilization and the deployment, the logistics and maintenance operations, the military

weapons and the related systems, and the foreign relations and the international trade. This bibliography summarizes 73 unclassified GAO reports and testimony on the Persian Gulf War. An order form is included.





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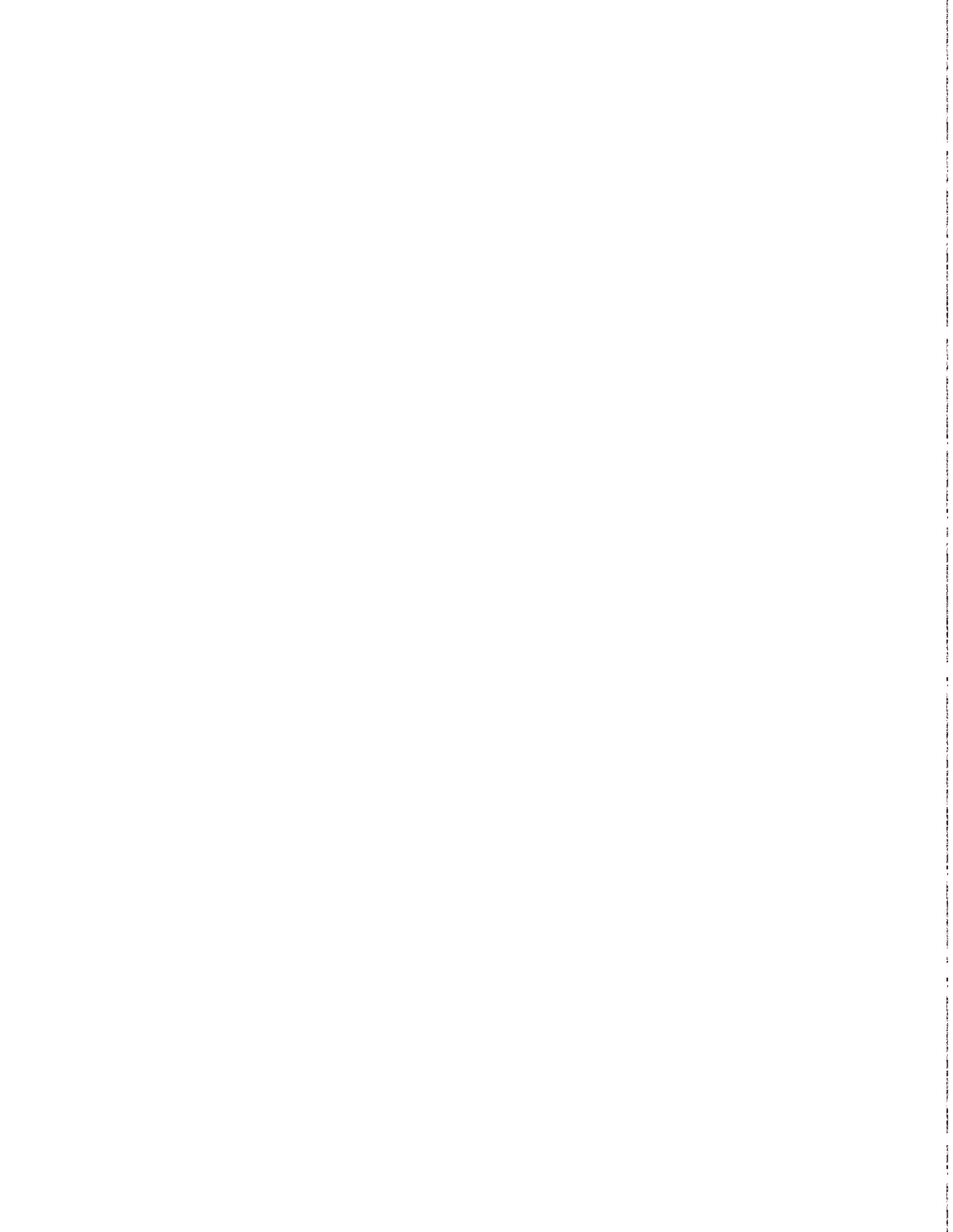
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