



Reports and Testimony: July 1991

Highlights

Credit Unions

Although the condition of federally insured credit unions is better than that of banks and thrifts, the new and more risky environment in which credit unions are operating makes it appropriate for Congress to hold annual oversight hearings on the industry's health. Page 17.

Water Pollution

The Environmental Protection Agency and the states have identified only a fraction of the nation's severely polluted waterways, and less than three percent of the 18,770 lakes, rivers, and streams that have been identified are targeted for stringent pollution controls or cleanup. Page 11.

Weather Satellite

The lone, aging U.S. satellite used to forecast severe weather conditions from space could fail at any time, while a more advanced replacement, already three years behind schedule, has serious technical problems that could further delay its deployment and add to its rapidly increasing costs. Page 53.

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Special Publications

Meeting the Aviation Challenges of the 1990s: Experts Define Key Problems and Identify Emerging Issues

GAO/RCED-91-152, July 1991 (98 pages).

To better understand and deal with long-standing aviation issues and to examine emerging ones, GAO convened a conference in November 1990 that brought together leading aviation experts from Congress, the administration, the aviation industry, and academia. The conference speakers addressed such topics as (1) the Federal Aviation Administration's organization and management, (2) airspace management and air traffic control, (3) aviation safety, (4) airport capacity and security, and (5) airline competition and consumer protection. This report summarizes the themes most often stressed by the speakers, provides information on past and ongoing GAO work in these areas, and contains complete remarks by all speakers.

Agriculture and Food

Disaster Assistance: Problems in Administering Payments for Nonprogram Crops

GAO/RCED-91-137, June 28 (38 pages).

GAO looked at the procedures that the U.S. Department of Agriculture used to administer disaster assistance for producers of nonprogram crops—those without federal price supports. This report discusses the Agricultural Stabilization and Conservation Service's effectiveness in verifying data provided by these producers, its methodology and supporting data used to establish payment rates and expected yields for nonprogram crops, and the levels of disaster payments provided in comparison with estimated production costs incurred. GAO recommends that Congress consider ways of ensuring payment integrity at reasonable costs in the event of future disaster assistance to producers of non-program crops.

U.S. Department of Agriculture: Strengthening Management Systems to Support Secretarial Goals

GAO/RCED-91-49, July 31 (51 pages).

The U.S. Department of Agriculture makes decisions every day that rely heavily on its financial, information, and human resources management systems. GAO concludes that weaknesses in USDA's basic management

systems, which were set up in a simpler era, severely limit its ability to carry out its responsibilities efficiently and effectively. These weaknesses, often long-standing, developed because the Department has not had strong central leadership and oversight. USDA has launched several important initiatives to improve its management systems. However, without strong central leadership and more comprehensive solutions to persistent problems, these efforts will not be adequate to address underlying weaknesses in the management systems.

Budget and Spending

Testimony

The Effects of Budget Enforcement Act Discretionary Spending Limits in Fiscal Years 1994 and 1995, by Charles A. Bowsher, Comptroller General of the United States, before the Senate Committee on the Budget. GAO/T-AFMD-91-8, July 16 (41 pages).

The Comptroller General testified that discretionary spending limits in fiscal years 1994 and 1995 will not allow funding for all programs potentially considered high priority. While increases in user fees and savings from greater program efficiencies may help to offset the reduction in real dollars available for all discretionary spending, the President and Congress will have to make hard choices about defense, international, and domestic spending. It is theoretically possible to postpone these decisions until fiscal year 1994 appropriations legislation is considered, but the Comptroller General believes that may be unwise in view of the severe constraints that will be faced at that time. Current funding decisions are affected by expectations of these future decisions, and decisions today will limit the range of options available in the future. Farsighted decision-making and careful planning today are the best ways of dealing with the constraints imposed by the Budget Enforcement Act limits in 1994 and 1995 and ensuring future progress in deficit reduction.

Business, Industry, and Consumers

Small Business: Evaluation of Investment Companies' Financing Activities

GAO/RCED-91-142BR, July 23 (31 pages).

GAO reviewed the financing activities of investment companies participating in the Small Business Administration's Small Business Investment Company (SBIC) Program, which helps small businesses obtain equity capital, management assistance, and long-term financing. This briefing report provides information on (1) the number and dollar amount of financings made by SBICs and specialized SBICs in calendar years 1983 through 1989, (2) the size of businesses receiving financing and the purpose of the financing, (3) SBA's definition of "small business concern" and the ability of businesses with large gross assets to qualify for financing, and (4) the role of banks in providing financing through SBIC and specialized SBIC programs.

Telecommunications: 1991 Survey of Cable Television Rates and Services

GAO/RCED-91-195, July 17 (43 pages).

In its third survey of cable television rates and services, GAO found that rates paid by customers continue to rise faster than the rate of inflation even though they have moderated somewhat. Sixty-six percent of subscribers for the lowest priced basic service faced rate increases of more than 10 percent between December 1989 and April 1991. Average rates for the lowest priced basic service increased by nine percent—from \$15.95 to \$17.34—per subscriber with an average decrease of one channel. Also, the average monthly rate for the most popular basic cable services rose by 15 percent, from \$16.33 to \$18.84 with an increase of two channels. GAO also found that the number of systems offering only one tier or level of service fell by about 25 percent from 83.4 to 58.6 percent. The number of systems offering two or more tiers increased from 16.6 percent to 41.4 percent. On the revenue side, overall monthly revenue to cable operators increased an average of 4.2 percent between December 1989 and December 1990 and 4.7 percent between December 1990 and March 1991. GAO summarized this report in testimony before Congress; see:

Telecommunications: 1991 Survey of Cable Television Rates and Services, by John M. Ols, Jr., Director of Housing and Community Development Issues, before the Subcommittee on Telecommunications and

Finance, House Committee on Energy and Commerce. GAO/T-RCED-91-82, July 18 (two pages).

Testimony

Insurance Regulation: Assessment of the National Association of Insurance Commissioners, by Richard L. Fogel, Assistant Comptroller General for General Government Programs, before the Subcommittee on Policy Research and Insurance, House Committee on Banking, Finance, and Urban Affairs. GAO/T-GGD-91-61, July 29 (53 pages).

Although the U.S. insurance industry operates on a national scale, the state-by-state system of insurance solvency regulation is patchwork and characterized by varying degrees of regulation and lack of uniformity. The National Association of Insurance Commissioners has stepped into the breach and has successfully prescribed reporting requirements to achieve uniformity in some areas of state solvency regulation; it has been less successful with its model laws, however, which must be adopted by each state. While the Association is trying to create a national system of effective solvency regulation through its accreditation program, GAO questions whether state adoption of current Association standards will achieve a consistent and effective system of solvency regulation. In GAO's view, the underlying standards for accreditation are often undemanding and, in some cases, inadequate. Even if the Association devises sufficiently stringent standards for effective solvency regulation, GAO doubts whether the Association can surmount a fundamental obstacle to its long-term effectiveness as a regulator: the Association lacks the authority to compel state action or to sustain its own reforms.

Civil Rights

Within-School Discrimination: Inadequate Title VI Enforcement by the Office for Civil Rights

GAO/HRD-91-85, July 22 (81 pages).

Many of the nation's schools group students by ability in a possibly discriminatory way. Schools often assign students to ability-grouped classes for all academic subjects, with no regrouping to reflect different abilities in various subjects. As a result, ability-grouped students remain with the same classmates throughout the day. The Office of Civil Rights in the Department of Education has concluded that such ability grouping is discriminatory when it results in disproportionate numbers of minority students being assigned to lower ability classes. Yet the

Office's title VI enforcement activities relating to within-school discrimination have been inadequate, and some ability-grouping and tracking investigations have allowed the same practices that others found to be in violation. A lack of internal policy guidance by the Office of Civil Rights contributed to this inconsistency. In addition, the Office has insufficiently monitored school districts' corrective actions; as a result, the Office has sometimes failed to determine if discriminatory practices it identified have stopped. In December 1990, the Office announced a nationwide enforcement strategy that makes within-school discrimination a high priority. GAO believes that the Office's plans to develop written policy guidance for regional offices to use in investigating title VI issues and improve monitoring practices—as presented in its national enforcement strategy—are steps in the right direction.

Education

Education Grants Management: Actions Initiated to Correct Material Weaknesses

GAO/HRD-91-72, June 26 (14 pages).

In its June 1990 High Risk List citing federal programs vulnerable to waste, fraud, and abuse, the Office of Management and Budget identified several weaknesses in the Department of Education's management of discretionary grants programs. This report examines Education's actions to correct the following weaknesses noted by OMB: (1) awarding unnecessary and poorly defined grants, (2) monitoring that is not comprehensive enough to ensure that recipients comply with grant terms and conditions, and (3) failing to close out expired grants in a timely and proper manner to prevent the possibility of unauthorized use of unspent funds by grant recipients. GAO concludes that while Education's efforts seem appropriate, it is unclear whether they will actually solve the agency's grant management problems.

Employment

Job Training Partnership Act: Inadequate Oversight Leaves Program Vulnerable to Waste, Abuse, and Mismanagement

GAO/HRD-91-97, July 30 (49 pages).

Since its inception in 1983, the Job Training Partnership Act has spent about \$28 billion to provide employment and training services mainly to economically disadvantaged individuals. The relative success of the act

in placing participants in jobs has been marred, however, by recent reports of program waste, abuse, and mismanagement. GAO found that improper spending on program administration and training contracts has reduced the amount available for training and placement assistance. Further, federal and state oversight have not detected these problems, leaving the program vulnerable to waste, abuse, and mismanagement. GAO recommends steps that the Department of Labor should take to reduce the potential for improper program management and to address the questionable practices that are occurring.

**Federal Labor Relations:
A Program in Need of Reform**

GAO/GGD-91-101, July 30 (100 pages).

By law, most federal employees have the right to unionize and, thereby, participate with agency management in decisions affecting their working conditions. The large majority of experts GAO interviewed said that the federal labor-management relations program is not working well. In general, they said that (1) the program is too adversarial and often bogged down by litigation over procedural matters and minutiae; (2) some dispute resolution mechanisms are too lengthy, slow, and complex; and (3) ineffective Federal Labor Relations Authority management has weakened the program. GAO concludes that the problems in the federal labor-management relations program are so widespread and systemic that piecemeal technical revisions would not be a workable solution. Accordingly, GAO is not making any specific recommendations for changes to the program, but suggests that Congress hold hearings on the program with a view toward establishing a panel of nationally recognized experts in labor-management relations and participants in the federal program to develop a proposal for comprehensive reform. GAO summarized this report in testimony before Congress; see:

The Federal Labor-Management Relations Program, by Rosslyn S. Kleeman, Director of Federal Workforce Future Issues, before the House Committee on Post Office and Civil Service. GAO/T-GGD-91-63, July 31 (19 pages).

Testimony

Farmworkers Face Gaps in Protection and Barriers to Benefits, by Joseph F. Delfico, Director of Income Security Issues, before the House Select Committee on Aging. GAO/T-HRD-91-40, July 17 (16 pages).

Laws and regulations designed to protect farmworkers and their families from pesticide exposure and child labor abuses have fallen short. Problems exist in the enforcement of pesticide and field sanitation regulations, and farmworkers face barriers in obtaining Medicaid and Social Security benefits. Complicating this situation is the lack of reliable, comprehensive data on the number of farmworkers nationwide, the number and ages of children working on farms, and pesticide poisonings and other health problems of farmworkers. Making changes to improve the living and working conditions of farmworkers may prove difficult and slow, however. The current budget situation raises serious questions about program costs and funding priorities. In addition, more regulation and enforcement may result in increased costs to growers. Because costs are ultimately passed on to the consumer, U.S. competitiveness in agriculture could be affected. Nonetheless, GAO believes that a balance must be struck between increased costs and progress toward improving the living and working conditions of farmworkers.

Job Training Partnership Act: Racial and Gender Disparities in Services, by Lawrence H. Thompson, Assistant Comptroller General for Human Resources Programs, before the Subcommittee on Employment and Housing, House Committee on Government Operations. GAO/T-HRD-91-42, July 17 (13 pages).

The Job Training Partnership Act provides classroom and on-the-job training as well as job search assistance to low-income and long-term unemployed youth and adults. Past reports by GAO and others have found that minorities and women are either less likely to receive occupational training or the training they receive is likely to be for lower paid jobs. A GAO study now underway to determine the extent of disparities in service within individual service delivery areas suggests that disparities do exist. This testimony summarizes the information that GAO has developed so far on disparate services to blacks and women in the Job Training Partnership Title IIA program. An upcoming report will address disparities in services to other minorities.

Energy

Nuclear Security: Property Control Problems at DOE's Livermore Laboratory Continue

GAO/RCED-91-141, May 16 (13 pages).

In April 1990, GAO reported that the Department of Energy's Lawrence Livermore Laboratory was unable to locate 16 percent of its inventory

of government-owned equipment. Following the report's release, laboratory officials told the press that most of the inventoried equipment—about 99 percent—had been found. GAO believes that this statement is inaccurate. First, the laboratory excluded from its claim over 20,000 non-capital equipment items that are still missing. Second, the laboratory's reported percentage of located items was based on cost, whereas the percentage of located items GAO reported as missing was based on the number of missing items. Taking these factors into consideration, only about three percent of the inventoried equipment, which cost \$26.8 million, has been located. About 13 percent of the inventoried equipment, which cost \$18.6 million, is still missing. Although progress has been made in some areas, the property control problems that GAO identified in April continue: A substantial amount of government-owned property is missing; the laboratory lacks adequate controls to ensure that property in its custody is safeguarded against theft, unauthorized use, or loss; and DOE has not provided adequate oversight of the laboratory's property management system.

**Nuclear Waste:
Pretreatment Modifications at DOE Hanford's B Plant Should Be Stopped**

GAO/RCED-91-165, June 12 (14 pages).

Plans are underway to modify the 46-year-old B Plant at the Department of Energy's Hanford Site to pretreat mixed high-level radioactive waste from the double-shelled tanks before vitrification—a process that immobilizes the high-level waste by turning it into glass. While DOE has been aware since at least 1987 that the B Plant did not meet specific federal and DOE regulations, the agency did not discuss the matter with Washington State until January 1991. In March 1991, state officials recommended to Congress that DOE abandon the B Plant as a pretreatment facility. Moreover, the new process that DOE is developing to pretreat about 75 percent of the high-level waste requiring pretreatment is incompatible with the B Plant's waste pipes; chemicals used in the process could cause extensive corrosion, and no technology exists to correct this problem. A recent DOE study suggests that because of the absence of double containment for pipes, tanks, and other processing facilities, the B Plant will not meet the requirements imposed by federal environmental law. Despite these serious concerns, DOE continues to modify the B Plant. Even though DOE has placed modification projects totaling more than \$400 million on hold, five pretreatment projects totaling about \$43 million are still underway.

Testimony

Full Disclosure of National Energy Strategy Analyses Needed to Enhance Strategy's Credibility, by Judy A. England-Joseph, Associate Director for Energy Issues, before the Subcommittee on Regulation, Business Opportunities, and Energy, House Committee on Small Business. GAO/T-RCED-91-76, July 8 (11 pages).

GAO testified on the process the administration used to develop its National Energy Strategy, the analytical support for the policy proposals it sets forth, and factors that will influence its potential success. The administration has not published analyses of alternative packages of policy options that it examined in developing the strategy, such as those analyzed at the request of the Economic Policy Council. Publication of these analyses could enhance the strategy's credibility and provide Congress with information needed to consider the merits of various energy policy proposals, including the National Energy Strategy.

Alternative Fuels: Experience of Countries Using Alternative Motor Fuels, by Victor S. Rezendes, Director of Energy Issues, before the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations. GAO/T-RCED-91-85, July 29 (18 pages).

In reviewing programs in Brazil, Canada, and New Zealand to encourage the use of alternative fuels, GAO found that each country was able, to some extent, to get motorists to use alternative fuels, although not without problems and setbacks. GAO also found remarkable consistency in the experiences and lessons reported. GAO testified that the experiences of these three countries provide useful insights that Congress could consider as it deliberates legislation encouraging the use of alternative fuels. In addition, GAO's review of Department of Energy efforts to implement the Motor Fuels Act of 1988 revealed several related issues that Congress could consider, including (1) the extent to which federal purchases of alternative-fueled vehicles should be accelerated before data are collected on how such vehicles perform and (2) resolving problems in placing federal vehicles, given the limited number of fueling and repair stations and the lack of incentives to build such vehicles. In the final analysis, GAO testified, the extent to which alternative fuels are competitively priced with gasoline will determine their use.

DOE Management: Management Problems at the Three DOE Laboratories Operated by the University of California, by Victor S. Rezendes, Director of Energy Issues, before the Subcommittee on Investigations and Oversight, House Committee on Science, Space, and Technology. GAO/T-RCED-91-86, July 31 (14 pages).

GAO, as well as the Department of Energy's Inspector General, have pointed out the need for major improvement in (1) the University of California's management of three DOE laboratories—Lawrence Livermore, Los Alamos, and Lawrence Berkley—and (2) DOE oversight of that management effort. GAO found problems with University of California controls over laboratory operations, such as managing property, protecting classified documents, and ensuring that subcontractors are not subject to foreign influence, which might lead to transfers of nuclear technology or materials to foreign countries. In addition, clauses in the University of California contracts hamper DOE's ability to effectively manage the laboratories. DOE has addressed many of the specific problems that GAO identified and has tried to improve overall contract management. Negotiations with the University of California to extend the laboratory contracts will present another opportunity for DOE to take a firm stance on the need for management improvements. Having appropriate procedures and resources in place would also help DOE carry out its administration of contracts.

Environmental Protection

Water Pollution:

Stronger Efforts Needed by EPA to Control Toxic Water Pollution

GAO/RCED-91-154, July 19 (53 pages).

GAO reviewed (1) efforts by the Environmental Protection Agency and the states to identify water affected by toxic pollutants and to develop strategies to control discharges into these waters and (2) the extent to which existing water pollution control programs and activities comprehensively control all types and sources of toxic pollution. EPA and the states did not identify many of the nation's polluted waters because most states have monitored few of their rivers, lakes, and streams. Also, less than three percent of the 18,770 bodies of waters deemed impaired are targeted for more stringent regulatory controls or cleanup. Monitoring varies widely among states, and efforts to control toxic pollution often focus on pollution discharged from point sources like municipal and industrial facilities; little attention has been paid to controlling toxic pollution caused by nonpoint sources. According to EPA and state officials, financial resource constraints have affected their ability to effectively implement water pollution control programs. Some states are using alternative financing mechanisms, like fees, to generate more revenue to support their programs. Also, EPA and some states and industries have begun integrating prevention practices into their existing pollution control programs to prevent toxic discharges to surface waters. A

number of barriers, however, currently impede wider use of both approaches. GAO summarized this report in testimony before Congress; see:

Stronger Efforts Needed by EPA to Control Toxic Water Pollution, by Richard L. Hembra, Director of Environmental Protection Issues, before the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations. GAO/T-RCED-91-81, July 25 (14 pages).

**Air Pollution:
EPA May Not Fully Achieve Toxic Air Deposition Goals**

GAO/RCED-91-102, May 10 (36 pages).

Toxic substances from air and other sources that have accumulated in various animal species (bioaccumulation) are associated with harmful effects in several species of fish and wildlife. The states surrounding the Great Lakes have issued warnings about the risks to humans of eating fish from contaminated areas. Bioaccumulation has occurred in the Chesapeake Bay and other waters but is not as widespread, and less is known about the extent of air deposition in those waters. The Environmental Protection Agency is concerned that data limitations will make it hard to develop a comprehensive report on air deposition in three years, as required by the Clean Air Act.

**Air Pollution:
EPA's Strategy and Resources May Be Inadequate to Control Air Toxics**

GAO/RCED-91-143, June 26 (34 pages).

In 1988 American industry released over 2.4 billion pounds of toxic chemicals into the nation's air, creating health problems ranging from birth defects to cancer. To date, however, the Environmental Protection Agency has regulated only seven of the hundreds of known toxic air pollutants. The Clean Air Act Amendments of 1990 require EPA to regulate another 189 of the most hazardous and pervasive air toxics within a decade. This report examines whether EPA has (1) developed an adequate plan for implementing the Act's air toxics provisions and (2) requested enough resources to meet its regulatory responsibilities within the time frames specified by the Act.

**Coastal Pollution:
Environmental Impacts of Federal Activities Can Be Better
Managed**

GAO/RCED-91-85, June 5 (51 pages).

Stress on coastal resources arising from increased population growth has resulted in beach closures, declining fish populations, and destruction of wetlands. Concerns have arisen that even as the federal government spends millions of dollars to protect the coastal environment, it is involved in other activities that may inadvertently accelerate environmental degradation in coastal areas. Direct effects can include waste charges from federal facilities, while indirect effects can include encouragement of population growth. According to federal and state coastal zone managers, most federal agencies comply with environmental review requirements when their activities affect coastal areas. However, GAO discovered that state and federal agencies sometimes disagree about whether certain federal agency activities are subject to environmental review requirements. Even in cases in which there were no disputes about the need for an environmental review, GAO found that questions were sometimes raised about how well the review process accounted for the full range of environmental impacts. This was particularly true for federal activities with indirect effects, such as accelerated population growth. Such impacts are often more significant than direct impacts but are harder to quantify. Currently, little guidance is available on how indirect impacts should be assessed. Although strengthening the review process would help ensure that the environmental impacts of specific projects or activities are considered, comprehensive planning in coastal areas would help ensure that the cumulative effects of activities are considered in addition to their individual impacts. Little guidance exists, however, on developing comprehensive plans or on how such plans could be used to assess cumulative impacts.

**Hazardous Waste:
Data Management Problems Delay EPA's Assessment of Minimization Efforts**

GAO/RCED-91-131, June 13 (44 pages).

American industry generates millions of tons of hazardous waste each year, such as toxic chemicals used in manufacturing. Because this material poses a threat to public health and the environment, it must be controlled and disposed of properly. One response to the sheer volume of

these wastes—an estimated 275 million metric tons were generated by more than 200,000 facilities in 1985—is to reduce or minimize waste generation through recycling and changes in production processes. Although the Environmental Protection Agency and the states have made progress in implementing the voluntary waste minimization program, EPA's assessment of the industry's efforts has been delayed because of problems in the design of the generator survey and biennial data collection instruments and in the process for collecting and aggregating the data. The data collection design problems may limit the data's usefulness for measuring waste minimization because the data do not include "small quantity generators"—facilities producing less than 2,200 pounds of hazardous waste per month. Yet these facilities collectively may account for a significant percentage of total hazardous waste output. In addition, the data collection design does not account for changes in toxicity, and some data are reported by generators in an inconsistent manner and cannot be accurately compiled on a national basis. GAO also found that EPA lacked a data management plan defining data requirements, establishing how to obtain the needed data, and identifying the resources and time frames for completion. With such a plan, the agency may have been able to avoid or reduce the data collection design problems and set more realistic completion dates for the effort.

Coast Guard:

Oil Spills Continue Despite Waterfront Facility Inspection Program

GAO/RCED-91-161, June 17 (19 pages).

About 16,000 oil spills involving the release of more than 46 million gallons of oil took place in U.S. navigable waters in 1988; spills at waterfront facilities, where vessels load and unload oil, accounted for about half of the oil spilled. While the Coast Guard acknowledges its responsibility for regulating and inspecting waterfront facilities, its efforts in this area have fallen short because it has not been inspecting portions of intrafacility pipes that transport oil between docks and storage tanks. Water pollution and noncompliance with federal oil pollution prevention regulations continue to be high at waterfront facilities. Yet the Coast Guard cannot determine how effective its inspection program has been in reducing the risk of oil spills because information on program results, such as the types, severity, and frequency of deficiencies found by inspectors, is not compiled and linked with information on the causes of oil spills found by investigators. Until the Coast Guard collects this type of information, it will not be in a position to establish measurable goals

or objectives to ensure that its current inspection strategy is making the best use of its resources.

Toxic Substances:

EPA's Chemical Testing Program Has Not Resolved Safety Concerns

GAO/RCED-91-136, June 19 (34 pages).

Americans are exposed daily to more than 60,000 chemicals found in products used in homes, offices, and industry. Yet the Environmental Protection Agency has made little progress in developing information on the safety of these chemicals and has not acted to regulate or warn the public about chemicals found to be harmful. While EPA believes that the chemicals do not pose significant or unreasonable risk, the agency has no criteria or methodology for determining such risk. Further, EPA management control weaknesses and failure to resolve testing problems in a timely manner have added years to the assessment of chemical safety concerns, a situation that EPA is now trying to correct. Information on EPA chemical testing is publicly available at its headquarters, but the agency makes no effort to have results published in scientific journals and data bases, which would require peer review of the testing results. EPA is currently exploring ways to more broadly disseminate the results, including peer review of test data.

Testimony

Opportunities to Better Manage and Control Nonindustrial Wastewater Pollution, by Peter F. Guerrero, Associate Director for Environmental Protection Issues, before the House Committee on Environment and Public Works. GAO/T-RCED-91-72, July 9 (14 pages).

Although more must be known about the sources and severity of problems associated with nonindustrial wastewater from households and commercial establishments, there is general agreement that such wastewater poses threats to the environment, public health, and the operations of treatment plants. Several states and localities have begun programs to improve the quality of nonindustrial wastewater. Available information, however, suggests that the problem warrants increased federal attention as well. For example, the Environmental Protection Agency could encourage or require treatment plants to gather more data about the extent or seriousness of the problem and share this information with the government. EPA, in turn, could provide this information and possible solutions to the problem to states, localities, and the public. The relative merits of other options will not be fully clear until more is

known about the scope and severity of the environmental and health risks associated with nonindustrial wastewater.

Water Pollution: Observations on Compliance and Enforcement Activities Under the Clean Water Act, by Richard L. Hembra, Director of Environmental Protection Issues, before the Subcommittee on Environmental Protection, Senate Committee on Environment and Public Works. GAO/T-RCED-91-80, July 18 (16 pages).

GAO testified that strong enforcement by the Environmental Protection Agency and the states is fundamental to ensuring compliance with the Clean Water Act. Effective enforcement deters violations and, when violations do occur, helps to ensure that corrective action is taken in a timely matter. Yet enforcement of water quality laws remains weak and sporadic. Despite serious and long-standing violations, most enforcement actions are mild, informal “slaps on the wrist” rather than formal actions like fines and penalties. Even in the rare cases in which penalties have been assessed, they have often been significantly reduced or dropped without adequate documentation. Without enforcement, industrial dischargers have little incentive to comply with the law and pay for pollution control. At the same time, those firms that do abide by program requirements are unfairly placed at a competitive disadvantage relative to those who opt not to invest in pollution control equipment and practices. Effective enforcement programs, in turn, need criteria that identify significant noncompliance and timely and appropriate enforcement actions, coupled with vigilant EPA oversight.

Pesticides: EPA’s Repeat Emergency Exemptions Provide Potential for Abuse, by Peter F. Guerrero, Associate Director for Environmental Protection Issues, before the Subcommittee on Environment, House Committee on Science, Space, and Technology. GAO/T-RCED-91-83, July 23 (15 pages).

Under the Federal Insecticide, Fungicide, and Rodenticide Act, state and federal agencies can continue to use unregistered pesticides in an emergency without having to go through the Environmental Protection Agency’s registration process. An emergency situation is defined as an “urgent, non-routine” situation that requires the use of a pesticide, when no effective registered pesticides or alternative practices exist to control a specific pest. GAO testified that many emergency exemptions have been granted for unregistered pesticides since the regulations were promulgated for the program in 1973. Furthermore, EPA’s reluctance to deny repeat requests opens the door to potential abuse of the program

by causing companies that do register their pesticides to be placed at a competitive disadvantage. EPA now lacks criteria explaining what a “complete application” is when determining progress towards registration and therefore may frequently grant exemption requests for more than three years. In addition, EPA’s regulatory definition of an emergency does not exclude chronic or continually occurring problems and therefore allows EPA to grant long-term emergency exemptions.

Financial Institutions

Credit Unions: Reforms for Ensuring Future Soundness

GAO/GGD-91-85, July 10 (371 pages).

Today’s federally insured credit unions are in better shape than banks and thrifts, due in part to changes in the types of loans and accounts offered by credit unions, as well as to relaxed membership restrictions. Accompanying such industry growth, however, has been increased exposure to risk. Difficulties could develop if credit unions are not run safely and soundly in their new environment, if regulation is not modernized, if supervision and failure resolution are not timely and effective, and if the National Credit Union Share Insurance Fund—which provides federal share insurance—is not adequately overseen and financed. While the National Credit Union Administration has responded to the expanded powers of credit unions by tightening regulation of commercial lending and by developing a new examination format and rating system, GAO has identified many changes related to organization, regulation, supervision, and insurance that would help ensure continued safe and sound operations and also protect the National Credit Union Share Insurance Fund.

Obligations Limitation: Resolution Trust Corporation’s Compliance as of September 30, 1990

GAO/AFMD-91-63, May 31 (23 pages).

This quarterly report examines the Resolution Trust Corporation’s compliance with the maximum obligation limit set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The act provides a formula for calculating the limit and sets aside \$50 billion in financing to resolve troubled savings and loans placed into receivership. On the basis of its review of RTC’s February 4, 1991, report and table

and its financial records, GAO concludes that none of the categories for the formula were omitted from the Corporation's calculation. However, at the direction of its Oversight Board and with the approval of the House and Senate Banking Committees, RTC changed its methodology for calculating its third quarter compliance to eliminate \$18.8 billion of Treasury funding and, as a result, its adjusted obligation level is not comparable to amounts calculated in the first and second quarter reports. If RTC had included the Treasury funding in its calculation, its third quarter adjusted obligation level would be only \$9 billion below the \$50 billion provided by the Financial Institutions Reform, Recovery, and Enforcement Act. GAO believes that the obligations limit as originally implemented by RTC provided a spending control that helped ensure that losses were funded as incurred. GAO is concerned that RTC's assets in receivership could be significantly overvalued. RTC has not done a comprehensive review of the assets under receivership control and therefore cannot determine each asset's condition or set a realistic price for its sale. In addition, RTC lacks the historical experience in asset sales and asset management necessary to evaluate its recovery estimates. Finally, asset sales could generate significantly less revenue than expected, especially if the economic slowdown continues. Without the reserve feature, the hedge against losses from sales of overvalued assets is gone and future funding demands on Congress will likely occur as assets are sold.

**Federal Asset Disposition Association:
No Economic Basis for Reported Fee Income Under 1988 Letter
Agreement**

GAO/AFMD-91-15, July 29 (43 pages).

After reviewing a 1988 letter agreement for asset management services between the Federal Asset Disposition Association and the Federal Savings and Loan Insurance Corporation, GAO concludes that there is no apparent valid business reason why FADA should have been paid additional amounts for its services in 1988; FADA provided essentially the same asset management service as other asset managers that contracted with FSLIC. On the basis of that conclusion and its review of FADA's board of director minutes, GAO argues that the intent of the 1988 letter agreement was to recapitalize FADA and to ensure that FADA showed a profit in 1988, rather than to provide payment for additional services. Therefore, the proper accounting for substantially all of the funds FADA received from the 1988 letter agreement would have been to report the funds as paid-in capital rather than income. In that case, FADA would have

reported a loss of nearly \$9.9 million instead of net income of over \$3.3 million. GAO believes that FADA's 1988 financial statements, together with Peat Marwick Main & Co.'s opinion on the financial statements, did not provide Congress with a dependable basis for evaluating FADA's 1988 financial performance. While FADA's 1988 financial statements were misleading, the auditor's opinion could be defended on technical grounds because the auditing and accounting rules for related party transactions are unclear. This situation underscores the urgent need for improving the accounting rules for related party transactions.

Testimony

Expanded Powers for Banking Organizations, by Charles A. Bowsher, Comptroller General of the United States, before the Subcommittee on Telecommunications and Finance, House Committee on Energy and Commerce. GAO/T-GGD-91-52, July 10 (21 pages).

Allowing banking organizations to engage in a full range of financial services has been suggested as the most effective way of solving the banking industry's problems. GAO, however, questions the wisdom of expanding bank powers in the hope that this will reverse the financial difficulties of banks. While benefits may well arise from allowing banking organizations to further diversify their activities, significant risks arising from competition and other forces in the market could exacerbate the problems of an already troubled industry and its insurance fund. If Congress decides to expand powers for banks, GAO strongly believes that Congress should make certain that two major reforms are in place and sufficiently implemented before any newly authorized powers take effect. First, the way banks are regulated, supervised, and operated by their owners must be significantly strengthened, and the Bank Insurance Fund must be rebuilt. Second, regulation of the bank holding company form of organization must be updated and strengthened to reduce risks to the banking system. Once these reforms are in place, GAO believes that new powers could be phased in if accompanied by other appropriate safeguards designed to control the potential risk associated with such activities and to ensure competitive equity in the financial services industry. GAO does not support allowing commercial firms to acquire banking organizations. Too little is known about what would happen if such new conglomerates were to founder and possibly create the need for huge bailouts.

Resolution Trust Corporation: Structure and Oversight Issues, by Richard L. Fogel, Assistant Comptroller General for General Government Programs, before the RTC Oversight Task Force, Subcommittee on

Financial Institutions, Supervision, Regulation and Insurance, House Committee on Banking, Finance and Urban Affairs. GAO/T-GGD-91-55, July 15 (nine pages).

Frustration with the slow pace of asset disposal for failed thrifts has generated several proposals for restructuring the Resolution Trust Corporation. Most of these proposals have centered on separating RTC from the Federal Deposit Insurance Corporation and changing the current dual board structure. In addition, legislation pending before Congress would make RTC an executive agency. GAO endorses independent oversight of RTC operations because of the extraordinary amount of money RTC will spend and because of its complex mission. Regardless of whether such oversight is done by the Office of Management and Budget or by the Department of the Treasury, steps must be taken to ensure strong, consistent, effective, and timely management oversight and intervention. It is unclear to GAO, however, what additional expertise OMB could bring to bear that would result in better oversight of RTC or what benefits would accrue from more active OMB involvement. Numerous mechanisms are already in place to oversee RTC's actions, and these may or may not be strengthened if RTC were to become an executive agency. Many laws cover a wide range of matters that would apply to RTC if it were to become an executive agency. It is critical that the applicability of these laws be fully considered and their benefits carefully weighed against their potential to retard RTC's asset disposition efforts.

Improved Regulatory Structure and Minimum Capital Standards Are Needed for Government-Sponsored Enterprises, by Charles A. Bowsher, Comptroller General of the United States, before the Subcommittee on Government Information and Regulation, Senate Committee on Governmental Affairs. GAO/T-GGD-91-57, July 18 (nine pages); and

Improved Regulatory Structure and Minimum Capital Standards Are Needed for Government-Sponsored Enterprises, by Richard L. Fogel, Assistant Comptroller General for General Government Programs, before the Subcommittee on Policy Research and Insurance, House Committee on Banking, Finance and Urban Affairs. GAO/T-GGD-91-62, July 24 (nine pages).

These testimony discuss recommendations made in an earlier GAO report (see GAO/GGD-91-90, May 22, 1991) that Congress establish (1) a regulator for government-sponsored enterprises (GSE) who has appropriate enforcement authorities, (2) a new federal regulatory structure to

administer GSE oversight, and (3) reasonable capital rules on the basis of the risks undertaken by GSEs. While GSEs generally seem to be in sound condition today, changes in management strategies, economic downturns, or other adverse events could cause future GSE losses. The speed with which an apparently sound firm can become financially imperiled was vividly demonstrated in the thrift industry, the Farm Credit System, and Fannie Mae in the early 1980s. The time to act to ensure the safety and soundness of GSEs is when the situation is calm; history shows that regulatory improvements are more difficult to implement during a crisis and after huge losses have occurred.

Financial Management

Fraud and Abuse: Stronger Controls Needed in Federal Employees Health Benefits Program

GAO/GGD-91-95, July 16 (30 pages).

Congress passed the Financial Integrity Act of 1982 to reduce waste, fraud, abuse, and misappropriation of federal program funds. Although the Office of Personnel Management has made some improvements in the health insurance program's internal controls, it cannot reasonably ensure that program funds are adequately protected from fraud and abuse. The act requires federal agencies to evaluate internal controls in the programs for which they are responsible; however, the carriers themselves are exempt from the requirements of the act. GAO believes that OPM's Retirement and Insurance Group needs to evaluate the controls used by the carriers as part of the Group's Financial Integrity Act responsibilities. OPM has found that the plans are highly vulnerable to fraud and abuse, with misappropriation of carrier funds occurring in seven of the 25 fee-for-service plans. These cases involved embezzlement, use of plan funds to finance union or employee organization activities, improperly charging the plan for over \$1 million in expenses not incurred, and improperly charging the program \$7.2 million for federal income taxes paid on its service charges (profit) over a five-year period. Although the Retirement and Insurance Group has found that oversight of the carriers is too limited, the Group continues to rely almost entirely on the Inspector General to perform the oversight role. In addition to the limited oversight, other control weaknesses need to be improved. OPM needs (1) to ensure that Inspector General recommendations for correcting deficiencies are implemented by the carriers and (2) to develop an aggressive programwide antifraud policy for pursuing enrollee and provider fraud. OPM also needs to use its statutory authority to penalize

providers who commit fraud or program-related offenses. GAO also believes that the health benefits program's internal control deficiencies should be reported as a material weakness until OPM can ensure that the carriers have established adequate controls to safeguard funds from loss.

**Financial Audit:
Statement of Accountability of the House Finance Office for Fiscal Year 1990**

GAO/AFMD-91-67, July 19 (12 pages).

GAO audited the Statement of Accountability for Appropriations and Other Funds arising from cash transactions of the Finance Office, House of Representatives, for fiscal year 1990. The House Finance Office performs receipt and disbursement activities for House congressional staff, committees, Capitol Police, and certain revolving funds. In GAO's opinion, the statement presents fairly, in all material respects, the receipts and disbursements of the Clerk of the House for appropriated and other funds arising from cash transactions of the House Finance Office for fiscal year 1990.

**Financial Management:
Factors and Needs to Consider in Implementing the Chief Financial Officers Act of 1990**

GAO/AFMD-91-37, July 23 (21 pages).

To help address financial management problems at the Department of Veterans Affairs, Congress passed legislation creating the position of Chief Financial Officer to oversee VA's financial management operations. More recently, the Chief Financial Officers Act of 1990 strengthened the Chief Financial Officer position at VA and included VA in a pilot program to develop audited financial statements. With the legislative framework for improved financial management now in place, GAO believes that VA should consider several factors in implementing these laws. For instance, VA must consolidate responsibility for all financial management functions under the Chief Financial Officer. Also, VA must establish financial management systems that comply with applicable requirements and develop cost data and performance measures. Further, VA should prepare a departmentwide plan to guide financial management systems development and operations. Other factors to be considered include (1) improving asset management systems, (2) integrating

accounting and budget information, and (3) attracting and retaining financial staff.

**Financial Management:
Navy Needs to Improve Its Accounting for Ship Fuel Purchases**

GAO/AFMD-91-54, July 23 (12 pages).

The Navy lacks adequate controls to ensure that accurate and reliable data are recorded in its systems that account for, control, and report on fuel ship purchases. GAO did not identify any cases in which the Navy paid for fuel it never received; however, Fleet Comptroller officials did not monitor related accounts to prevent this from happening. Although the Atlantic Fleet Comptroller's office maintained detailed obligation and expenditure information on ship fuel purchases, it did not adequately monitor the accuracy of the obligations and expenditures related to ship fuel purchases recorded in its accounting system. As a result, the Fleet Comptroller did not know if almost \$50 million of outstanding fiscal year 1989 fuel purchase transactions recorded in the accounting system were correct or had been paid. Unlike the Atlantic Fleet, the Pacific Fleet Comptroller's office did not maintain detailed information on ship fuel purchases necessary to monitor the accuracy of obligations and expenditures recorded in its accounting system. As a result, neither GAO nor the Navy could readily determine if problems GAO found with the Atlantic Fleet also existed at the Pacific Fleet.

**Financial Audit:
Commodity Credit Corporations' Financial Statements for 1989 and 1988**

GAO/AFMD-91-5, July 29 (49 pages).

This report presents the results of GAO's audit of the financial statements of the Commodity Credit Corporation for fiscal years 1989 and 1988. Reports on the Corporation's internal control structure and on its compliance with laws and regulations are also provided, as well as GAO's discussion and analysis of the Corporation's financial operations.

**Financial Audit:
Panama Canal Commission's 1990 Financial Statements**

GAO/AFMD-91-76, July 31 (30 pages).

This report presents the results of the audit of the Panama Canal Commission's financial statements for 1990. Reports on the Commission's internal accounting controls and on its compliance with laws and regulations are also provided. In GAO's opinion, consistent with the opinion of Deloitte & Touche, the Panama Canal Commission's financial statements present fairly, in all material respects, its financial position as of September 30, 1990, and the results of its operations, changes in the investment of the U.S. government, and cash flows for the year then ended, in conformity with generally accepted accounting principles. Due to security concerns, however, GAO was unable to travel to Panama to conduct its financial audits of the Commission, and GAO cannot be assured that the financial statements are free from material misstatements.

**Government
Operations**

**Experts and Consultants:
Weaknesses in Hiring Process at State's Office of Inspector General**

GAO/GGD-91-60, June 24 (84 pages).

In a draft report to Congress, the Department of State's Office of Inspector General was linked to problems concerning the appointment of experts and the reporting of consulting contracts. In the final version of this report, however, these references were omitted. GAO found that these omissions did not involve a deliberate attempt to conceal internal Office of Inspector General problems but rather stemmed from (1) reporting before complete information about problems was known and (2) misunderstandings among Office of Inspector General staff. However, GAO concludes that many of the expert appointments were questionable and that contracting requirements were not followed.

**Peace Corps:
Long-Needed Improvements to Volunteers' Health Care System**

GAO/NSIAD-91-213, July 3 (30 pages).

Peace Corps volunteers risk a myriad of illnesses and injuries in their work, which often takes place in impoverished countries with poor health conditions. Although most current and former volunteers GAO

contacted were satisfied with the quality of health care provided by the Peace Corps, the Peace Corps' health care system does not ensure a level of care comparable with that offered in the United States. Furthermore, the agency lacks reliable and systematic data on the quality of care provided. The capabilities of medical officers, who receive insufficient training and guidance from the Peace Corps, were not evaluated, and the health care system has not been subjected to a medical review by an independent accrediting organization comparing the quality of care provided to U.S. standards. GAO found that from 10 to 30 percent of former volunteers had medical problems stemming from their Peace Corps service, and about half of these volunteers had not filed a compensation claim under the Federal Employees Compensation Act. Some were unaware of the benefits and some had used their private insurance to cover medical expenses. Others who had sought help in filing a claim said that they received inadequate assistance from the Office of Medical Services. The Peace Corps has initiated efforts to improve (1) the quality of care for volunteers during their service and (2) the assistance provided to former volunteers with service-related medical conditions.

**Land Exchange:
Phoenix Indian School Development Plan Adversely Affects Property Value**

GAO/GGD-91-111, July 25 (56 pages).

The exchange of government-owned land in Phoenix, Arizona—formerly occupied by an Indian school—for environmentally sensitive land in Florida is now under consideration. The 111-acre Indian school site is potentially one of the most valuable undeveloped real estate parcels in the Southwest, depending upon how the City of Phoenix allows the property to be developed. In order to limit competition to downtown development, increase residential housing, and preserve as much parkland as possible, the plan chosen by the Phoenix City Council allowed less commercial space than what the city had proportionately allowed developers in other projects and what some real estate experts considered to be reasonable. Had Phoenix allowed as much commercial development as deemed reasonable by Interior's contract appraiser and GAO's consultant, the government might have been able to realize more than the \$80 million minimum price set forth in legislation authorizing the land swap. While GAO did not determine the worth of the property, the plan greatly diminishes the property's value.

**OMB Circular A-76:
Legislation Has Curbed Many Cost Studies in the Military Services**

GAO/GGD-91-100, July 30 (19 pages).

In response to congressional concerns that the Defense Department was taking too long to do OMB Circular A-76 cost studies, GAO reviewed (1) DOD's A-76 activity level, (2) the length of time DOD takes to complete A-76 cost studies, (3) the reasons for long cost-study times, (4) DOD's actions to shorten study times, (5) the number and cost of private-sector A-76 studies, and (6) DOD's response to GAO's recent recommendations and those made by the DOD Inspector General. GAO found that DOD's A-76 activity has significantly decreased. Officials attributed this trend primarily to legislation that has affected DOD's A-76 program. The total number of cost studies in process fell from 1,225 in September 1987 to 113 in May 1991. It remains to be seen whether the services will successfully meet the new time frame requirements established by the DOD Appropriation Act for 1991. About 80 percent of the services' cost studies done in fiscal year 1990 took longer than the new time frames, and the services have not corrected the underlying causes of the length of these studies. However, it is possible that the reduced number of studies and the DOD Appropriations Act's time limitation could result in the services more expeditiously completing cost studies in the future.

Testimony

Federal Lobbying: Federal Regulation of Lobbying Act of 1946 Is Ineffective, by Milton J. Socolar, Special Assistant to the Comptroller General, before the Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs. GAO/T-GGD-91-56, July 16 (23 pages).

Although the Federal Regulation of Lobbying Act was intended to reveal the identities of parties who finance lobbyists, the legislation has been largely ineffective since its enactment in 1946. A 1954 Supreme Court ruling strongly narrowed the application of the act to cases in which the main goal of the lobbying was to influence legislation through direct contact with Members of Congress. As a result, many significant lobbying efforts no longer had to be reported. The act itself prescribes only criminal penalties for noncompliance and provides no enforcement authority to Senate and House offices that receive the lobbying reports; these offices have never issued regulations implementing the act. Further, neither these congressional offices nor the Department of Justice

take routine enforcement action for late or incomplete filing or for non-filing. About 6,000 individuals and organizations registered and filed reports for 1989. The 6,000 lobbyists reported total receipts of \$234 million and expenses of \$76 million for 1989. About 62 percent of required reports were filed late and more than 90 percent were incomplete. GAO could not determine the extent to which required filings were not made, but interviews done by GAO suggest the existence of significant numbers of nonfilers.

Revised Plan for the National Air and Space Museum Extension, by L. Nye Stevens, Director of Government Business Operations Issues, before the Subcommittee on Libraries and Memorials, House Committee on House Administration. GAO/T-GGD-91-60, July 30 (eight pages).

In February 1991 testimony before Congress (see GAO/T-GGD-91-5, Feb. 1), GAO reported that in considering an extension to the National Air and Space Museum, the Smithsonian Institution did not take a consistent and businesslike approach to siting and developing a facility under potentially competitive circumstances. As a result, the Smithsonian could not objectively defend the selection of Dulles International Airport as the preferred site of the extension. Smithsonian officials later requested that GAO meet with them to discuss the issues raised in GAO's testimony. Over the course of three meetings, the Smithsonian did further site analyses and revised its extension plans. The Smithsonian sent a letter to Congress describing these revisions and included additional cost analysis. This testimony summarizes GAO's previous testimony and its response to the Smithsonian's letter to Congress.

Health

Substance Abuse Treatment: Medicaid Allows Some Services but Generally Limits Coverage

GAO/HRD-91-92, June 13 (18 pages).

States are shouldering most of the funding burden for substance abuse treatment services, with the federal government assisting through block grants. The federal government also reimburses states for treatment of some substance abusers through the federal-state Medicaid program. Congress has been concerned about the Health Care Financing Administration's lack of a national policy on the use of Medicaid funds for substance abuse and about HCFA, in the absence of specific guidance in law or regulation, giving states differing interpretations on what substance

abuse treatment services Medicaid would reimburse. This report examines federal guidance to the states on Medicaid coverage of substance abuse treatment services, the types of Medicaid services available in states, the level of federal and state spending, and barriers that may exist to obtaining treatment reimbursement by Medicaid.

**Long-Term Care:
Projected Needs of the Aging Baby Boom Generation**

GAO/HRD-91-86, June 14 (22 pages).

By virtue of its numbers, the baby boom generation—about 76 million people born between 1946 and 1964—has already had a profound impact on the American education system and, in more recent years, the work force. As the baby boom generation ages, rapid growth in the numbers of elderly people who need nursing home care or care at home will increase long-term care resource requirements. This report provides information on projections of (1) the disabled elderly population and its use of long-term care services, (2) the number of home health aides required, (3) the costs of future long-term care services, and (4) the base of taxpayer or employed work force available to pay for the elderly needing care.

**AIDS-Prevention Programs:
High-Risk Groups Still Prove Hard to Reach**

GAO/HRD-91-52, June 14 (41 pages).

Many high-risk and HIV-infected people, particularly intravenous drug users, have not received counseling or testing aimed at treating and stopping the spread of the disease. Despite its widespread availability, the Counseling and Testing Program run by the Centers for Disease Control has identified less than 20 percent of the 1 million Americans estimated to be HIV positive. Innovative outreach services have been tried in some locations, but intravenous drug users remain a hard group to reach. Moreover, regardless of their risk, only about 40 percent of those tested return for their test results. Monitoring to oversee program activities and assessment of the effectiveness of various approaches are underway. Because a new statistical data base is not yet fully operational, however, sophisticated analyses cannot be done. Since evaluations have just recently been funded, only preliminary results are available on the effectiveness of different counseling approaches. State and local health departments have improved their distribution of funds

to service providers. Consequently, the delays in fund distribution seen in the early years of the program have been substantially reduced.

**Medicaid Expansions:
Coverage Improves but State Fiscal Problems Jeopardize Continued Progress**

GAO/HRD-91-78, June 25 (52 pages).

Since 1984 Congress has made several modifications to the Medicaid program aimed at expanding eligibility and improving services. These measures helped reverse the effects of earlier cutbacks, which had severely reduced the access of low-income families to medical services. Gains are most evident in states whose coverage in 1984 was relatively limited. The changes have reduced disparities among states in access to Medicaid services for pregnant women and children. While states' costs for these gains were relatively modest—low-income women and children cost about \$900 per capita annually versus an average of \$2,400 for recipients overall—the Medicaid program as a whole contributed to state fiscal stress during this period. It is the second largest program in most states and is generally the fastest growing. Judging by the last six years, it appears that future expansion of Medicaid access could be jeopardized by the combined effects of budget shortfalls, recession-related increases in levels of need, and more costly Medicaid mandates.

**Private Health Insurance:
Problems Caused by a Segmented Market**

GAO/HRD-91-114, July 2 (17 pages).

In May 1991, GAO testified before Congress on problems with the private health insurance market. (See GAO/T-HRD-91-21, May 2.) To more widely disseminate the information contained in this testimony, GAO is publishing its statement as a report. GAO discusses the problems of availability and affordability of private health insurance, particularly for small businesses. GAO also looks at some reform attempts proposed by interested organizations and discusses some of their limitations.

**Health Care:
Antitrust Issues Relating to Physicians and Third-Party Payers**

GAO/HRD-91-120, July 10 (26 pages).

This report examines (1) the effect of antitrust laws on the ability of physicians to collectively educate and discipline peers to reduce and eliminate ineffective practice patterns and inappropriate utilization and (2) antitrust issues as they relate to the adoption of practice guidelines by third-party payers. GAO concludes that U.S. antitrust laws need not unduly interfere with the responsible actions of physicians to reduce ineffective practice patterns and inappropriate utilizations or with those of payers to adopt practice guidelines. There appears to be no need at present for legislation providing antitrust immunity to physicians or payers to facilitate these activities.

Testimony

Nonprofit Hospitals: Better Standards Needed for Tax Exemption, by Mark V. Nadel, Associate Director for National and Public Health Issues, before the House Committee on Ways and Means. GAO/T-HRD-91-43, July 10 (nine pages).

For many nonprofit hospitals, the link between tax-exempt status and the provision of charitable activities for the poor or underserved is weak. If one goal of tax exemption is to recognize the charitable role of hospitals and encourage them to continue or expand charity care or other service to the poor, changes in tax policy may be needed. One option would be to limit the tax exemption to hospitals providing a valuable community service. Although IRS could revise the standard for charitable hospitals on its own, GAO believes that—given the important implications for health and tax policy—it would be preferable to have congressional guidance for such a policy change. Under existing tax policies, some hospitals try to avoid serving the indigent; many simply do not explicitly address the health needs of this population. Such evasion, whether active or passive, increases the burden on other hospitals serving the poor. In GAO's view, increased charity care alone will not solve the problems faced by the large numbers of uninsured and underinsured Americans, but it can be part of the solution.

Income Security

Pension Plans: Fiduciary Violations in Terminated Underfunded Plans

GAO/HRD-91-87, May 13 (11 pages).

GAO reviewed fund abuses in pension plans for which the Pension Benefit Guaranty Corporation (PBGC) assumed responsibility. Fiduciaries' fund abuses totaling about \$9.2 million had occurred in over 25 percent, or 11 of the 40 plans GAO reviewed. One individual who owned businesses that sponsored three of the plans was responsible for \$7.5 million of the misused funds. The abuses mostly involved prohibited loans of plan funds to the sponsoring business or the owners using such funds for personal expenses. For some plans, PBGC was alerted to the possible misuse of funds by plan participants. In most of the other cases, PBGC staff identified the abuses when inquiring into the status of plans or reviewing the financial data. In GAO's view, PBGC's actions to recover the misused funds were reasonable, given its untimely involvement with most of the plans. PBGC is developing procedures for legislation that would allow it to fine plan administrators up to \$1,000 per day for not complying with the notification requirement. PBGC officials believe that the penalty provision will result in better compliance.

Information Management

War on Drugs: Information Management Poses Formidable Challenges

GAO/IMTEC-91-40, May 31 (33 pages).

In combatting illegal drug use in the United States, 24 civilian agencies and the Department of Defense are operating more than 100 drug control information systems. Effective management and sharing of the enormous amount of information in these automated systems are crucial to the success of the government's war on drugs. GAO reports that formidable challenges in information management must be overcome. First, central information resources management is needed for directing agencies with drug control missions to commit the resources and take the actions necessary to improve the use and sharing of drug-related information. Currently, no single entity has clear authority for carrying out this responsibility. Second, incompatibilities among agency systems mean that some systems cannot work together to exchange information. Third, data integrity problems must be solved—sharing inaccurate or unreliable information could misdirect interdiction efforts and incriminate innocent people. Fourth, systems need to better protect sensitive

data about people, investigations, and nation security. Finally, the proliferation of intelligence centers greatly complicates the management of this information. While the Office of National Drug Control Policy—created in 1988 to develop a national drug control program and oversee the federal drug control effort—has started to address several of these issues, this work is far from complete, and it is unclear if its overall master plan will provide a workable framework from which to adequately resolve these issues.

**FAA Information Resources:
Agency Needs to Correct Widespread Deficiencies**

GAO/IMTEC-91-43, June 18 (14 pages).

The Federal Aviation Administration invests billions of dollars annually in information technology resources. Wide-ranging and fundamental information resources management problems, however, have impeded FAA's ability to do its job. Again and again, the same problems keep cropping up—inadequate definition of requirements, failure to test systems sufficiently, ineffective management of computer capacity, and unreliable data. As a result, systems are delivered late, run millions of dollars over budget, and fail to meet their objectives. An effective information resources management program could have helped FAA minimize many of these problems; FAA's existing program, however, has had limited involvement by top management, lacks a complete strategic plan, and does not ensure that sound practices are implemented.

**Defense Procurements:
Two ADP Solicitations Unnecessarily Restrict Competition**

GAO/IMTEC-91-36BR, July 9 (57 pages).

The requests for proposals for the Air Force's Tactical Air Forces Workstation and the Army's Light-weight Computer Unit procurements contained 12 specifications that restricted competition by requiring either a specific solution or a brand name product. The Air Force and the Army did not adequately justify three of the restrictive specifications, and GAO recommends that the Air Force and the Army suspend the two contracts, amend the solicitation to state the Air Force's and the Army's needs in functional terms, and conduct new competitions.

Testimony

Tax System Modernization: Issues Facing IRS, by Howard G. Rhile, Director of General Government Information Systems Issues, before the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations. GAO/T-IMTEC-91-18, July 9 (19 pages).

Over the past 25 years, the Internal Revenue Service has been trying to modernize its tax processing system. Because of past failures, IRS and taxpayers are today saddled with a system that is antiquated, cumbersome, and unresponsive to their needs. IRS' current effort is an \$8 billion computer modernization project that is scheduled to be in place by the turn of the century. In GAO's view, while IRS is in the best position ever to modernize its outmoded systems, it has a long way to go to achieve this. This testimony highlights some key prerequisites to moving forward with modernization and identifies key issues Congress and IRS need to focus on as modernization moves from the planning stage to implementation.

International Affairs

**Foreign Investment:
Concerns in the U.S. Real Estate Sector During the 1980s**

GAO/NSIAD-91-140, June 4 (52 pages).

During the 1980s, foreign investment in U.S. commercial real estate increased fourfold, reaching \$35.85 billion by 1989, with much of that coming from Japanese investors. Foreign affiliates, however, owned only about two percent of the value of total U.S. commercial property in 1988—the latest year for which these data were available. Foreign investors focused mainly on “investment grade” office buildings and hotels and a few regional shopping centers and resorts in prime locations. Because foreign investments were concentrated within a narrow market segment, prices rose rapidly. Foreign investment has slowed along with the weakening U.S. real estate market. While the precise impact of foreign investment is hard to assess, industry experts generally view it as beneficial—a source of stable, long-term capital that does not threaten national security. Concerns have arisen about (1) increased foreign competition for market share in commercial real estate development and construction and (2) the financial advantages of certain foreign investors. Industry analysts, however, believe these concerns to be overblown and that the real estate industry generally welcomes foreign investment capital. In areas of concentrated investment, most notably in Hawaii, concerns have also arisen over increases in property taxes and

tax assessments and decreases in housing availability. Although foreign investment may have significantly contributed to these effects, GAO points out that other factors were also involved.

**International Trade:
Soviet Agricultural Reform and the U.S. Government Response**

GAO/NSIAD-91-152, June 28 (40 pages).

After assuming power in 1985, President Gorbachev advocated sweeping economic reforms. While agriculture was designated the lead sector in this effort, an ineffective reform strategy, coupled with intractable economic, political, and ethnic problems—many of which are long-standing—has left Soviet agriculture in disarray. Since the onset of Soviet agricultural reform, the United States has been shipping large quantities of bulk agricultural commodities and some semiprocessed commodities to the Soviet Union. Relative to prior years, however, the export of U.S. high-value products and U.S. investments in the food-processing area have not increased significantly. This trade relationship has been fostered by a series of U.S.-Soviet Long-Term Bilateral Grain Agreements and has been further strengthened more recently by the Soviet Union's participation in the Export Enhancement Program. In addition, \$2.5 billion in agricultural export credit guarantees has been allocated to the Soviet Union for fiscal years 1991 and 1992, and President Bush is considering whether to extend most-favored-nation status to the Soviet Union. The U.S. government has undertaken several small-scale initiatives but has not made a concerted effort to encourage U.S. agribusiness to do business in the Soviet Union. Similarly, the private sector has made little effort to take advantage of the potentially vast Soviet market; U.S. agribusiness is generally taking a wait-and-see attitude.

**Soviet Refugees:
Processing and Admittance to the United States Has Improved**

GAO/NSIAD-91-245, July 11 (11 pages).

The Lautenberg Amendment requires the executive branch to establish refugee processing categories for Jews, Evangelical Christians, Ukrainian Catholics, and Ukrainian Orthodox Church members and gives such individuals a better chance of qualifying for refugee status. This report (1) evaluates efforts by the Department of State and the Immigration and Naturalization Service to implement the Lautenberg

Amendment and the effectiveness of refugee processing procedures in Moscow and Washington, D.C.; (2) evaluates whether the INS adjudication process in Moscow is fairly and consistently applied and whether it conforms with INS implementation guidance; (3) assesses whether the Soviet refugee admissions ceiling will be met for fiscal year 1991; and (4) comments on the status of public interest parole offers being extended to Soviets denied refugee status.

**The War on Drugs:
Narcotics Control Efforts in Panama**

GAO/NSIAD-91-233, July 16 (10 pages).

Although U.S. officials lack comprehensive statistics on narcotics activities in Panama, they believe that drug trafficking may be on the rise there and that Panama continues to be a haven for money laundering. U.S. and Panamanian efforts to reduce the flow of illegal drugs into the United States have been hindered because Panama's law enforcement agencies lack the training and resources necessary to conduct effective anti-narcotics operations. In addition, the environment in Panama is conducive to money laundering because of the large volume of transactions processed through the banking and commercial sectors. Panama has tried to identify potential money-laundering activities, and the governments of both countries have signed agreements to promote cooperation in reducing drug trafficking and money laundering. The United States is also providing Panama with about \$1 million in aid for fiscal years 1990 and 1991 to help law enforcement agencies there reduce narcotics activities, but these assistance programs have experienced delays.

**Foreign Assistance:
AID Energy Assistance and Global Warming**

GAO/NSIAD-91-221, July 16 (36 pages).

Providing energy assistance to developing countries remains a relatively low priority for the Agency for International Development. AID is helping some developing countries meet their energy needs, but this assistance varies substantially because of the agency's decentralized structure. Most AID energy funding has gone to a handful of countries—primarily Egypt and Pakistan. With limited funding in most other countries, AID concentrates on providing technical expertise and promoting energy policy reforms that will encourage both energy efficiency and leverage investment by the private sector and other donors. Although a

1989 congressional directive to pursue a "global warming initiative" has had a marginal impact on the agency's energy programming, many AID energy programs, including those directed at energy conservation, help address global warming concerns.

**Nicaraguan Resistance:
Programs for Repatriation and Resettlement**

GAO/NSIAD-91-234, July 25 (36 pages).

In 1990 Congress appropriated \$30 million to demobilize, repatriate, and resettle the Nicaraguan Resistance; the total amount of assistance is expected to rise to \$43.3 million by July 1991. These funds were to be provided through a commission consisting of the United Nations and the Organization of American States. U.S., Honduran, and Resistance officials agree that the U.N. repatriation program successfully met its main objective: repatriating the many demobilized combatants and dependents from Honduras who chose to be repatriated. Despite indications of malnutrition, independent experts found that the extent of malnutrition was similar to that of the general populations of Honduras and Nicaragua; signs of malnutrition were attributed primarily to disease and not to food shortages. U.S. and Honduran health officials concluded that the U.N. did provide adequate health care to eligible beneficiaries. Because most former combatants did not achieve self-sufficiency in Nicaragua within the time frame originally expected, the program run by the Organization of American States was extended to July 31, 1991. While the State Department and the Agency for International Development set up a steering committee to oversee program activities, the committee lacked specific information on program activities, such as how many beneficiaries had achieved self-sufficiency or still required assistance, when it authorized the \$10 million extension.

Testimony

Efforts to Improve Reception of Foreign Visitors at U.S. Airports, by Allan I. Mendelowitz, Director of International Trade, Energy, and Finance Issues, before the Subcommittee on Foreign Commerce and Tourism, House Committee on Commerce, Science, and Transportation. GAO/T-NSIAD-91-42, July 10 (11 pages).

Approximately 39 million foreign visitors traveled to the United States in 1990, a 50-percent increase since 1985. A recent GAO report on the speed and ease of entry of foreign visitors at U.S. international airports (see GAO/NSIAD-91-6, Mar. 8, 1991) found that routine clearance processing

during peak times significantly exceeded the International Civil Aviation Organization's worldwide time goal. In addition, the quality and extent of airport services, like ground transportation, translation services, and currency exchange, varied widely, and many federal inspectors considered airport facilities inadequate. In this testimony, GAO discusses its recommendations for improving foreign visitor reception, including (1) speeding the federal inspection clearance process, (2) expanding the gateway receptionist program, and (3) developing model guidelines for airport services and facilities.

Justice and Law Enforcement

Drug Control: Status Report on DOD Support to Counternarcotics Activities

GAO/NSIAD-91-117, June 12 (38 pages).

This is the first in a series of GAO reports on the Department of Defense's implementation of its new counternarcotics responsibilities. This status report provides information on DOD's (1) organizational structures created to carry out these responsibilities, (2) intelligence and communications networks devoted to the new counternarcotics mission, (3) overall mission budgeting and funding, and (4) efforts to measure its performance in carrying out its new responsibilities. Future reports will discuss the results of GAO's ongoing reviews of each of these areas—organization, intelligence, communications, and funding.

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

GAO/GGD-91-97, June 28 (32 pages).

Although mandated by Congress in 1988 to do so, the Department of Justice and the U.S. Customs Service have made little progress in developing a joint plan for consolidating the post-seizure administration of properties seized for drug-related violations. As a result of this inaction, duplication of effort continues and potential cost savings remain unrealized. GAO estimates that about \$25 million annually could be saved in administrative costs if all of Justice's and Custom's seized properties—drug and nondrug-related—were consolidated in one agency. Additional savings should also accrue from lower vendor costs. Under a consolidated program, the government should be able to negotiate for prices lower than those obtained through separate contracts. GAO believes that

Justice should be designated the leader in the consolidation effort and that the Marshals Service should be designated property custodian because (1) Justice's noncash property inventory is three times the size of Customs' inventory; (2) the Marshals Service has a staff of over 200 and is experienced in managing property seized by other agencies; and (3) the Marshals Service has a regional infrastructure dedicated to program oversight and providing technical help to its 94 district offices.

Testimony

Justice Management: The Value of Oversight Has Been Demonstrated, by Milton J. Socolar, Special Assistant to the Comptroller General, before the House Committee on the Judiciary. GAO/T-GGD-91-51, July 11 (nine pages).

GAO's work concerning the Immigration and Naturalization Service; the Bureau of Prisons; and debt collection, asset seizure and forfeiture, and information resources at the Department of Justice illustrates the need for and benefit of effective congressional oversight of Justice programs. GAO testified, however, that it has not enjoyed consistently good access to necessary information. As GAO has turned its attention from administrative and support functions to investigative and prosecutorial activities, it has met increasing resistance from Justice to its information requests. The problems are most prevalent at the Federal Bureau of Investigation and in connection with GAO's work on financial institution fraud. In addition, the FBI routinely resists cooperating with GAO's Office of Special Investigations, which was created to look into allegations of waste, fraud, and abuse in the federal government. GAO concludes that it is important the Justice Department reach an accommodation with GAO for providing information and documentation in specific cases. In exercising its oversight responsibility, a partially informed Congress cannot balance interests fairly, resolve issues effectively, or deliberate soundly.

Drug Enforcement: Improving Management of Assistance to High Intensity Drug Trafficking Areas, by Lowell Dodge, Director of Administration of Justice Issues, before the House Select Committee on Narcotics Abuse and Control. GAO/T-GGD-91-53, July 25 (14 pages).

Congress provided the Office of National Drug Control Policy with \$107 million to help localities with severe drug trafficking problems. Although the assistance program was supposed to be a collaborative effort, local law enforcement officials said that they were excluded from initial planning efforts on how best to spend the fiscal year 1990 funds. Fiscal year 1990 funds ended up being provided to federal agencies,

such as the Drug Enforcement Agency, which used the money to buy investigative and office equipment and to move additional federal agents to five localities. In addition, the Office has not established a foundation to evaluate the effectiveness of future assistance. Although various proposals for assisting areas with severe drug trafficking problems have been submitted to Congress, the contemplated changes do not eliminate the need for the Office to act on two problem areas. The Office needs to better promote collaborative planning, given that the cornerstone of drug law enforcement is federal, state, and local teamwork. Also, regardless of how federal funds are made available to high intensity drug trafficking areas, the Office needs a basis for establishing accountability and for assessing the effectiveness of the assistance as part of its commitment to monitor the effort and ensure that the areas receive the priority attention warranted.

National Defense, Security, and Military Procurement

Air Force Stock Fund: Hydrazine Sales Consistent With the Commercial Space Launch Act

GAO/NSIAD-91-196, May 31 (16 pages).

The Air Force buys hydrazine propellants from Olin Chemicals and later sells this material to both government and commercial users. Olin, which would like to expand its direct commercial sales, has alleged that the Air Force is competing with it by making hydrazine propellants available to private firms and depriving it of the chance to sell its product directly to commercial customers. GAO found no basis on which to conclude that the Air Force's sales practices were contrary to the requirements or the intent of the Commercial Space Launch Act, which seeks to encourage and facilitate commercial space launches by the private sector. Further, the Air Force has authority, separate from the act, for its sales practices in support of commercial space launch activities. In any case, the Air Force's sales of hydrazine propellants to authorized commercial customers do not compete with Olin's commercial sales. Olin lacks the Air Force's special approval to transport Aerozine-50, a hydrazine blend, and does not have access to NASA's Kennedy Space Center and the Cape Canaveral Air Force Station, where the storage facility is located. Olin's obtaining access to this facility would be particularly difficult because of NASA and Air Force concerns about government liability if commercially owned propellant were mishandled and because current policy prohibits storage of commercially owned hydrazine propellant.

**Communications Acquisition:
Army Needs to Ensure Economy in SINGARS Radio Procurement**

GAO/NSIAD-91-119, June 21 (30 pages).

The Single Channel Ground and Airborne Radio System (SINGARS), the Army's new generation of high frequency, jam-resistant combat net radios, is expected to cost \$3.1 billion through 1998. The Army acquisition strategy includes awarding a sole-source contract to ITT to prevent a break in production while General Dynamics Corporation completes its current contract. To obtain the benefits of increased competition between ITT and General Dynamics, GAO recommends that the Army limit procurement of ITT radios under the sole-source contract to the current annual production rate of 12,000 radios. Because of the many changes that could affect the requirements for SINGARS, GAO also recommends that the Army evaluate how future changes in the force structure, as well as the introduction of new technologies, could affect the requirements for SINGARS. As quantities are reduced, so are the potential cost savings of dual-sourcing. Therefore, if there are further reductions of SINGARS, GAO recommends that the Army re-evaluate its dual-source acquisition strategy.

**Navy Safety Training:
High-Risk Training Can Be Safer**

GAO/NSIAD-91-112, June 26 (62 pages).

A Navy airman died in March 1988 while undergoing high-risk training at the Rescue Swimmer School in Pensacola, Florida. In response to its own internal reviews as well as to an earlier GAO report (see GAO/NSIAD-89-119, Mar. 7, 1989), the Navy took some initial positive steps to improve internal controls and management oversight of its high-risk training programs. However, significant weaknesses continue in internal controls and management oversight in the high-risk courses GAO reviewed. Specifically, internal controls fall short in student and instructor screening, administrative processing of students with medical problems, instructor evaluations, and the critique system available to students. Also, Command oversight is deficient in mishap reporting and analysis, and current systems do not prevent unapproved and unsafe training procedures from happening. A recent Navy decision to shorten the length of the course at the two surface rescue swimmer schools has resulted in increased attrition because of more demanding schedules. In

GAO's view, this decision may compromise the safety of students as well as members of the fleet.

**Commercial Practices:
Opportunities Exist to Reduce Aircraft Engine Support Costs**

GAO/NSIAD-91-240, June 28 (28 pages).

Although it followed standard policies and procedures, the Air Force spent millions of dollars on excess engine and spare parts for the K-108 engine. The excesses occurred due to the Air Force and the manufacturer underestimating engine reliability, the Air Force buying engines earlier than needed for any unanticipated needs, and delays in the KC-135 modification schedule. While the Air Force has tried to reduce excess quantities of F-108 engines, it is still possible to (1) reduce the fiscal year 1992 budget request by \$225 million to avoid funding premature delivery of engines and modification kits and (2) rescind prior years' funding by \$10.2 million due to factorable contract negotiations. The Air Force, however, has accelerated its installation schedule for the modification kits since the President's budget was submitted and has plans to use prior years' funding for other needs.

**Air Force Budget:
Opportunity to Reduce Appropriations Used for Temporary Lodging**

GAO/NSIAD-91-179, July 3 (six pages).

This report examines (1) excess funds derived from daily service charges for temporary lodging of Air Force personnel and (2) the use of a nonappropriated "capital investment" account for upgrading and maintaining that lodging. Because it budgeted for the same capital requirements with both appropriated and nonappropriated funds, the Air Force accumulated an average of \$23 million in excess funds in its capital investment account during fiscal years 1986 through 1990. At the end of fiscal year 1990, the Air Force's capital investment balance was \$19 million. GAO notes that it is inappropriate to budget for the same capital requirements in both appropriated and nonappropriated funds.

**Defense Research:
Funding of the U.S./U.S.S.R. Joint Seismic Program**

GAO/NSIAD-91-256, July 5 (10 pages).

For fiscal years 1988 through 1990, Congress provided funds to the Defense Advanced Research Projects Agency to support the U.S./U.S.S.R. Joint Seismic Research Program, which is administered by the Incorporated Research Institutions for Seismology. In 1990 questions surfaced about whether the level of funds being provided by the Defense Advanced Research Projects Agency for this program met the level intended by Congress. This report examines whether funding for the Joint Seismic Program for fiscal years 1988 through 1990 was consistent with congressional intent.

**Information Security:
Federal Agency Use of Nondisclosure Agreements**

GAO/NSIAD-91-106FS-S, July 5 (20 pages).

This report is a supplement to an earlier GAO report entitled Information Security: Federal Agency Use of Nondisclosure Agreements (GAO/NSIAD-91-106FS, Jan. 18, 1991). GAO surveyed 54 federal agencies on their handling of classified information. This report contains a list of the federal agencies that responded as well as detailed information on what federal agencies reported on their classified information nondisclosure agreement and prepublication review activities.

**Navy Shipbuilding:
Allegations of Mischarging at Bath Iron Works**

GAO/NSIAD-91-85, July 8 (44 pages).

GAO reviewed the Navy's investigation of charges involving improper billing on U.S. Navy shipbuilding contracts for the CG-47 cruiser and DDG-51 destroyer programs at Bath Iron Works in Maine. GAO concludes that the Navy's oversight of contracts at Bath Iron Works was ineffective and contributed directly to the improper charges and problems found. In addition, the Navy's review of the allegations was inadequate. The Navy did discover some improper charges, and attempts have been made to recover millions of dollars in the cruiser and destroyer programs. An accurate assessment of improper charges in the destroyer

program will never be known, however, due to significant data weaknesses on contract charges at Bath Iron Works. Finally, the Navy did not exercise proper stewardship of government funds because it restructured the fixed-price destroyer contract without adequately justifying that the \$37 million it was paying was fair and reasonable.

**Army Reserve Components:
Better Training Could Improve General Support Maintenance
Capability**

GAO/NSIAD-91-219, July 9 (67 pages).

The Army has relied heavily on Reserve (Army Reserve and National Guard) forces to maintain its equipment in the event of war. On the basis of a survey of 56 units prior to Operation Desert Storm, GAO concludes that the Army's reserve general support maintenance units were not routinely prepared for their wartime missions. In addition, unit capabilities have been degraded by long-standing, fundamentally inherent problems that have hampered reserve units' training. For example, units (1) are sometimes located far from maintenance facilities or other repair sources, (2) have limited amounts of time available to train their soldiers on repairs, and (3) often spend much of their weekend training time on administrative tasks. While the Army is trying to develop ways to provide better support-level training to its reserve units, GAO identified obstacles preventing some initiatives from accomplishing this goal. Nonetheless, improvements implemented by some units to enhance maintenance training could be adopted by other units.

**Air Force Logistics:
Improved Redistribution of Retail Inventories Needed**

GAO/NSIAD-91-165, July 10 (31 pages).

Between September 1987 and March 1990, inventories of consumable items and low-cost equipment that were excess to Air Force retail activities' war reserve and peacetime operating needs increased from \$442 million to \$927 million, or 110 percent. Because wholesale item managers knew about only a small portion of the retail-level excess, they procured millions of dollars' worth of items that were excess at some retail-level activities, and opportunities for redistributing the assets were missed. Further, wholesale managers have not been effectively using known retail excess to fill back orders. About 90 percent of the inventories at the activities GAO reviewed were caused by decreasing

demands, customer turn-ins, and requisitioning problems. While the Air Force is studying ways to reduce inventories without harming readiness and sustainability, the study is not broad enough to identify specific corrective action for some of the problems GAO spotted.

**Army Contract Adjustment Board:
Decision to Grant Contract Relief to Action Manufacturing
Company**

GAO/NSIAD-91-230, July 15 (12 pages).

This report examines the extraordinary contractual relief the Army Contract Adjustment Board granted to Action Manufacturing Company, a firm that produces munitions and fire control devices for the U.S. Army. GAO found that the relief provided exceeded that requested mainly because of the inclusion of bank debt and working capital. The cost-plus-no-fee contracts and bank debt are included in the \$24.5 million relief ceiling. According to the Army, Action was essential to the national defense because of its impact on the Army's mobilization capability, production at the Army's ammunition plants and arsenals and other government contractors, and readiness. The Army financed the relief from its Conventional Ammunition Working Capital Fund. The Army Contract Adjustment Board has granted four awards since 1986 totaling about \$36 million, including the \$24.5 million awarded to Action.

**DOD Service Academies:
Improved Cost and Performance Monitoring Needed**

GAO/NSIAD-91-79, July 16 (59 pages).

DOD spends over \$1 billion annually to educate and train young men and women to become military officers. The academies are the most expensive source of new officers—a newly commissioned graduate of an academy costs DOD up to 15 times as much as one commissioned through other officer programs like ROTC. In fiscal year 1989, the reported costs per graduate were \$228,500 at the Military Academy, \$153,200 at the Naval Academy, and \$225,500 at the Air Force Academy. The academies' reported costs, however, are understated and did not include all relevant expenditures. Lack of guidance on cost reporting has led to inconsistencies among the academies and makes comparisons problematic. Educators have raised concerns about the academic credentials of academy faculty, concerns which have gone largely unaddressed. While

academy graduates have tended to have higher retention and faster career progression than have officers from other commissioning sources, the services have done relatively little research to formally assess the quality of officers produced through the various commissioning programs. External oversight of the academies is limited.

**Defense Inventory:
Reports Need Comparable and Comprehensive Data**

GAO/NSIAD-91-266, July 17 (24 pages).

DOD is required to report annually on its stored supplies. In response to reports of significant reductions in DOD's total secondary item inventory, which includes everything from spare parts and construction materials to clothing and dental supplies, GAO examined DOD's inventory reports for (1) comparability over time and across its organizations, (2) inclusion of appropriate items, and (3) trends in the size of the inventory. GAO found that the inventory reductions reported by DOD in its September 1990 Supply System Inventory Report are somewhat misleading. DOD's reported data are not comparable to prior year data, do not include all on-hand inventory, and overstate the required inventory. While DOD has started or planned many initiatives to reduce its inventory, continued high inventory levels at a time when force structure is being reduced call for further cuts in funding for supplies. GAO summarized this report in testimony before Congress; see:

Defense Inventory: Further Improvements Needed in Management of Spare Parts and Other Secondary Items, by Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs Programs, before the Senate Committee on Governmental Affairs.

GAO/T-NSIAD-91-47, July 17 (16 pages).

**Air Force Requirements:
Requirement Computations for Aircraft Consumable Items Can Be Improved**

GAO/NSIAD-91-201, July 17 (10 pages).

Air Force policy and procedures governing the requirement computation process for aircraft consumable items have resulted in duplication of requirements for back-ordered items and exclusion of applicable depot maintenance assets in deciding to buy or cancel items already on order.

As a result, Air Force requirements for consumable items were overstated by about \$663 million as of January 31, 1991. By eliminating the duplication and considering all applicable assets in computing requirements, GAO estimates that the Air Force could reduce fiscal year 1992 procurements by as much as \$159 million. The estimate relies on budget data showing procurements to be about 24 percent of requirements; \$159 million is 24 percent of \$663 million.

**Expired Appropriations:
New Limitations on Availability Make Improved Management by
DOD Essential**

GAO/NSIAD-91-156, GAO/NSIAD-91-225, and GAO/NSIAD-91-226, July 18 (53 pages).

M accounts and merged surplus authority were created in 1956 as repositories for unspent budget authority from expired appropriations. Congress anticipated that these balances would remain small and that restorations to fund upward adjustments would be infrequent. Between 1980 and 1990, however, the military services' combined M accounts grew from \$2.7 to \$18.8 billion, and the merged surplus authority grew from \$5.2 to \$27 billion. In addition, the use of these budget authorities to fund upward adjustments to amounts previously obligated increased dramatically. The majority of the upward adjustments were for contract overruns, the settlement of claims by contractors, and the funding of contingent liabilities. GAO examined 18 of these upward adjustments as case studies. In nine instances, the adjustments were proper; in three instances, the adjustments were improper; in the remaining six instances, the adjustments were needed because of what GAO considers to be undesirable management practices. GAO recommends that the services revise their procedures for the use of expired budget authority to require, in addition to the information already provided in the request and approval process, a comprehensive statement concerning the reason for the upward adjustment. This statement should explain the circumstances, contingencies, or management practices that caused the need for the upward adjustment.

**Army Inventory:
Fewer Items Should Be Stocked at the Division Level**

GAO/NSIAD-91-218, July 24 (27 pages).

The Army's inventory—worth billions of dollars—is maintained through an extensive supply structure, with major concentrations of stock at its divisions. The Army could reduce its inventory of spare and repair items at divisions in the United States by stocking only demand-based parts. Doing so would allow the Army to reduce its investment in inventory without adversely affecting readiness. Opportunities also exist for the Army to reduce its inventory investment in items whose stock levels are based on demand. The requirements factors used to determine existing stock levels were established many years ago. Since then, enhancements in communications, distribution, and inventory management techniques have made it possible to respond to supply needs with less stock at the divisions. As the Army moves closer to a supply system that will allow the requester to obtain near-real-time information on the availability and location of needed inventory items, the need to maintain the current level of inventory becomes questionable.

**Naval Aviation:
Status of Navy A-12 Contract and Material at Termination**

GAO/NSIAD-91-261, July 24 (24 pages).

In the 1980s, the Navy started a program to replace its aging fleet of A-6 medium attack aircraft with a new plane—the A-12—that incorporated stealth technology. Due to concerns about mounting cost overruns and schedule slippages, the Navy terminated the A-12 contract in January 1991. This report (1) discusses what the government obtained for the almost \$2.7 billion it spent on full-scale development of the A-12 and (2) provides additional information on the contract's cost overruns and schedule slippages.

**Defense Management:
Stronger Oversight of Joint Service Imagery Processing System
Needed**

GAO/NSIAD-91-164, July 26 (34 pages).

DOD's Joint Service Imagery Processing System—a deployable, ground-based imagery receiving and processing system—will be at the heart of a complex system that collects data, processes them, and disseminates pictures and reports to battlefield commanders. This report examines DOD's management of the program, including whether (1) the program had kept to its original cost, schedule, and performance estimates; (2) user requirements had been fully considered in the design, development, and planned testing of the system; (3) program decisions had been appropriately coordinated with closely related imagery programs; and (4) DOD had exercised adequate oversight of program activities. GAO concludes that top-level DOD officials did not receive adequate and independent information that would have allowed them to address the problems in the program, including funding shortfalls, the failure to emphasize joint requirements, and the poor coordination with related systems. Under the current management structure, despite recent changes to improve oversight, it is uncertain whether these problems will be addressed.

**B-2 Program:
Trends in Manufacturing**

GAO/NSIAD-91-211, July 30 (31 pages).

During the past several years, GAO has issued a series of reports on the B-2 stealth bomber program identifying causes of instability in the program, including manufacturing problems being encountered by contractors. In this report, GAO looks at the B-2 bomber's recent manufacturing process and evaluates whether planned production rates can be met. GAO discusses selected manufacturing indicators, including labor efficiency rates, manufacturing defects, changes to engineering drawings, work transferred to final assembly, and programs for production management.

Testimony

Part of the National Defense Reserve Fleet Is No Longer Needed, by Brad Hathaway, Associate Director for Navy Issues, before the Subcommittee on Merchant Marine, House Committee on Merchant Marine and

Fisheries, and before the Subcommittee on Regulation, Business Opportunities, and Energy, House Committee on Small Business.
GAO/T-NSIAD-91-44, July 11 (11 pages).

While older ships in the National Defense Reserve Fleet probably could be activated, the continued need for all of these ships is questionable. GAO recommends that the Department of Transportation sell off most of the older ships in the fleet as soon as practicable. Sales proceeds could be used to upgrade that part of the fleet that has been, and will continue to be, a more valuable asset: the Ready Reserve Force. If Congress chooses instead to continue reliance on the older ships, GAO recommends that the Maritime Administration try to better maintain them so that they can remain reliable as emergency sealift assets.

The B-2 Program: Procurement Decisions Should Be Based on Demonstrated Performance, by Nancy R. Kingsbury, Director of Air Force Issues, before the Subcommittee on Procurement and Military Nuclear Systems and before the Subcommittee on Research and Development, Defense Policy Counsel, House Committee on Armed Services.
GAO/T-NSIAD-91-45, July 17 (nine pages).

Today, the Soviet threat has greatly diminished; defense funding has leveled off; and DOD's budget plan shows a small decrease, in real terms, over the next several years. GAO testified that these changed circumstances require a basic reappraisal of system acquisition strategies. If production of the B-2 continues, GAO believes that it should be limited to the lowest level needed to sustain production operations until all initial operational testing is satisfactorily completed. While some cost increases may result, it seems likely that greater production efficiencies can be gained by having an economical production rate after the system has proven that it can do its mission and after production problems have been resolved.

Deferment Actions Associated With the A-12 Aircraft, Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs Programs, before the Subcommittee on Legislation and National Security, House Committee on Government Operations.
GAO/T-NSIAD-91-50, July 24 (15 pages); and

Deferment Actions Associated With the Navy A-12 Aircraft, by Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs Programs, before the Subcommittee on Investigations, House Committee on Armed Services. GAO/T-NSIAD-91-51, July 25 (15 pages).

At an April 1991 congressional hearing, DOD officials used the term "analysis" in describing how they arrived at the decision to defer repayment of \$1.35 billion by the contractor team of McDonnell Douglas and General Dynamics. GAO testified that evidence exists that DOD officials followed a deliberate process in deciding to defer repayment until litigation over termination of the A-12 contract is resolved or until a settlement is negotiated. Data showing what was discussed during this process is unavailable, however. In addition, no documentation exists to indicate why data was used in a particular way nor is there a formal document or written decision paper supporting the deferment decision. Although DOD did not prepare a documented analysis of McDonnell Douglas' financial data, GAO believes that the decision to grant the deferment appears reasonable. Although GAO did not do a financial analysis, several factors indicate that McDonnell Douglas was in a financially weak condition and could not immediately repay the amount demanded.

Allied Contributions in Support of Operations Desert Shield and Desert Storm, by Frank C. Conahan, Assistant Comptroller General for National Security and International Affairs Programs, before the House Committee on Ways and Means. GAO/T-NSIAD-91-52, July 31 (12 pages).

GAO testified that reports by the Office of Management and Budget, for the most part, accurately reflect the status of allied pledges and contributions. Some pledges have been revised, however, and the reported value of in-kind support is, in some cases, based on estimated rather than actual costs. GAO believes that allied cash contributions should be enough to pay for the incremental costs of the war in the Persian Gulf and that funding by U.S. taxpayers will not be needed. GAO notes that DOD's funding requirements will be less than OMB's estimate of incremental costs because, for example, some equipment lost during the war will not be replaced, and other costs are being satisfied through in-kind support furnished by U.S. allies.

Natural Resources

Abandoned Mine Reclamation: Interior May Have Approved State Shifts to Noncoal Projects Prematurely

GAO/RCED-91-162, June 7 (nine pages).

The certification process used by the Department of the Interior's Office of Surface Mining Reclamation and Enforcement does not ensure that all sites adversely affected by past coal mining operations have been addressed before the Office approves a state's request to use federal funds for noncoal reclamation. The process provides reasonable assurances that the highest priority abandoned coal mines—those adversely affecting public health and safety—have been addressed before the Office approves a state's request for certification. Under current procedures, however, other coal sites that have experienced environmental degradation to land, water, and other resources could remain unclaimed after the state's certification has been approved. On a related matter, the Office has not effectively communicated its policy to the states that once the state certification has been approved, the state loses further access to the Secretary of the Interior's discretionary Abandoned Mine Land Fund revenues. This situation has led to confusion among the states.

National Forests: Funding Fish and Wildlife Projects

GAO/RCED-91-113, June 12 (33 pages).

Although all national forest land is administered by the U.S. Department of Agriculture's Forest Service, funding for fish and wildlife activities comes not only from the Forest Service but also other federal agencies; state and local governments; colleges and universities; Indian tribes; and private organizations, like environmental and animal advocacy groups. These activities can include revegetation of streamside areas, installation of fencing, and erosion control projects. GAO surveyed national forest supervisors and found that of \$202 million in funding for fish and wildlife activities between October 1987 and June 1990, about one-quarter—\$47.8 million—came from outside sources, mainly state and local governments; the rest involved congressional appropriations for the national forest system. Outside funding for fish and wildlife activities that directly involved Forest Service staff increased from about \$14.7 million in fiscal year 1988 to about \$16.7 million in fiscal year 1989; such outside funding totaled around \$16.4 million for about the

first nine months of fiscal year 1990. Some fish and wildlife improvement projects, including scientific research by government agencies or colleges and universities, were also done on national forest system land but without the direct involvement of Forest Service staff. These projects totaled \$14.7 million from October 1988 through June 1990, a 21-month time frame.

**Bureau of Reclamation:
Federal Interests Not Adequately Protected in Land-Use
Agreements**

GAO/RCED-91-174, July 11 (26 pages).

In two separate agreements, one in 1982 and the other in 1985, the Department of the Interior's Bureau of Reclamation transferred about 760 acres to the city of Scottsdale, Arizona, for recreation development for 75 years. Two major recreation facilities were later built on this land—a combination equestrian center and theme park and a golf complex. The Bureau is not being compensated for the use of this land because local Bureau officials decided no fee compensation was warranted under the agreements; the city of Scottsdale was entitled to receive about \$1.5 million in fee compensation from 1988 through 1990 under its leases with commercial operators. Without comprehensive, agencywide policies and guidance on the terms and conditions of land-use agreements, local Bureau officials made decisions on the basis of personal judgment. These decisions included approving several commercial, for-profit activities, the type and scale of which are not usually found at public outdoor recreation sites on federal lands, and a reservation policy that restricts public use. Further, although the Bureau must approve development plans, it lacks adequate monitoring and oversight policies and procedures to ensure that the areas are being developed and operated in accordance with the terms and conditions of the agreements. It is possible that local Bureau officials will make similar agreements with other nonfederal public entities in the future. Without agency guidance, local Bureau officials will again have to rely on their personal judgment. GAO summarized this report in testimony before Congress; see:

Bureau of Reclamation: Land-Use Agreements With the City of Scottsdale, Arizona, by Keith O. Fultz, Director of Planning and Reporting in the Resources, Community, and Economic Development Division, before the Subcommittee on Environment, Energy, and Natural Resources. GAO/T-RCED-91-74, July 11 (12 pages).

**Wildlife Management:
Problems Being Experienced With Current Monitoring Approach**

GAO/RCED-91-123, July 22 (eight pages).

Under the so-called “management indicator species” approach to monitoring wildlife and its habitat in the national forests, Forest Service personnel track the condition of several selected species to measure the overall condition of forest wildlife habitat as well as the impact of Forest Service management actions on that habitat. In GAO’s view, this approach has several practical drawbacks and can be prohibitively expensive. Furthermore, Forest Service officials said that even when planned data collection efforts are complete using this monitoring approach, the data is of limited use. Specifically, observed population changes in the species being monitored often cannot be related to overall habitat conditions or to the effects of Forest Service management actions. The Forest Service is trying to improve its implementing directions to field staff and make adjustments in the approach itself.

**Science, Space, and
Technology**

**Weather Satellites:
Action Needed to Resolve Status of the U.S. Geostationary Satellite Program**

GAO/NSIAD-91-252, July 24 (38 pages).

The National Weather Service now has only one operational geostationary satellite—GOES-7—in orbit to provide data on severe storm conditions, and no replacement satellite is currently available. Although NASA and the National Oceanic and Atmospheric Administration have been working together to develop and build five new satellites (GOES-Next), the program is over three years behind schedule, has experienced a 134-percent cost overrun, and has been plagued by severe technical problems. GAO believes that design complexity, inadequate management of the program by NASA and NOAA, and poor contractor performance contributed to the program’s problems. GAO and NOAA identified several ways to minimize the risk of a complete loss of geostationary satellite coverage or degraded weather forecasting. These options range from making an emergency purchase of or using a foreign-owned satellite to doing nothing and hoping that GOES-7 does not fail before the launch of an operational GOES-Next. The preferred option or options depend upon whether NOAA decides to significantly delay the GOES-Next program. GAO summarized this report in testimony before Congress; see:

Weather Satellites: The U.S. Geostationary Satellite Program Is at a Crossroad, by Mark E. Gebicke, Director of NASA Issues, before the Subcommittee on Environment and Investigations and Oversight, House Committee on Science, Space, and Technology. GAO/T-NSIAD-91-49, July 25 (12 pages).

**Commercial Use of Space:
Many Grantees Making Progress, but NASA Oversight Could Be Improved**

GAO/NSIAD-91-142, May 30 (44 pages).

To encourage cooperation between government, industry, and academia in developing space-related technologies with potential commercial applications, the National Aeronautics and Space Administration has been making grants and other support available to the Centers for the Commercial Development of Space. After a limited period of grant support of five to seven years, NASA expects the centers to become self-sufficient. Since the inception of the program in 1985, NASA has successfully established centers capable of attracting and sustaining industry interest and support. While it is too soon to gauge the extent to which the program may ultimately achieve its goal, clearly the centers will not become self-sufficient in five to seven years. Such a fixed period of support fails to recognize differences among the centers. Recognizing such differences would require NASA to establish grant support goals for the individual centers primarily on the basis of the three to five years' operating experience each center has had. NASA also has opportunities to make improvements elsewhere in the program. The process for evaluating the centers' payload requests should be examined to ensure that it efficiently provides the desired mix of expertise to adequately review costs. Also, NASA needs to examine the adequacy of the internal controls it uses to ensure that its accounting system contains timely, complete, and accurate information reported by grantees on their uses of federal funds.

**Aerospace Plane Technology:
Research and Development Efforts in Europe**

GAO/NSIAD-91-194, July 25 (148 pages).

European countries are challenging U.S. leadership in the research and development of aerospace plane technologies. Congressional supporters of the National Aero-Space Plane Program—a \$5 billion effort to build

and test the X-30 experimental plane—are concerned about foreign competition to the program and its impact on U.S. technological leadership. This report identifies indicators that measure the current state of aerospace plane technological progress in foreign countries. These indicators are (1) space policies and aerospace goals and objectives; (2) aerospace plane program objectives, design goals, schedules, and costs; (3) the current status and rate of progress in developing critical technologies; (4) the funding for and the number and type of people involved with the programs; (5) test facilities and their capabilities; and (6) the existence of and interest in international cooperation.

Tax Policy and Administration

Tax Administration: Negligence and Substantial Understatement Penalties Poorly Administered

GAO/GGD-91-91, July 3 (38 pages).

Errors in Internal Revenue Service penalty administration are undermining the role that penalties for negligence and substantial understatement play in promoting taxpayer compliance with U.S. tax laws. GAO estimates that about one-third of the cases it reviewed contained erroneous penalty determinations; IRS generally was too lenient and either did not assess penalties that were warranted or assessed penalties that were too small. In GAO's view, the high error rate is puzzling because IRS guidance to examiners is adequate, and the cases generally did not involve complex tax law issues. Further, IRS had reviewed more than 60 percent of these cases at least once without the errors being corrected. IRS officials attributed the problem to emphasis on other aspects of the examination, work load pressures, and staff turnover and inexperience. While these may have been contributing factors, the fundamental cause may have been the attitude of exam personnel on the value of pursuing penalties in relation to other examination issues. GAO recommends that IRS begin a quality improvement program on penalty administration and that changes be made to penalty explanations provided to taxpayers.

Tax Administration: IRS Experience Using Undercover Operations' Proceeds to Offset Operational Expenses

GAO/GGD-91-106, July 3 (17 pages).

The Internal Revenue Service is permitted to use the proceeds from undercover operations to offset the expenses incurred in these activities. As a result, IRS is able to carry out high cash flow operations—like money laundering—that it might otherwise be unable to afford. Although IRS has made only limited use of its offset authority—from November 1998 through May 1, 1991, IRS used offset authority in only 19, or five percent, of its total undercover operations—GAO believes that offsetting is a potentially valuable funding mechanism for carrying out undercover operations. Some questions remain, however, about auditing and reporting to Congress on these operations.

**Tax Administration:
IRS' Administration of the International Boycott Tax Code
Provisions**

GAO/GGD-91-105, July 11 (63 pages).

To discourage participation in the Arab League's economic embargo of Israel, section 999 of the Internal Revenue Code, enacted in 1976, requires U.S. taxpayers to report their business activities with boycotting countries and denies tax benefits to those who participate in unsanctioned international boycotts. This report examines whether (1) IRS agents routinely examine the IRS Form 5713 (International Boycott Report), which is used by taxpayers to report their business activities in boycotting countries, and (2) there have been prosecutions for failing to file, filing late, or filing false returns. GAO also discusses whether the boycott information provided by the Department of Commerce, which administers the antiboycott amendments of the Export Administration Act of 1979, is utilized by IRS agents in auditing section 999 issues. In addition, GAO discusses the timeliness of Treasury boycott reports to Congress and whether the reports can present more current and detailed information on the administration of section 999. Finally, GAO looks at the extent of the loss of tax benefits associated with section 999 and the changes in reported boycott activity since 1976.

**Internal Revenue Service:
Employee Views on Integrity and Willingness to Report Misconduct**

GAO/GGD-91-112FS, July 24 (39 pages).

IRS, in conjunction with the Treasury Inspector General, has made substantial progress in responding to concerns about ethics and integrity at IRS. By transferring 21 staff-years and \$1.9 million to the IG, IRS has

strengthened the IG's role in independently investigating senior employee misconduct. IRS could, however, improve the perception that its decisions on sanctions are fair. IRS should publicize summary information about disciplinary actions taken against employees at all levels; periodically review disciplinary actions by type of infraction and level of employee to ensure that they are equitably applied; and maintain the same level of National Office oversight for all cases returned by the IG. GAO's survey of IRS employees suggests that IRS needs to continue emphasizing ethics and integrity; fewer than two-thirds of IRS employees believe that the level of integrity at IRS is generally "high" or "very high," and 34 percent believe that at least some upper level managers engage in misconduct. GAO concludes that IRS' actions so far constitute initial steps in a major, long-term effort. IRS will need to maintain a high level of effort for several years to carry through on its ethics plans, which stress communication, training, ethics, and integrity awareness. GAO summarized this report in testimony before Congress; see:

IRS' Efforts to Deal With Integrity and Ethics Issues, by Jennie S. Stathis, Director of Tax Policy and Administration Issues, before the Subcommittee on Commerce, Consumer and Monetary Affairs, House Committee on Government Operations. GAO/T-GGD-91-58, July 24 (27 pages).

Testimony

Identifying Options for Organizational and Business Changes at IRS, by Paul L. Posner, Associate Director for Tax Policy and Administration Issues, before the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations. GAO/T-GGD-91-54, July 9 (20 pages).

GAO strongly supports IRS' tax system modernization program and believes that it has great potential for improving tax administration. IRS' Design Master Plan outlines a solid technical blueprint and suggests how automation will greatly enhance service to taxpayers and promote more efficient processing of tax returns. The plan, however, does not provide a corresponding vision of how the new technology could enable the agency to transform its future organizational structures and business operations. Although automation should provide clear benefits, IRS' existing organization structure and business operations—premised on outdated technology—will hinder the agency from realizing its potential. GAO concludes that now is the time for IRS to systematically examine options for major changes in business operations, unconstrained by assumptions that limit organizational change.

Simplifying Payroll Tax Deposit Rules, by Paul L. Posner, Associate Director for Tax Policy and Administration Issues, before the House Committee on Ways and Means. GAO/T-GGD-91-59, July 24 (16 pages).

Proposed legislation now before Congress—H.R. 2755—seeks to simplify the deposit rules by requiring employers to deposit their payroll taxes on the Tuesday or Friday following their payday. An exception is made for the 1.7 million small employers with quarterly payroll tax liabilities of between \$500 and \$3,500, who would be allowed to make quarterly deposits. GAO believes that passage of this bill would achieve a major simplification of tax rules for U.S. employers. It would lessen the burden experienced by employers, particularly smaller employers; would be simple to understand; would result in fewer penalties for IRS to administer; and would maintain the federal government's current cash flow. While GAO supports this legislation, it believes that minor refinement could improve the balance among simplification, the shifts in burden that occur when new rules are introduced, and maximizing future compliance.

Transportation

Mass Transit Grants: Development Time Frames for Selected UMTA Projects

GAO/RCED-91-184FS, July 11 (14 pages).

Since 1976 the Urban Mass Transportation Administration has had a structured process that state and local agencies must follow in developing federally funded major capital investment projects. A major capital investment is defined as a new fixed guideway system (a facility that uses or occupies a separate right-of-way or rails) estimated to cost more than \$100 million or the extension of an existing system. During 1990 hearings, a flow chart was presented on UMTA's project development process. In response to congressional concerns about the length of the process—it had been reported that under UMTA's process as long as 12 years could elapse before project construction began—this report compares the times shown in the "status quo" column of the flow chart with the actual processing times for a number of proposed projects.

Railroad Safety: DOD Can Improve the Safety of On-Base Track and Equipment

GAO/RCED-91-135, June 20 (53 pages).

The Defense Department owns locomotives and rail cars that are used to haul ammunition, explosives, or other hazardous material. A significant number of cars in DOD's "on-base" fleet (equipment that never leaves a military installation) do not comply with one or more standards issued by the Federal Railway Administration or by the Department of Transportation's Research and Special Programs Administration. FRA officials said that, for the most part, the defects did not pose a serious safety risk because base equipment experiences less stress than does commercial equipment. GAO believes, however, that safety could be enhanced by improvements in safety appliances (such as handholds and steps), components to reduce fire hazards, and brake system tests; DOD currently lacks safety standards in these and other areas. GAO also found that the track was generally safe, but that track maintenance and inspection frequency did not comply with FRA standards that have been adopted by the Army and Navy. Furthermore, the Army lacks adequate procedures for securing hazardous material for on-base movement by rail. In contrast to the on-base fleet, maintenance cars of DOD's "interchange" fleet (equipment used in commercial service) is comparable to that found in the commercial sector.

**Aviation Noise:
Costs of Phasing Out Noisy Aircraft**

GAO/RCED-91-128, July 2 (56 pages).

Air traffic has nearly doubled in the last decade, and airports have come under increasing pressure to reduce the level of noise affecting neighboring communities. The Airport Noise and Capacity Act of 1990 phases out the noisiest jets now in use (known as "Stage 2" jets) by the year 2000 and limits the discretion of airports to adopt their own noise restrictions. This report describes the likely effects of that legislation on the costs to the airline industry of aviation noise restrictions.

**Aviation Acquisition:
Further Changes Needed in FAA's Management and Budgeting Practices**

GAO/RCED-91-159, July 29 (32 pages).

Since 1981 the Federal Aviation Administration has been trying to modernize the nation's air traffic control system by acquiring new systems capable of accommodating continued growth in air traffic without compromising air safety. Many of FAA's major modernization projects have

experienced delays and cost overruns. To minimize such problems, the Office of Management and Budget has issued guidelines for the prudent acquisition of major projects; under the guidelines, agency heads are allowed to make “go/no go” decisions after evaluating a project’s costs, schedules, and performance at four key decision points. This report examines FAA’s progress in incorporating federal acquisition principles in its acquisition process and FAA’s budgeting procedures for its major acquisitions. Because the Defense Department has a history of acquiring major systems, GAO briefly compares FAA’s appropriation account structure with similar account structures at DOD.

**Highway Safety:
Motorcycle Helmet Laws Save Lives and Reduce Costs to Society**

GAO/RCED-91-170, July 29 (90 pages).

This report evaluates studies on motorcycle helmet laws. Although the 46 studies GAO reviewed differed in the specific questions addressed and the methodologies used, they were consistent in pointing to a safety benefit from helmet use. The studies that compared helmeted with nonhelmeted accident victims all found that helmeted riders had lower fatality rates. In addition, surviving helmeted riders suffered fewer serious and critical injuries because they had a lower incidence of head injuries. The studies reported that under universal helmet laws (those applying to all riders), nearly all riders wore helmets, compared with roughly half of riders in states with limited or no laws. When universal helmet laws have been in effect, fatality rates have generally been 20 to 40 percent lower than during periods before enactment or after repeal. If those states not having universal laws had passed such legislation, GAO estimates that between 350 and 700 fewer people would have died in those states in 1990. The data on the cost of motorcycle accidents were less complete, but the available studies did indicate that nonhelmeted riders were more extensive users of medical services and long-term care and were more likely to lose earning capacity through disability. In light of this evidence, Congress may wish to encourage states to enact and retain universal helmet laws through the use of penalties (withholding of highway funds for noncompliance), incentives (making more funds available to states with universal laws), or a combination of both.

Testimony

Airport Safety: New Radar That Will Help Prevent Accidents Is Four Years Behind Schedule, by Kenneth M. Mead, Director of Transportation

Issues, before the Subcommittee on Government Activities and Transportation, House Committee on Government Operations. GAO/T-RCED-91-78, July 10 (16 pages).

With a more effective ground radar, air traffic controllers could better prevent tragedies at U.S. airports. Accordingly, the Federal Aviation Administration is planning to replace earlier ground radar models with a system that has a longer range, high reliability, and clearer displays of the airport surface. GAO testified that the schedule to deploy this new technology has slipped almost four years and could slip even further, a performance question about the radar's screen display has been raised, and some airports with questionable ground safety records may not be considered for the new equipment. Planning for FAA's umbrella effort to enhance airport ground safety is a good first step but funding levels and project priorities need to be established.

Hazardous Materials: Chemical Spill in the Sacramento River, by John H. Anderson, Jr., Associate Director for Transportation Issues, before the Subcommittee on Government Activities and Transportation, House Committee on Government Operations. GAO/T-RCED-91-87, July 31 (16 pages).

As a result of a train derailment in California, about 20,000 gallons of a weedkiller and pesticide—metam sodium—seeped into the Sacramento River. While the ultimate damage to the environment is unclear at this point, the spill could threaten the region's major water supply and could cause long-term destruction of valuable scenic and recreation resources. All of the facts and circumstances of the accident's cause and the adequacy of the response will be established only when the National Transportation Safety Board and the Federal Railroad Administration complete their in-depth investigations. One issue raised by available information is why two Department of Transportation agencies, both operating under delegated authority to regulate transportation of hazardous materials, classify the weedkiller differently, especially since it can be extremely harmful to marine life regardless of whether the spill comes from a ship, train, or truck. GAO's work over the years has shown that rail safety in general and hazardous materials inspection in particular have problems, and the Federal Railroad Administration is trying to improve the situation. Also, while some actions have been taken to implement the Hazardous Materials Act of 1990, much more needs to be done.

Veterans Affairs

VA Health Care: Telephone Service Should Be More Accessible to Patients

GAO/HRD-91-110, July 31 (seven pages).

With few exceptions, VA medical centers do not provide telephones in patients' rooms. If patients are ambulatory, they must use pay phones; otherwise, they have to rely on nurses to bring them phones. This is an inconvenience for the patient and means that nurses have to spend more time on nonclinical duties. VA can procure telephone and equipment with appropriated funds but has not done so because of the substantial cost involved. However, VA has options available under which it can provide telephone services to its patients and recoup at least part of the costs for providing such services.

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