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Reports and Testimony: November 1991

Highlights

Foreign Health Care Costs

France, Germany, and Japan provide universal access to health insurance while spending proportionately less on health care than the U.S., and although their systems are extensively regulated they resemble the American model in several key ways. Page 20.

Bank Insurance Fund

Future claims against the fund that protects depositors when banks fail may be higher than anticipated, raising the possibility that \$70 billion in new borrowing authority for the Federal Deposit Insurance Corporation may not be enough. Page 15.

Census Data

The general effect of using 1990 adjusted census data in formulas for allocating federal funds to the states would be relatively small, but using adjusted figures to redistribute money to cities and counties has a larger effect. Page 18.

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Reports and Testimony: November 1991

Budget and Spending

Impoundments: Deferrals of Fiscal Year 1991-92 Funds for International and Domestic Programs

GAO/OGC-92-3, Nov. 12 (three pages).

On September 30, 1991, the President submitted to Congress his seventh special impoundment message for fiscal year 1991 and his first special impoundment message for fiscal year 1992. The seventh special impoundment message reports one deferral of fiscal year 1991 funds for international disaster assistance at the Agency for International Development. The first special message reports seven deferrals of budget authority. GAO reviewed these deferrals and found them to be in compliance with the Impoundment Control Act.

Business, Industry, and Consumers

Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers

GAO/RCED-92-30, Nov. 22 (46 pages).

The United States has experienced major trade deficits in manufactured goods each year since 1983, and U.S. companies have lost significant market share to foreign competitors. In particular, small manufacturers have not kept pace with their foreign rivals because they have not upgraded their manufacturing processes with basic automated equipment like computer-aided design systems. In response, four federal programs were created during the last three years to help small manufacturers regain their industrial competitiveness. The primary technology need of most small manufacturers is for proven, off-the-shelf automated technologies to enable them to raise productivity, improve product quality, and respond to changing market conditions. Most small manufacturers cannot effectively use the advanced, state-of-the-art automated technologies developed at the National Institute of Standards and Technology and other federal laboratories because they generally lack the resources or trained personnel to incorporate such technologies into their operations. Overall, GAO found that the four federal programs have been only somewhat effective in addressing the technological needs of small manufacturers to improve their competitiveness. In addition, the four programs have affected only a relatively small percentage of small manufacturers; by themselves, they have little impact on improving small manufacturers' competitive position. Moreover, while

the federal programs offer incentives for states to start or expand technology assistance services, only seven states provide direct consultation to manufacturers—the type of help experts consider most effective in assisting manufacturers. Recently, three of these states substantially cut funding for their programs because of budget constraints.

Testimony

Export Promotion: Status of SBA Programs, by Allan I. Mendelowitz, Director of International Trade, Energy, and Finance Issues, before the Subcommittee on Exports, Tax Policy, and Special Problems, House Committee on Small Business. GAO/T-NSIAD-92-3, Nov. 14 (eight pages).

The Department of Commerce is the lead agency for export promotion in the federal government. However, 10 other federal agencies, including the Small Business Administration (SBA), also spend money on programs intended to help U.S. businesses export. This testimony focuses on the current status of SBA export promotion programs.

Education

Vocational Rehabilitation: Clearer Guidance Could Help Focus Services on Those With Severe Disabilities

GAO/HRD-92-12, Nov. 26 (39 pages).

Program funding for vocational rehabilitation was enough to serve only a small fraction—about seven percent—of the estimated 13.4 million Americans with disabilities who were potentially eligible in 1989. Congress, recognizing that choices had to be made about whom to serve, passed legislation in 1973 requiring programs to focus services on individuals with severe disabilities. Further, states that cannot serve all eligible applicants must prioritize services to those with the most severe disabilities through an order-of-selection procedure. This report looks at why some states do not use order of selection, how other states implement order of selection, and how the Department of Education oversees state compliance with the requirement.

Medical Residents: Options Exist to Make Student Loan Payments Manageable

GAO/HRD-92-21, Nov. 26 (21 pages).

On the basis of its analysis of medical residents' debt scenarios, GAO concludes that requiring medical residents to begin repaying their Stafford loans could cause them financial hardship. Third- and fifth-year residents would use about 17 and 18 percent, respectively, of their gross income to meet student loan obligations. This would exceed 10 percent of gross income—a point at which the Department of Education considers educational debt to be unmanageable. Medical residents can, however, make their student loan debt more manageable by exercising debt relief options. For example, they could obtain forbearance of principle and interest for Stafford loan payments. Lenders, however, are not obligated to provide medical residents complete forbearance. While partial forbearance reduces residents' loan payments, it does not provide adequate debt relief under GAO's scenarios. To remedy this situation, the Department of Education plans to require lenders to honor residents' requests for complete forbearance.

Testimony

Vocational Rehabilitation Program: Client Characteristics, Services Received, and Employment Outcomes, by Robert York, Acting Director of Program Evaluation in Human Services Areas, before the Subcommittee on Select Education, House Committee on Education and Labor. GAO/T-PEMD-92-3, Nov. 12 (37 pages).

GAO testified on its work to date on the vocational rehabilitation program, which uses federal funds to help persons with disabilities become employed and integrated into their communities. GAO discussed who the program serves, what help they get, and program results. GAO examined individuals served in 1988—the most recent year for full data—and found that they varied considerably in background and disability. About two-thirds had a severe disability. Compared with those not accepted, those served were more likely to have some education beyond high school. GAO found few differences in disability types between those accepted and those not. Most persons served got diagnosis and evaluation of their disability and counseling; all other services were much less frequent, including all types of education and training. Rehabilitated individuals experienced short-term gains in employment and earnings. Long-term outcomes were mixed, however. The number with earnings from wages quickly dropped to pre-program levels, and only half the group had earnings in each of the five years following vocational rehabilitation. The average earnings for those working rose each year. Yet eight years after rehabilitation, 40 percent still had annual earnings that totaled less than the equivalent of working all year at the minimum wage.

Employment

Occupational Safety and Health: OSHA Action Needed to Improve Compliance With Hazard Communi- cation Standard

GAO/HRD-92-8, Nov. 26 (112 pages).

Millions of workers are exposed on the job to some of the approximately 650,000 chemicals that, if mishandled, can cause serious illness and injury. Both the Occupational Safety and Health Administration (OSHA) and GAO found a substantial number of employers out of compliance with the Health Communication Standard, which requires that employees receive information and training on chemical hazards in their workplaces. This was especially true for small employers—those with fewer than 20 employees. Many small employers know little or nothing about the standard—a situation that may result from their having less contact with OSHA, the primary source of information on the standard for large employers. OSHA's small-employer outreach strategy makes use of trade associations. Although small employers cited trade associations as being a primary source of information on the standard, many do not belong to these groups. Small employers said that better distribution of OSHA publications would increase small employer awareness of the standard. OSHA rarely reviews hazard evaluations done by chemical manufacturers and importers, although studies suggest that many material safety data sheets contain inaccurate information. Moreover, 55 percent of employers who received these sheets said that most are too technical for typical workers to understand.

Testimony

Occupational Safety and Health: Worksite Programs and Committees, by Franklin Frazier, Director of Education and Employment Issues, before the Subcommittee on Labor, Senate Committee on Labor and Human Resources. GAO/T-HRD-92-9, Nov. 5 (seven pages).

GAO testified on the value of worksite safety and health programs and committees in improving the safety and health of U.S. workers. In an August 1990 report (GAO/HRD-90-66BR), GAO highlighted the importance of employer and employee involvement in improving workplace safety and health. In follow-on work, GAO further examined the feasibility of the Occupational Safety and Health Administration's requiring employers to have safety and health programs. GAO identified six state-operated safety and health programs that require some or all employers to implement safety and health programs; three of them also require employers to involve employees in safety and health committees. Preliminary

information from those states and other sources indicates that safety and health programs (1) have a positive impact, (2) extend enforcement agencies' limited resources, and (3) can be implemented successfully by employers. This testimony summarizes the results of these two GAO studies.

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-92-8, Nov. 19 (20 pages).

How well is the federal labor-management relations program working? Are changes needed for the future? Has the program fostered a cooperative spirit between management and labor to help agencies' quality improvement initiatives succeed? GAO interviewed experts on federal labor-management relations, a large majority of whom said that the program is not accomplishing its objectives. They said that the program is characterized by excessive litigation, adversarial relationships between agency management and unions, and too little focus on issues that are of greater importance to employees. GAO also surveyed union representatives connected with 13 departments and agencies. These respondents tended to agree with the experts' assessments of the program. On the basis of these findings, GAO testified that the program needs substantial reform. Rather than a piecemeal approach to technical changes, GAO recommends that a special panel of nationally recognized experts in labor-management relations and participants in the federal program be created to develop a plan for comprehensive program reform.

Energy

Nuclear R&D: Research Efforts Under Way to Support Nuclear Power Plant License Renewal

GAO/RCED-91-207, Sept. 25 (24 pages).

Within the next 20 years, licenses will expire for 42 of the 113 nuclear power plants licensed by the Nuclear Regulatory Commission (NRC). At NRC's request, the National Research Council of the National Academy of Sciences examined the future role of NRC's regulatory research, including research on the aging of nuclear power reactors and the possibility of extending their operating licenses for 20 years beyond the normal 40-year term. The Council issued a report in 1986 containing many recommendations on revitalizing nuclear safety research; only four of these

recommendations were directed at research related to license renewal. GAO discusses the (1) actions NRC has taken to implement the Council's recommendations on the need for NRC research on reactor aging to support its license renewal efforts; (2) the research on reactor aging completed by the Department of Energy and the industry in response to the Council's recommendation that research be done to prove that license conditions set by NRC can be met, and whether the results have been provided to NRC; and (3) NRC's plan to refine the estimates of risks (or the probability of accidents) created by extending the life of the present generation of reactors.

**Nuclear Health and Safety:
Problems Continue for Rocky Flats Solar Pond Cleanup Program**

GAO/RCED-92-18, Oct. 17 (13 pages).

In an earlier report (GAO/RCED-91-31, Jan. 3, 1991), GAO discussed the Department of Energy's (DOE) efforts to clean up the solar evaporation ponds at its Rocky Flats Plant in Colorado. DOE is trying to excavate the ponds used for storing and evaporating low-level radioactive and hazardous waste and stabilize the material by mixing it with concrete. DOE issued a press release in March 1991 stating that it has imposed strict cost control measures in managing the project. Yet DOE's most recent cost data show that total cleanup costs have soared to an estimated \$169 million through completion in 2009—\$50 million more than the amount GAO reported nine months ago. Delays have plagued the completion and approval of the managing plans for conducting and monitoring the program. Cleanup activities that DOE expected to resume by December 1990 have not yet begun. DOE will not meet the first major milestone of the solar ponds program—cleaning up the ponds and moving all the “pondcrete” off site by October 1991. Further, unless DOE provides enough project funding or resolves concerns over pondcrete disposal in Nevada, it will not finishing pondcrete processing before Rocky Flats' interim status permit for pondcrete operations expires in November 1992.

**Nuclear Power Safety:
Chernobyl Accident Prompted Worldwide Actions but Further Efforts Needed**

GAO/NSIAD-92-28, Nov. 4 (42 pages).

Since the Chernobyl nuclear plant accident in 1986, over 70 of the International Atomic Energy Agency's 112 member states have adopted two

conventions to enhance international cooperation by providing (1) timely notification of an accident and (2) emergency assistance. The Agency and other international organizations also developed programs to improve nuclear power plant safety and minimize dangers from radioactive contamination. Despite meaningful improvements, some of the measures have limitations, and serious nuclear safety problems remain in the design and operation of the older, Soviet-designed nuclear power plants. The Agency's ability to select reactors under its operational safety review program is limited. Also, information on the extent and seriousness of safety-related incidents at reactors in foreign countries is not publicly available. No agreements exist among nuclear power countries to make compliance with any nuclear safety standards or principles mandatory. Currently, adherence to international safety standards or principles is voluntary and nonbinding. Some states support the concept of mandatory compliance, but others, including the United States, believe that mandatory compliance infringes on national sovereignty and that the responsibility for nuclear reactor safety remains with each nation.

**Uranium Enrichment:
Analysis of Decontamination and Decommissioning Scenarios**

GAO/RCED-92-77BR, Nov. 15 (12 pages).

This briefing report analyzes—using four different scenarios—the adequacy of a \$500 million annual deposit into a fund to pay for the cost of cleaning up the Department of Energy's (DOE) three aging uranium enrichment plants located in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. GAO found that a fixed annual \$500 million deposit made into a cleanup fund would not cover total expected cleanup costs, nor would it cover expected decontamination and decommissioning costs. A \$500 million annual deposit indexed to an inflation rate would likely be enough to pay for all expected cleanup costs, including decontamination and decommissioning costs, and depleted uranium costs.

**Environmental
Protection**

**Indoor Air Pollution:
Federal Efforts Are Not Effectively Addressing a Growing Problem**

GAO/RCED-92-8, Oct. 15 (27 pages).

With the increased emphasis on energy conservation in the 1970s, and the identification of radon and asbestos as serious health threats, public concern about indoor air pollution has risen. Elevated levels of indoor pollutants—like second-hand tobacco smoke, formaldehyde used in pressed wood products, molds in ventilation systems, and paint strippers and other solvents containing methylene chloride—can cause headaches, fatigue, lung diseases, and even cancer. In 1986 Congress passed legislation directing the Environmental Protection Agency (EPA) to develop and indoor air research program, disseminate the results of the research, establish an advisory committee comprised of federal agencies to help EPA carry out the program, and report to Congress on federal indoor air activities. This report discusses EPA's indoor air pollution efforts and funding, the indoor air pollution efforts of seven other federal agencies, and the efforts of eight states with active indoor air programs.

Testimony

Water Pollution: Coordinated Strategy Needed to Address Radioactive and Toxic Wastes in Massachusetts Bay, by Peter F. Guerrero, Associate Director for Environmental Protection Issues, before the Subcommittee on Fisheries and Wildlife Conservation and the Environment, House Committee on Merchant Marine and Fisheries. GAO/T-RCED-92-17, Nov. 4 (11 pages).

While the Environmental Protection Agency (EPA) has tried to respond to issues arising from the dumping of toxic and radioactive wastes in Massachusetts Bay, disagreements over some technical issues remain. Perhaps more important, GAO testified, the emotion and confusion surrounding the issue has cast a cloud of suspicion over these efforts that, if not addressed, could continue to undermine future efforts to resolve this problem. EPA can help ensure the credibility of its future work if it forms a research team to help design its planned survey. The team should include representatives from agencies with experience in navigational search techniques and issuing dumping permits. Furthermore, to minimize continuing concerns of environmental organizations, EPA should invite representatives from these groups to serve on the design team. In this way, EPA could convey its awareness of the range of concerns and will have a chance to fully explain the rationale behind its final survey design.

Air Pollution: EPA's Strategy and Resources May Be Inadequate to Control Air Toxics, by J. Dexter Peach, Assistant Comptroller General for Resources, Community, and Economic Development Programs, before

the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce. GAO/T-RCED-92-11, Nov. 12 (20 pages).

Toxic air pollution is one of the most significant environmental problems in the United States today, with many toxic air pollutants still unregulated. The Environmental Protection Agency (EPA) is required to regulate 189 of the most hazardous and pervasive air toxics within 10 years. Referring to an earlier report (GAO/RCED-91-143, June 26, 1991) and related work, GAO testified that it believes, as do many others, that good planning and adequate resources are essential to carrying out a program of this magnitude. GAO's work, however, calls into question both the adequacy of EPA's planning and the sufficiency of its requested resources for implementing the air toxics provisions of the Clean Air Act Amendments of 1990.

Blending of Hazardous Waste With Fuel Products, by Houston Fuller, Assistant Director for Energy and Environmental Crimes Issues, before the Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations. GAO/T-OSI-92-3, Nov. 21 (16 pages).

GAO testified that it uncovered only isolated incidents in which fuel products illegally blended with hazardous wastes had been transported, or were suspected of being transported, over roads between the United States and Canada. Further, the consensus of officials GAO interviewed was that no one has reliable information on the extent to which such activity may be occurring. However, all these officials were concerned about the possible harmful environmental and health affects associated with the illegal blending of hazardous wastes into fuel products that are later used in the United States. U.S. Customs Service officials acknowledged that the opportunity exists for transshipment of illegally blended fuels. While Customs agents may inspect suspicious fuel shipments and other cargo, they typically rely on information contained in shipper-prepared certificates and manifests accompanying the shipments, in accordance with federal regulations. This testimony discusses an instance in which a hazardous waste fuel may have been misrepresented on its manifest by a shipper, Lilyblad Petroleum Inc.

Hazardous Waste: U.S. and Mexican Management of Hazardous Waste From Maquiladoras Hampered by Lack of Information, 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-92-22, Nov. 21 (18 pages).

“Maquiladoras” are companies located in Mexico that use imported materials to produce finished goods. Located primarily along the border with the United States, these companies—some of which are owned by U.S. parent firms—are subject solely to Mexican laws and regulations. While some of these companies have been in existence for 25 years or more, comprehensive environmental protection laws have been on the books in Mexico for only the last three years. U.S. and Mexican officials have recognized the potential for problems caused by hazardous waste generated by the maquiladoras. If improperly stored, transported, or disposed of, hazardous waste can seep into the soil and contaminate groundwater on both sides of the border. This testimony (1) compares U.S. and Mexican hazardous waste laws and regulations, resources, and enforcement practices and (2) assesses how the generation and ultimate disposal of hazardous waste from maquiladoras is being handled.

Financial Institutions

Obligations Limitation:

Resolution Trust Corporation’s Compliance as of December 31, 1990

GAO/AFMD-92-4, Oct. 22 (18 pages).

GAO is reporting quarterly on the Resolution Trust Corporation’s (RTC) compliance with the maximum obligation limit set forth in the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. This legislation established a formula for calculating the maximum allowable obligations outstanding and provided \$50 billion in financing to resolve troubled thrifts placed into conservatorship or receivership from January 1, 1989, through August 9, 1992. On the basis of its review of RTC’s June 5, 1991, report and table and its financial records, GAO determined that none of the categories for the formula required by the act was omitted from RTC’s calculation and that the reported values appeared reasonable for selected components of the calculation. However, as in its third quarter report, RTC did not include \$18.8 billion of Treasury Department funding when calculating its fourth quarter adjusted obligation level. Had RTC included the Treasury funding in its calculation, the fourth quarter adjusted obligation level would have been about \$1.7 billion over the \$50 billion provided by the act, and RTC would have been precluded from incurring any additional obligations. The accuracy of RTC’s obligation limit calculations is highly dependent on the reasonableness of the estimated fair market value of its assets. Until RTC gains enough experience in selling real estate and troubled loans secured by real estate, GAO has no basis to assess the reasonableness of its estimated recovery values. The obligation limit formula as originally implemented

provided cash reserves to cover possible future losses due to overvaluation of RTC's assets in receivership. GAO continues to recommend that Congress reestablish the cash reserve feature by amending the obligation limit formula established by the act to include all funding sources.

**Resolution Trust Corporation:
Effectiveness of Auction Sales Should Be Demonstrated**

GAO/GGD-92-7, Oct. 31 (10 pages).

The Resolution Trust Corporation (RTC) believes that auctions are an effective way to sell many types of real estate assets quickly and still get a good price. In GAO's view, RTC's auction approach is conceptually sound and is a productive way to sell assets. Widespread uncertainty, however, exists about the viability of auctions because little analysis has been done on the effectiveness of auctions in maximizing returns relative to the more commonly used brokered sales approach. RTC eventually intends to test the various disposition methods it uses to identify what works best. Yet the results of these tests are needed now to support a decision to continue using auctions as a sales approach. These results could answer whether returns are being maximized and could help RTC respond to criticism that brokered or other approaches work better than auctions because they produce higher returns.

**Resolution Trust Corporation:
Proposed Tax Credit Would Add to Government's Cost of Selling
RTC Assets**

GAO/GGD-92-14BR, Nov. 1 (29 pages).

This briefing report looks at whether a tax credit would facilitate the sale of distressed property held by the Resolution Trust Corporation (RTC). The tax credit would be earned in five equal installments, and it would have a present value of up to 80 percent of the purchase price plus the cost of necessary rehabilitation of the applicable RTC property. Specifically, GAO evaluates the cost effectiveness of a tax credit program that would begin on January 1, 1992, and have a cap of \$1 billion. GAO also discusses RTC's strategies to dispose of properties by lowering their prices and using other alternatives.

**Government-Sponsored Enterprises:
Using Private Risk Ratings for Exemptions From Federal
Regulation**

GAO/GGD-92-10, Nov. 6 (34 pages).

This report compares risk ratings done by bank regulators and nationally recognized statistical organizations like Standard & Poor's and Moody's Investors Service. While ratings by bank regulators and the organizations were fairly similar, they differed often enough that one could not be substituted for the other with a great degree of confidence. GAO did not find, however, any major differences between regulatory and organizational ratings for the least risky (triple-A-rated) banks. In addition, the evidence did not show that either regulators or the organizations were faster at reporting increased risk at the least risky end of the rating scale, in which a safe-harbor provision would apply. Because ratings by bank regulators and the organizations often differed, having both ratings would offer the government better information than if it relied on only one. If the evidence available from banks holds true for government-sponsored enterprises, then GAO's analysis suggests that only enterprises receiving the highest possible organizational ratings—triple-A, as proposed by the Department of the Treasury—should be eligible for exemption from regulatory requirements.

**Thrift Resolutions:
FSLIC 1988 and 1989 Assistance Agreement Costs Subject to Signifi-
cant Uncertainties**

GAO/AFMD-92-9, Nov. 18 (16 pages).

GAO is required to report annually to Congress on the costs of assistance agreements entered into by the Federal Savings and Loan Insurance Corporation (FSLIC) from January 1, 1988, through August 9, 1989. These agreements, now managed by the Resolution Trust Corporation (RTC) and accounted for by the Federal Deposit Insurance Corporation (FDIC), provide financial assistance to thrifts that acquired the assets of insolvent institutions. This report discusses the reliability of FDIC's December 31, 1990, total projected payments and the status of RTC's plans through the end of July 1991 for using fiscal year 1991 appropriated funds to prepay notes and renegotiate or buy out the assistance agreements. At the end of 1990, FDIC projected that payments for its 1988 and 1989 financial assistance agreements would exceed \$65.4 billion. FDIC had paid almost \$15 billion to meet obligations related to these assistance

agreements and had projected that an additional \$50.8 billion would be paid over the remaining terms, typically eight years for the largest agreements. However, this projection is subject to significant uncertainties, largely outside of FDIC's control, that may result in material changes in actual payments. Future payments under the agreements are the liabilities of the FSLIC Resolution Fund. These uncertainties relate to continuing problems in local real estate markets, future interest rate fluctuations, and the ultimate results of RTC's asset disposition strategies. The reliability of FDIC's December 31, 1990, projection is further diminished because the effects of paying off notes and exercising other potential cost-saving options through the use of about \$16 billion in fiscal year 1991 appropriated funds could not be readily estimated. Instances in which FDIC did not comply with certain procedural and documentation requirements, primarily those related to valuing the acquired assets, also undermined the reliability of the payment projections. GAO identifies two ways that FDIC could strengthen these requirements.

**Securities Regulation:
Customer Protection Rule Oversight Procedures Appear Adequate**

GAO/GGD-92-17, Nov. 21 (10 pages).

The Securities and Exchange Commission (SEC), New York Stock Exchange, and National Association of Securities Dealers have written procedures—called examination guidelines—for reviewing broker-dealer compliance with the possession or control requirements specified by Rule 15c3-3, known as the customer protection rule. These guidelines address all the requirements of the rule needed to determine broker-dealer compliance or noncompliance with the possession or control requirements of the rule. The Exchange and the Association said that they examine annually all of their broker-dealers who are required to comply with Rule 15c3-3. SEC officials said that they examine about six percent of the broker-dealers that the Exchange and the Association have previously examined to ensure broker-dealer compliance with securities laws and to evaluate and provide feedback to both organizations on the quality of their examination programs. Between 1988 and 1990, SEC found possession or control violations in 57 examinations of broker-dealers in which the Exchange and the Association had not discovered the violations during their previous examinations. GAO found

that for the 17 examinations in 1990, SEC had encouraged both organizations to correct the violations, and the Exchange had acted to remedy the deficiencies identified.

Financial Management

Financial Audit: Bank Insurance Fund's 1990 and 1989 Financial Statements

GAO/AFMD-92-24, Nov. 12 (30 pages).

GAO reports that the Bank Insurance Fund's financial statements for 1990 and 1989 are fairly presented in accordance with generally accepted accounting principles, but significant uncertainties exist, largely beyond the Federal Deposit Insurance Corporation's (FDIC) control, that affect cost estimates for resolving institutions. As a result, actual resolution costs could be higher than estimated. In August 1991, FDIC officials agreed to adjust the Fund's 1990 financial statements to reflect \$4.2 billion in previously unrecognized costs related to insolvent institutions as GAO had earlier recommended. On a related matter, GAO took exception to how FDIC reported on the Fund's financial statement amounts related to certain failed bank resolutions that FDIC characterized as "escrowed funds." FDIC initially reported these amounts—\$3.7 billion and \$.7 billion for 1990 and 1989, respectively—as an offset to the financial statement line item "Net receivables from bank assistance and failures." In October 1991, FDIC agreed to reclassify these amounts to the financial statement line item "Liabilities incurred from bank assistance and failures," decreasing its available borrowing authority. The Fund's 1990 financial statements show that the significant losses it has incurred in resolving problem institutions have substantially depleted its equity. Congress is considering legislation that would increase FDIC's borrowing authority for the Fund to about \$70 billion, the exact amount depending on a formula for limiting the Fund's outstanding obligations. However, the funds that will ultimately be needed to resolve failing institutions depend on current and future economic conditions and may thus be significantly higher than the amount FDIC may receive under proposed legislation. Delays in resolving future problem institutions could result if funding does not cover the costs of future bank failures and the Fund's reserves are not rebuilt to absorb these additional costs. These delays will ultimately lead to higher costs for resolving problem banks and may thus expose the taxpayer to future losses. Finally, GAO cautions that no funding bill should be passed if it does not also address weaknesses in the regulation of the banking industry and deficiencies in the internal control and reporting standards for financial institutions.

**Financial Audit:
System and Control Problems Further Weaken the Pension Benefit
Guaranty Fund**

GAO/AFMD-92-1, Nov. 13 (40 pages).

Serious financial system deficiencies and internal control weaknesses prevent the Pension Benefit Guaranty Corporation (PBGC) from preparing reliable financial statements. These conditions seriously affect Congress' ability to assess whether PBGC's premium levels are adequate to meet its long-term obligation to pay timely and uninterrupted benefits on terminated plans. PBGC's reported financial condition as of September 30, 1990, while unaudited, indicates that it faces an uncertain financial future. While PBGC still has enough assets to meet its near-term benefit payment obligations, it reported an operating loss of \$780 million for fiscal year 1990, increasing its accumulated deficit to \$1.8 billion. This deficit has arisen because PBGC's premiums and invested assets have not covered its losses and other operating expenses. In keeping with the self-financing nature of the guarantee program, sponsors of ongoing pension plans will be expected to fund the accumulated deficit in addition to financing the future cost of the guarantee program. During economic downturns like the current recession, falling investment values combined with an increased potential for losses from termination of underfunded pension plans place PBGC's financial condition at increased risk. Economic downturns tend to increase the risk posed by underfunded plans in distressed industries, such as steel, automobiles, and airlines, and PBGC's financial future will largely depend on the economic health of these industries. GAO is concerned that the ongoing weaknesses at PBGC reveal an ineffective management commitment to establishing and maintaining internal controls and financial systems. These weaknesses, along with PBGC's accumulated deficit and possible future losses for underfunded ongoing pension plans, have led GAO and the Office of Management and Budget to include PBGC on their respective lists of "high risk" agencies and programs.

**Rural Telephone Bank:
Accuracy of Determination of Interest Rate Charged to Borrowers**

GAO/AFMD-92-28, Nov. 15 (six pages).

GAO is required to review annually the interest rate charged to borrowers—known as the "cost of money rate"—as determined by the

Rural Telephone Bank for the preceding fiscal year. The Rural Telephone Bank's cost of money rate was set at 5.43 percent for fiscal year 1991. GAO found this rate to be in accordance with the Omnibus Budget Reconciliation Act of 1987 and 7 CFR Part 1610. Attached to the letter containing GAO's findings is a copy of the Rural Telephone Bank's interest rate notice along with details of its calculation of the interest rate to be applied to loans issued during fiscal year 1991.

**Financial Management:
Analysis of Selected VA and FHA Housing Program Accounting
Methods**

GAO/AFMD-92-8, Nov. 25 (10 pages).

The Department of Veterans Affairs' (VA) housing program accrues guaranteed loan losses at loan origination. The Federal Housing Administration's (FHA) Mutual Mortgage Insurance Fund accrues such losses when an insured loan defaults; loans that default generally do so within 10 years after loan origination. The timing differences in accruing loan losses are attributable to variations in the loan programs involved. Revenue from VA guaranteed loan fees and Fund insurance premiums is recognized when the guaranteed or insured loan losses are recognized; thus, both revenue and related costs are recorded in the same accounting period. Both entities value acquired property at the net amount of cash expected to be realized from the property's sale. In addition, in their financial statements, the entities offset the principal amount of direct mortgage loans with an allowance for loan losses, thus valuing loan assets at their net realizable value. In fiscal year 1992, the VA housing assistance program will start including administrative costs as a program operation cost, as the Fund currently does.

Testimony

First Audit of the Financial Operations of the Library of Congress, by Brian P. Crowley, Director of Planning and Reporting in the Accounting and Financial Management Division, before the Subcommittee on Libraries and Memorials, House Committee on Administration.

GAO/T-AFMD-92-2, Nov. 12 (11 pages).

GAO testified on the results of its first audit of the financial operations of the Library of Congress (GAO/AFMD-91-13, Aug. 22, 1991), which covers the Library's fiscal year 1988 operations. GAO uncovered fundamental problems that harmed not only the Library's ability to prepare auditable financial statements but its ability to establish and maintain the systems

and internal controls needed to carry out its stewardship of books and other assets and to efficiently implement its program operations. This testimony provides an overview of the weaknesses GAO found, the Library's proposed corrective actions, and GAO's views on areas needing additional attention.

Government Operations

Formula Programs: Adjusted Census Data Would Redistribute Small Percentage of Funds to States

GAO/GGD-92-12, Nov. 7 (28 pages).

A total of 100 federal programs providing grants at the state and local levels use population-related data in formulas that allocate all or part of program grant money. While these programs had total estimated obligations of about \$116 billion in fiscal year 1991, the amount of funding influenced by population data was substantially less than that because some programs allocated only a small portion of their total grants according to population data. Of the 100 programs, 30 use data elements for which the decennial census is the only source of information. While hard to predict precisely, the general effect of using adjusted 1990 census population for federal funding purposes would likely be small as a percentage of total funding. Using 1990 adjusted population data in place of the decennial census figures, GAO simulated allocations for three major federal programs—Social Services Block Grant, certain Federal-Aid Highway Programs in which population is a factor, and Medicaid. GAO found that the use of adjusted data would redistribute less than half of a percent of total funding. Some individual states, however, would incur estimated changes of more than \$1 million in their allocations; the effect of such differences becomes more substantial when applied over an entire decade. Redistribution of funds to localities could have a greater impact. Because of the time involved to complete the necessary methodological research, the Bureau believes that any intercensal population estimates incorporating a correction for census undercoverage could not be made available before mid-1992 or early 1993. GAO summarized this report in testimony before Congress; see:

Potential Impact of Using Adjusted Census Counts for Federal Formula Programs, by L. Nye Stevens, Director of Government Business Operations Issues, before the Subcommittee on Government Information and Regulation, Senate Committee on Governmental Affairs. GAO/T-GGD-92-5, Nov. 13 (six pages).

**Freedom of Information:
FDA's Program and Regulations Need Improvement**

GAO/HRD-92-2, Oct. 11 (16 pages).

In handling Freedom of Information Act (FOIA) requests, the Food and Drug Administration (FDA) considers the withholding of certain information to be a "minor violation" rather than a denial and thus not immediately appealable. In addition, FDA regulations provide that when FDA is sued for release of information that it agrees consists of trade secrets, FDA will release the information unless the submitter intervenes to defend against disclosure. GAO found that while FDA has provided information on FOIA requests in a fairly timely manner, it needs to improve compliance. To be fully consistent with the law, FDA also needs to rescind its policies on minor deletions and private intervention in lawsuits. These policies lack a basis in law. Also, even though FDA's regulations have in effect been modified by superseding Health and Human Services regulations, it would be preferable for FDA to update its regulations on fee charges and predisclosure notifications to reflect changes made by FOIA. This change would help readers know which parts of the regulations remain in effect. FDA needs to (1) better account for costs under its FOIA program so that it can recover through its fee structure all allowable costs and (2) do better in providing 10-day notices to requesters to advise them of the status of their requests as contemplated by the law.

Testimony

Proposed Sale of Federal Land to the Columbia Hospital for Women, by L. Nye Stevens, Director of Government Business Operations Issues, before the Subcommittee on Public Buildings and Grounds, House Committee on Public Works and Transportation. GAO/T-GGD-92-7, Nov. 13 (12 pages).

H.R. 2570 would authorize the sale of government-owned land in the District of Columbia to the Columbia Hospital for Women for \$12 million. This testimony summarizes GAO's work on the value of the land and assesses the financial condition of the hospital. Because the costs for the proposed health resources center represent a significant financial undertaking for the hospital, GAO supports the concept of providing for the land's reversion if the hospital is unable to build the center.

The Christopher Columbus Quincentenary Jubilee Commission, by Richard C. Steiner, Director of the Office of Special Investigations,

before the Subcommittee on Census and Population, House Committee on Post Office and Civil Service. GAO/T-OSI-92-2, Nov. 20 (11 pages).

GAO testified about its ongoing investigation of allegations of misconduct involving the Christopher Columbus Quincentenary Jubilee Commission under former Chairman John N. Goudie. Specifically, GAO discusses its findings concerning personal and family ties and financial and business dealings involving members of the Commission and members associated with the Christopher Columbus Licensing Group, Inc., with which the Commission had a licensing contract.

Health

Health Care Spending Control: The Experience of France, Germany, and Japan

GAO/HRD-92-9, Nov. 15 (70 pages).

France, Germany, and Japan achieve near-universal health insurance coverage with health care systems that, while extensively regulated, share three major traits with the U.S. system: (1) medical care is provided by private physicians and public hospitals, and patients are free to choose their physician; (2) most people receive health insurance coverage through their workplace; and (3) health insurance is provided by multiple third-party insurers. This report describes these countries' methods of providing universal coverage through their health insurance and financing systems, their policies intended to restrain increases in health care spending, and the effectiveness of these policies. While GAO does not endorse the specific health systems of the countries reviewed, the strengths and weaknesses in these systems could be instructive in helping resolve U.S. health care problems. GAO summarized this report in testimony before Congress; see:

Health Care Spending Control: The Experience of France, Germany, and Japan, by Lawrence H. Thompson, Assistant Comptroller General for Human Resources Programs, before the Senate Special Committee on Aging and the Senate Committee on Governmental Affairs. GAO/T-HRD-92-12, Nov. 19 (eight pages).

Medicare: Effect of Durable Medical Equipment Fee Schedules on Six Suppliers' Profits

GAO/HRD-92-22, Nov. 6 (23 pages).

Medicare maintains a fee schedule payment system for durable medical equipment, such as wheelchairs and oxygen systems, used in patients' homes. In reviewing the appropriateness of the payment amounts in the fee schedules, GAO found that equipment suppliers have not been maintaining records in a manner that permits direct computation of costs and profits by item. As a result, GAO had to individually develop these data for each supplier. GAO selected six suppliers representative of various sized firms in different parts of the country. The aggregate profit margin for the six suppliers in 1988 was 19 percent on Medicare business versus a 24-percent loss on other business. The overall loss was two percent. GAO estimates, using the same volume of services and constant 1989 dollars, that the six suppliers' aggregate profit margin on their Medicare business would be higher under both the original fee schedules and those revised by the Omnibus Reconciliation Act of 1990 than under the reasonable charge payment method the fee schedules replaced.

Medicare:

HCFA Needs to Take Stronger Actions Against HMOs Violating Federal Standards

GAO/HRD-92-11, Nov. 12 (32 pages).

During the past decade, the Health Care Financing Administration (HCFA) has encouraged Medicare beneficiaries to enroll in health maintenance organizations (HMO). HMOs are attractive because they have financial incentives to control costs and utilization and offer beneficiaries more services than are normally covered under Medicare. Yet HCFA has been ineffective in getting certain HMOs to promptly correct violations of Medicare requirements. Continued violations by Humana Medical Plan in Florida demonstrate HCFA's unwillingness and inability to enforce Medicare requirements on HMOs serving Medicare beneficiaries. Press articles alleged widespread problems with Humana—Medicare's largest HMO contractor—including marketing and claims payments abuses and quality-of-care issues. HCFA found Humana in violation of federal standards in four areas: marketing, claims payment, processing of beneficiary appeals, and implementation of an internal quality assurance system. Deficiencies in these areas can mean that beneficiaries incur high out-of-pocket expenses or are denied appropriate care. As a result, GAO believes that allowing Humana to enroll more than 125,000 new beneficiaries during its protracted period of noncompliance was unreasonable. GAO concludes that HCFA can and should have done more to require Humana to resolve its deficiencies. To help prevent the recurrence of sustained difficulties, HCFA needs to unequivocally establish

both its authority and intention to take timely and decisive action against HMOs that violate Medicare's minimum beneficiary safeguard standards. GAO summarized this report in testimony before Congress; see:

Medicare: HCFA Needs to Take Stronger Actions Against HMOs Violating Federal Standards, by Janet L. Shikles, Director of Health Financing and Policy Issues, before the Subcommittee on Health and the Environment, House Committee on Energy and Commerce. GAO/T-HRD-92-11, Nov. 15 (11 pages).

Testimony

Significant Reductions in Corporate Retiree Health Liabilities Projected if Medicare Eligibility Age Lowered to 60, by Lawrence H. Thompson, Assistant Comptroller General for Human Resources Programs, before the Subcommittee on Health, House Committee on Ways and Means. GAO/T-HRD-92-7, Nov. 5 (12 pages).

About 9 million retirees in the private sector rely on health benefits provided by companies. In the face of an aging work force and spiraling health care costs, however, companies are becoming increasingly concerned about the expense of providing retiree health benefits. Furthermore, a new accounting rule will hit some companies hard by forcing them to acknowledge substantial unfunded retiree health liabilities. Several bills before Congress would lower the age of Medicare eligibility from 65 to 60. Such a measure would provide several benefits to both retirees and companies. It would (1) increase the security of retiree health benefits for early retirees (those who retire before age 65) by making Medicare the primary insurer; (2) make health insurance available to more retirees by extending Medicare coverage to early retirees of companies that do not now offer retiree health benefits; (3) substantially reduce companies' pay-as-you-go costs, accrued liabilities, and prefunding costs for retiree health benefits; and (4) spread the retiree health care burden among companies by helping those with older work forces and high retiree health costs become more competitive, both domestically and internationally, with companies with younger work forces. Lowering the age of Medicare eligibility would dramatically reduce companies' health costs for early retirees because Medicare would pay a substantial portion of these retirees' costs. Yet such a change in eligibility age would also entail a substantial expansion of Medicare program costs, which would be borne in part by all employers and their employees through higher taxes.

Housing

Homelessness: Transitional Housing Shows Initial Success but Long-Term Effects Unknown

GAO/RCED-91-200, Sept. 9 (68 pages).

Believing that homeless people need more than emergency assistance to help them lead independent lives, Congress has directed the Department of Housing and Urban Development (HUD) to develop innovative approaches to providing housing and supportive services to the homeless, especially deinstitutionalized people, families with children, individuals with mental problems, and handicapped persons. A major aspect of the Supportive Housing Demonstration Program is transitional housing to facilitate the movement of individuals to independent living. This report looks at whether (1) the program is helping homeless people move to independent living and what factors influence successful transitions, (2) the program is serving the types of clients specifically targeted by Congress with a wide range of services, and (3) HUD is adequately monitoring grantees and assessing the program's effectiveness.

Community Development: HUD Oversight of the Dallas Block Grant Program Needs Improvement

GAO/RCED-92-3, Nov. 27 (16 pages).

Newspaper articles have alleged that the city of Dallas poorly administered housing programs funded by the Dallas Community Development Block Grant program. GAO found that the Department of Housing and Urban Development (HUD) did not adequately oversee and monitor the program. This report focuses on HUD's monitoring of the city's (1) timely expenditure of program funds, (2) use of program funds for enforcement of local housing codes, (3) control over subrecipients, and (4) accounting for planning and administrative costs.

Information Management

Energy Information: Department of Energy Security Program Needs Effective Informa- tion Systems

GAO/IMTEC-92-10, Oct. 22 (18 pages).

Although security is an important, nearly billion-dollar-a-year function in the Department of Energy (DOE), key information systems that hold important data about security weaknesses and incidents have limited analytical capabilities and contain unreliable information. The resultant difficulty in identifying patterns and trends reduces managers' ability to ensure the effectiveness of the security program. Resources are also wasted because DOE has deployed incompatible systems that are unable to electronically share or transfer data, often forcing employees to manually re-enter data that are already stored in computers elsewhere. Finally, continuing data problems with other important security information systems, such as those used to track security clearances and classified documents, indicate that information system deficiencies are extensive. A major reason for these problems is that DOE has not done a comprehensive, strategic assessment of its information and information technology needs for the security program. DOE's efforts are fragmented because it has not assigned to any organization the leadership responsibility to determine security information needs and to plan and manage security information resources Departmentwide. A number of changes are needed to correct these problems and take advantage of information technology to help strengthen the security program.

Testimony

Computer Security: Hackers Penetrate DOD Computer Systems, by Jack L. Brock, Jr., Director of Government Information and Financial Management Issues, before the Subcommittee on Government Information and Regulation, Senate Committee on Governmental Affairs. GAO/T-IMTEC-92-5, Nov. 20 (nine pages).

GAO testified on intrusions by a group of Dutch computer hackers into Army, Navy, and Air Force computer systems. During a 14-month period that covered the Persian Gulf War, hackers from the Netherlands penetrated 34 Defense Department sites. DOD officials, however, are still unable to determine the full scope of the problem because security measures for identifying intrusions are often lacking. At many sites, the hackers had access to sensitive information on topics like (1) military personnel, (2) logistics, and (3) weapons systems development. Although such information is unclassified, information from at least one system, which was successfully penetrated at several sites, directly supported Operation Desert Storm/Shield. The security weaknesses that permitted the intrusions and prevented their timely discovery highlight DOD's inadequate attention to computer security. Poor password management, failure to maintain and review audit trails, and inadequate security training all contributed to the intrusions. GAO highlighted some of these

very weaknesses in a report issued two years ago (GAO/IMTEC-89-57, June 12, 1989). Without proper resources and attention, these weaknesses will persist and be exploited, undermining the integrity and confidentiality of government information.

International Affairs

State Department: Status of Actions to Improve Overseas Procurement

GAO/NSIAD-92-24, Oct. 25 (eight pages).

GAO reviewed efforts by the State Department to improve internal controls over its overseas procurement system. Two recent reports by the Department have cited serious weaknesses with this system. This report summarizes the (1) procurement weaknesses cited by the reports and (2) actions taken to correct them.

Drug Policy and Agriculture: U.S. Trade Impacts of Alternative Crops to Andean Coca

GAO/NSIAD-92-12, Oct. 28 (58 pages).

Between 1988 and 1990, the Agency for International Development's (AID) mission in Bolivia proposed providing assistance for growing soybeans and citrus as alternatives to coca. In 1990 the Overseas Private Investment Corporation proposed that it be allowed to consider providing aid to citrus projects in Andean countries. The proposals were not approved, and the Department of Agriculture opposed such assistance. Since passage of legislative exemptions in late 1990, the AID mission in Bolivia has started to provide small amounts of aid to soybean and citrus growers. In 1991 a high-level interagency team proposed that the Overseas Private Investment Corporation be allowed to help soybean and citrus projects in Andean countries; the proposal was not approved. Although concerns have been expressed that Bolivian and Peruvian soybeans and citrus crops might compete with U.S. crops, Bolivia's and Peru's current production and exports are insignificant, and obstacles confront Bolivian expansion of soybean production and exports. Even if successful, Bolivian soybean exports would represent only a small share of world trade. Peru is not expected to be competitive in world soybean markets. As for citrus crops, especially frozen concentrated orange juice, neither Bolivia nor Peru is expected to become a significant competitor.

Testimony

Preliminary Inquiry Into Alleged 1980 Negotiations to Delay Release of Iranian Hostages Until After November Election, by James F. Hinchman, General Counsel, before the House Committee on Rules. GAO/T-OSI-92-1, Nov. 7 (six pages); and

Preliminary Inquiry Into Alleged 1980 Negotiations to Delay Release of Iranian Hostages Until After November Election, by James F. Hinchman, General Counsel, before the Subcommittee on Near Eastern and South Asian Affairs, Senate Committee on Foreign Relations. GAO/T-OSI-92-4, Nov. 21 (six pages).

This testimony focuses on GAO's preliminary inquiry into allegations that high-ranking officials of the Reagan-Bush campaign met with Iranian officials in Paris in October 1980 to negotiate the release of the American hostages held in Iran until after the November election. It reviews both the nature of the congressional request and GAO's inquiry into the matter. GAO indicated that it could not develop evidence to corroborate the allegations.

Japanese-Affiliated Automakers: Management Practices Related to Purchasing Parts, by Allan I. Mendelowitz, Director of International Trade, Energy, and Finance Issues, before the House Committee on Small Business. GAO/T-NSIAD-92-5, Nov. 14 (15 pages).

In this testimony, which is based on an earlier report (GAO/NSIAD-88-111, Mar. 7, 1988), GAO discusses trade in auto parts. While there are concerns about the ability of U.S. auto parts and component suppliers to sell to Japanese-affiliated automakers, explanations of these concerns are complex. The fairness of pre-existing relationships between Japanese automakers and parts and components suppliers has come under some scrutiny, although business considerations can also explain observed patterns. GAO concludes that U.S. government agencies involved in this issue must base their judgments and actions on a good analysis of the situation. The U.S. Department of Commerce and the Japanese Ministry of International Trade and Industry will undertake a detailed, jointly sponsored auto parts sourcing study that will analyze parts sourcing at U.S.-based, Japanese-affiliated automakers. In GAO's view, such an analysis should help improve U.S. understanding of the issue and help guide any future action.

Justice and Law Enforcement

Victims of Crime Act Reports: Better Reporting Needed for Compensation and Assistance Programs

GAO/GGD-92-2, Oct. 23 (32 pages).

GAO reviewed the Department of Justice's implementation of the Victims of Crime Act victim compensation and victim assistance grant programs. These two programs provide federal monetary compensation to victims and families of victims of violent crime. On the basis of its review of samples of victim compensation claims and assistance applications, GAO found that the four states it reviewed—California, Michigan, New York, and Ohio—generally complied with the act's objectives. GAO did find two weaknesses that impair the ability of Justice's Office for Victims of Crime to evaluate and report program results. First, the Office used inaccurate and inconsistent state performance reports in preparing its 1988 legislatively required biennial report of program effectiveness to the president and Congress. Second, while the Office's program guidelines required that states allocate at least 10 percent of their assistance grants to three priority areas—victims of sexual assault, spousal abuse, and child abuse—the Office had no assurance that the money allocated was spent for each priority area.

Prison Costs: Opportunities Exist to Lower the Cost of Building Federal Prisons

GAO/GGD-92-3, Oct. 25 (76 pages).

Federal medium security prisons opened between 1985 and 1990 cost more per bed to build than similar state prisons. They averaged \$70,000 per bed compared with \$55,000 per bed for the state prisons. The major reasons for the difference were that federal prisons were designed to provide 55 percent more space per inmate and federal designs called for inmates to be housed in single cells rather than multiple-occupancy cells or dormitories. Another reason was that federal prisons had more space devoted to inmate programs. However, these federal prisons cost less to operate per inmate per day than the state prisons, mainly as a result of salary differences. Once federal law enforcement pay reform goes into effect, however, differences between federal and state salaries should diminish and locality pay could make siting prisons in some geographic areas more costly. The Bureau is considering ways to reduce construction costs, including allowing double-bunking in some new medium security prisons. However, GAO questions whether these proposals will

take advantage of important opportunities to substantially cut prison costs. These opportunities include reducing the amount of space provided to inmates, making greater use of multipurpose space, and siting prisons in lower cost geographic areas.

**Prison Alternatives:
Crowded Federal Prisons Can Transfer More Inmates to Halfway
Houses**

GAO/GGD-92-5, Nov. 14 (27 pages).

Although the Bureau of Prisons has tried to ensure that the halfway house program serves as a suitable alternative to prison by helping inmates make the transition from prison to the community, the Bureau is not taking full advantage of this available and less costly alternative to prison. On average, about 1,300 of the more than 5,000 halfway house beds under contract to the Bureau were unused during 1990. At the same time, the federal prison system was operating at 150 percent of its rated capacity. Prison crowding has not been reduced to the extent it could have been, and a prison alternative that could reduce the need for costly new prison beds has not been fully used. The 11 halfway houses GAO reviewed appear to offer a suitable alternative to prison. GAO found that 83 percent of the inmates there had found jobs in the communities where they expected to live when released. None of the halfway houses had created problems for their communities. In addition, the Bureau had monitored two halfway house operators to ensure that they adhered to their contracts. This report outlines several steps the Bureau could take to make greater use of currently available halfway house resources.

**National Defense,
Security, and Military
Procurement**

**1992 Air Force Budget:
Potential Reductions in Satellite Programs**

GAO/NSIAD-91-294BR, Sept. 23 (16 pages).

GAO reviewed the Air Force's fiscal year 1992 budget request and prior years' appropriations for selected command, control, and communications satellite programs. Schedule slippages, technical risks, and program changes have affected the program's funding requirements for fiscal year 1992. GAO identified \$297.9 million in potential reductions and rescissions for congressional consideration.

**1992 Army Budget:
Potential Reductions in Command, Control, and Communications
Programs**

GAO/NSIAD-91-305BR, Sept. 26 (14 pages).

In reviewing the Army's fiscal year 1992 budget request and prior years' appropriations for selected command, control, and communications programs, GAO found that schedule delays, program changes, and uncertainties have affected program funding requirements for that fiscal year. GAO identified \$129 million in potential reductions for congressional consideration. In addition, GAO's review of Army-developed equipment being procured by the Special Operational Forces identified a potential reduction of \$14.776 million in the defense agencies' budget.

**Conflict of Interest Policy:
Defense Logistics Agency Employees Whose Spouses Work for
Contractors**

GAO/NSIAD-92-6, Oct. 21 (10 pages).

Defense Logistics Agency (DLA) regulations prohibit agency employees from participating in any official action in which they or their spouses or other household members have a financial interest. In addition, DLA personnel shall not receive or retain any direct or indirect financial interest that conflicts with their duties or responsibilities. DLA has identified 153 employees with financial conflicts of interest resulting from their spouse's employment. As of June 1991, DLA was reviewing 81 of these cases. In the remaining 72 cases, employees were disqualified from performing specific duties or were reassigned to another position or location. In 10 cases, the conflict was resolved because the household member resigned. If a financial conflict of interest cannot be resolved, the employee can ask for a waiver. DLA records identify only two requests for waivers in the 1980s; both requests were denied. However, 62 of the 153 DLA employees with conflicts of interest have requested a waiver. DLA's district offices have denied 13 of these requests and are evaluating 28 others. The remaining 21 waivers have been or will soon be sent to DLA's General Counsel for final decision. GAO concludes that DLA's regulation is consistent with conflict of interest laws and regulations applicable to all government employees. Further, DLA's regulation reflects the government's interest in maintaining high ethical standards while providing for the consideration of DLA employees' individual situations.

**Strategic Defense Initiative:
Options for Revising Program Elements Used to Fund Program**

GAO/NSIAD-92-10, Nov. 1 (17 pages).

The mission-based program elements used for 1991 do not accurately reflect the new focus of the Strategic Defense Initiative—Global Protection Against Limited Strikes. GAO and officials of the Strategic Defense Initiative Organization (SDIO) each identified an alternative option for revising the program elements. The major differences between SDIO's option and GAO's are (1) where to fund 30 technology development projects totaling about \$2 billion and (2) whether to have a separate program element for funding 34 SDIO projects used to fund the management of the total program and integration and support services. SDIO's option distributes the technology projects among the program elements, whereas GAO's option includes one program element for technologies that support the objective of Global Protection Against Limited Strikes and one for the other technologies. GAO's option also has a separate program element to fund management. Congress may establish control over SDIO funding by (1) limiting the total appropriation and allowing SDIO to distribute the funds among the program elements, (2) allocating the appropriation among each program element, or (3) setting funding amounts for specific projects in a program element.

**Early Warning Satellites:
Funding for Follow-on System Is Premature**

GAO/NSIAD-92-39, Nov. 7 (seven pages).

The Defense Support Program is a surveillance and warning satellite system with an infrared capability to detect ballistic missile launches. GAO found that the Department of Defense's (DOD) plans to develop a follow-on system for the program may provide more capability than the existing system, but providing funding to start the development effort in fiscal year 1992 would be premature. DOD has not completed its selection process, which will consider several system alternatives. Although the best alternative is still unknown, five separate studies suggest that an enhanced Defense Support Program could be nearly as effective and would cost billions less than a fully capable Follow-on Early Warning System. The Air Force has estimated the cost of the initial Follow-on Early Warning System and an Advanced Early Warning System but has not estimated the incremental costs to move from the initial Follow-on Early Warning System to a fully capable system meeting the validated

requirements. This lack of complete information and the incomplete selection process raise concerns about DOD's plans to spend \$166 million to initiate development of the Follow-on Early Warning System at this time.

**Defense Health Care:
CHAMPUS Mental Health Benefits Greater Than Those Under Other Plans**

GAO/HRD-92-20, Nov. 7 (20 pages).

DOD's Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) pays for a substantial portion of the health care that civilian hospitals, physicians, and other providers give to DOD beneficiaries. This report compares the benefits for mental and substance abuse treatment available under CHAMPUS with similar benefits under private-sector plans and under the Federal Employees Health Benefits Program.

**Defense Housing:
Difficulties Associated With Managing an Aging Family Housing Inventory**

GAO/NSIAD-92-9FS, Nov. 12 (eight pages).

The federal government has an inventory of around 400,000 military family housing units, about 72 percent of which are 26 years or older. This is the point at which many of the major components of the dwelling reach the end of their estimated useful life. The Defense Department estimates that almost 200,000 of these dwellings will require about \$11 billion for renovations over the next decade to keep them habitable. The replacement value of the 400,000 units now exceeds \$39 million. As an example of some of the difficulties faced by housing managers, this report also provides a synopsis of what happened to 28 family housing units on Antigua, a small Caribbean island, in the 1970s and 1980s.

**Desert Shield/Storm Logistics:
Observations by U.S. Military Personnel**

GAO/NSIAD-92-26, Nov. 13 (58 pages).

The Defense Department's ability to move massive amounts of troops and materiel for Desert Shield/Storm was a significant achievement. As might be expected of such an enormous undertaking, however, not all

went smoothly. GAO interviewed U.S. military officials involved in Desert Shield/Storm. This report describes lessons that could be applied to avoid future logistical problems and to replicate the management practices and ingenuity U.S. military personnel used to overcome many of these problems.

Testimony

Defense Industry: Status of the C-17 Program and Related Issues Affecting the McDonnell Douglas Corporation, by Nancy R. Kingsbury, Director of Air Force Issues, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. GAO/T-NSIAD-92-4, Nov. 14 (17 pages).

The Air Force's C-17 military transport aircraft program continues to face significant schedule, cost, and performance challenges. Because of major schedule delays and increases in overall program costs, Douglas Aircraft is facing an overrun on the development contract. Estimates of that overrun range from \$450 million (the company) to \$1.4 billion (the Office of the Undersecretary of Defense for Acquisition). In January 1991, the McDonnell Douglas Corporation asked for \$1 billion in financial aid from DOD to help overcome an anticipated cash flow shortfall. DOD did not provide that assistance, but considered it because of concern about the corporation's viability and the effect of its financial failure on government programs—particularly the C-17 program. This testimony focuses on C-17 financial issues involving DOD and the McDonnell Douglas Corporation, including whether DOD provided unusual financial assistance to that company through the C-17 program.

Embedded Computer Systems: C-17 Software Development Problems, by Samuel W. Bowlin, Director of Defense and Security Information Systems Issues, before the Subcommittee on Legislation and National Security, House Committee on Government Operations. GAO/T-IMTEC-92-4, Nov. 14 (eight pages).

The Air Force originally anticipated "low-risk" software development for the C-17 aircraft program, but the effort has proved much more complex and risky than planned, GAO testified. The Air Force planned to use operational software previously developed and tested for other systems and proven avionics technology to reduce the complexity and technical risks associated with C-17 development. It expected to have full operational functionality for the C-17's first flight, originally scheduled for February 1990. However, for many critical C-17 functions, the prime contractor—a subsidiary of McDonnell Douglas Corporation—and its

subcontractors could not simply reuse existing software but had to produce substantial amounts of new code. This unexpected development delayed schedules and changed development plans. The first flight test did not occur until September 1991—19 months after originally scheduled—and excluded many of the critical software functions required for the fully operational aircraft, such as certain key navigational capabilities. These functions are not expected to be ready until the spring of 1992 at the earliest. Further, in providing software for the first flight test, shortcuts were taken that will likely cause further delays and increased costs.

Natural Resources

Wilderness Management: Accountability for Forest Service Funds Needs Improvement

GAO/RCED-92-33, Nov. 4 (18 pages).

To help ensure that Forest Service wilderness areas are protected and maintained in their natural state, Congress increased funding for wilderness management by almost 80 percent during fiscal years 1989 through 1991. The Forest Service, however, diverted more than one-third of the \$44.7 million designated for wilderness management to other activities. Of the \$28.3 million spent on wilderness management, \$10.5 million was used for management expenses—mainly salaries and administrative costs—at organizational levels above the district offices, with the remainder spent on wilderness management at the district level. The Forest Service reported that 112 of the 500 district offices managing wilderness areas saw cuts in funding for fiscal year 1990, including some offices that had earlier reported funding and staffing shortfalls. Contrary to congressional directives, the Forest Service reprogrammed these funds without seeking prior approval by the House Committee on Appropriations. The head of the Forest Service recently outlined several steps to ensure that (1) designated funds are spent as Congress intended, (2) the Committee's reprogramming procedures are followed, and (3) there is greater accountability over funds designated for wilderness management. In addition, GAO suggests that the Forest Service refine its accounting for expenditures and establish output targets to improve accountability over expenditures of wilderness management funds and the performance of wilderness managers.

**Water Resources:
Local Sponsors' Views on Corps' Implementation of Project Cost Sharing**

GAO/RCED-92-11FS, Nov. 15 (47 pages).

The Water Resources Development Act of 1986 requires the U.S. Army Corps of Engineers to develop a cost-sharing partnership with local sponsors whose active participation and financial commitment are essential to accomplish water resource development projects. The sponsors generally are local or state governments or other public entities, like flood control districts or port authorities, that ask the Corps' for help. This fact sheet presents the views of local sponsors on the Corps' implementation of cost sharing under the act, including the sponsors' views on their relationship with the Corps and the impact of cost sharing on accomplishing proposed projects, such as flood control or navigation projects.

**Natural Resources Damage Assessment:
Information on Study of Seabirds Killed by Exxon Valdez Oil Spill**

GAO/RCED-92-22, Nov. 27 (28 pages).

In the wake of the March 1989 Exxon Valdez oil spill in Alaska's Prince William Sound, a federally funded study sought to estimate the number of seabirds killed as a result of the accident. This was one of more than 50 damage assessment studies that sought to determine the impact of the spill on natural resources and develop a restoration strategy. The most controversial aspect of the seabird study involved killing 219 seabirds, immersing them in oil, placing them in Prince William Sound, and tracking their drift patterns to discover the number of birds recovered versus the number lost at sea. This report provides information on (1) the request and approval of the seabird damage study and (2) the study's methodology.

Transportation

**Coast Guard:
Inspection Program Improvements Are Under Way to Help Detect Unsafe Tankers**

GAO/RCED-92-23, Oct. 8 (23 pages).

The spill of more than 10 million gallons of crude oil into Alaska's Prince William Sound as a result of the 1989 Exxon Valdez accident increased attention on preventing tanker spills and on the Coast Guard program to inspect U.S. and foreign-flagged tankers operating in U.S. waters. The importance of these inspections has been further underscored by the dramatic aging of the world fleet. This report provides information on (1) conditions and problems identified by the Coast Guard that are affecting its tanker inspection program and (2) actions being taken or considered by the Coast Guard to improve the inspection program. Given the aging of the tanker fleet, reduced maintenance levels, and the unreliability of the current inspection program, GAO concludes that improvements in vessel inspection are needed to ensure that tankers operating in U.S. waters are safe. Because the Coast Guard has only recently implemented some changes in its tanker inspection program, it is too soon to evaluate the effectiveness of actions taken thus far. However, until the Coast Guard strengthens its program management by involving industry in its planning process and developing strategies for planning, implementing, and evaluating changes, it will be unable to ensure the effectiveness of its corrective actions.

**Aviation Safety:
Emergency Revocation Orders of Air Carrier Certificates**

GAO/RCED-92-10, Oct. 17 (19 pages).

The Federal Aviation Administration (FAA) issued 52 emergency revocations of operating certificates between January 1987 and May 1991 on air taxi or commuter operations; five were later overturned or reduced to a lesser penalty. No major airlines were issued emergency revocation orders during this period. Many of the revoked air carriers were established companies that had been in business for years. Air taxis accounted for 73 percent of the emergency revocation orders. The most frequent violations were for operating an aircraft in violation of the air carrier's operating certificate, operating unairworthy aircraft, and falsifying compliance records. FAA often learned of violations that led to emergency revocations during accident investigations or investigations done as a result of tips from employees, competitors, or customers, rather than as a result of inspections. According to FAA inspectors, key managers and owners who committed violations that led to nine emergency revocations returned to, or remained in, a similar position with an air carrier. Some of these individuals then committed more safety violations leading to another emergency revocation. While FAA lacks a formal

system to track such key managers or owners, FAA plans to issue guidance by the end of fiscal year 1992 to help inspectors track key managers and owners.

**Hazardous Materials:
1990 Transportation Uniform Safety Act—Status of DOT Implementing Actions**

GAO/RCED-92-55BR, Nov. 5 (11 pages).

This briefing report discusses progress by the Department of Transportation (DOT) in implementing the Hazardous Materials Transportation Uniform Safety Act of 1990. Implementation of the act is either in process or planned for all sections of the act except one that has been completed. While most of these efforts do not have to be completed until fiscal year 1992 or 1993, GAO discovered that in several cases action was required but not taken in fiscal year 1991. Officials attributed this to insufficient funds—a situation that strongly affected hiring more hazardous materials inspectors and conducting various studies. The act imposed many new requirements, some of which were accommodated by reallocating 1991 funds that had been budgeted for other purposes. DOT officials said that the agency had not requested a supplemental appropriation in fiscal year 1991 for the act. Fiscal year 1991 funds could technically have been used for funding all requirements of the act, but agency officials decided not to do so. Instead, each of the agencies amended its fiscal year 1992 budget request to include funding for act requirements.

**Mass Transit Grants:
Improved Management Could Reduce Misuse of Funds in UMTA's Region IX**

GAO/RCED-92-7, Nov. 15 (49 pages).

In January 1990, GAO began a special audit effort to spotlight federal programs at high risk of waste, fraud, abuse, and mismanagement. This report looks at one of the 16 programs identified by GAO—the Urban Mass Transportation Administration's (UMTA) grants program in the Department of Transportation (DOT). GAO found that the majority of grant recipients in UMTA's Region IX (San Francisco, California) did not have adequate management controls to ensure compliance with federal grant requirements and to safeguard funds. For example, DOT's Office of Inspector General discovered about \$84 million wasted, misspent, or

mismanaged by eight Region IX grantees, including instances of double billing and missing property. GAO found that Region IX did not effectively use its monitoring tools and enforcement authorities to correct existing problems and prevent future abuses. According to Region IX officials, limited staff resources prevented closer monitoring, and the region's oversight was consistent with UMTA's philosophy of relying on grantees to adhere to federal requirements and protect federal funds. In GAO's view, however, these inadequate internal controls and neglected oversight tools place federal mass transit funds at risk of waste, fraud, and abuse.

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