



Reports and Testimony: January 1991

Highlights

Major Issues Facing Congress

Chronic failure to control the budget deficit—now aggravated by war abroad and recession at home—is matched by failure to resolve critical problems in areas like defense management, financial institutions, health, energy, and the environment. Page 14.

Immigration Management

Inconsistent leadership and weak management systems at the Immigration and Naturalization Service over the past decade have allowed serious management problems to go unresolved. Page 12.

International Banking

A review of the implementation of capital adequacy standards for banks active in the international arena shows that most affected banks in six countries examined by GAO meet or are close to meeting the minimum standards for risk-based capital. Page 20.

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Agriculture and Food

Food Safety and Quality: Who Does What in the Federal Government

GAO/RCED-91-19A and GAO/RCED-91-19B, Dec. 21 (32 pages and 119 pages).

Today's federal food safety and quality regulatory system is fragmented and complex, consisting of as many as 35 different laws and involving 12 federal agencies. The first volume of this report provides an overall perspective on federal efforts to ensure food safety and quality. GAO discusses (1) the statutory responsibilities, programs, activities, staffing, and budget of the federal agencies involved with food safety and quality; (2) the inter-agency agreements used by the agencies to cooperate in meeting their statutory duties; (3) the ways in which funding and staffing levels have changed during the 1980s relative to the agencies' work loads; and (4) the issues that federal officials believe will be critical for food safety and quality in the 1990s. The second volume contains a more detailed description of the food safety and quality activities of the 12 agencies that were the focus of the first volume. These 12 agencies include the following: Food and Drug Administration and Centers for Disease Control (HHS); Agricultural Marketing Service, Federal Grain Inspection Service, Food Safety and Inspection Service, Agricultural Research Service, and Animal and Plant Health Inspection Service (USDA); the Environmental Protection Agency; the National Marine Fisheries Service (Department of Commerce); Bureau of Alcohol, Tobacco, and Firearms (Department of the Treasury); U.S. Customs Service; and Federal Trade Commission.

U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade

GAO/RCED-91-22, Jan. 22 (46 pages).

GAO found that U.S. Department of Agriculture agencies rarely use strategic marketing—a range of practices that identify consumer needs and develop products and delivery systems to satisfy those needs—to help U.S. agribusiness better compete in both export and domestic markets. Although USDA agencies are reacting positively to some of the challenges of strategic marketing, GAO concludes that overall the Department is not prepared to guide agribusiness in a market-driven economy. Important marketing policies, practices, and skills are lacking within individual agencies, impairing USDA's ability to fulfill a leadership role. For example, three of the four agencies GAO examined do not coordinate

their program planning or systematically exchange information. These factors have contributed to USDA's inability to develop a plan for marketing as a coordinated, Department-wide issue under the new management-by-objective system.

**U.S. Department of Agriculture:
Farm Agencies' Field Structure Needs Major Overhaul**

GAO/RCED-91-9, Jan. 29 (60 pages).

The U.S. Department of Agriculture runs its farm programs and services through one of the federal government's largest and most decentralized field structures. This structure also dates to the 1930s and reflects the more limited transportation and communication systems in use at that time. Given changing patterns in American agriculture and mounting constraints on federal spending, GAO looked for ways to improve the overall management of USDA's field structure. GAO found that USDA can save millions of dollars while maintaining or improving operational effectiveness by (1) more aggressively pursuing incremental improvements through field office collocations and consolidations and (2) restructuring to provide a more flexible, integrated field organization. GAO notes the likelihood of many sources of opposition to the restructuring of USDA field operations. As a result, USDA will need to engage its grass roots staff, top management, farm clients, and Congress in updating its current structure to one that can effectively deliver services into the next century.

Budget and Spending

**The Budget for Fiscal Year 1991:
Scoring of GSA Lease-Purchases**

GAO/AFMD-91-44, Jan. 15 (seven pages).

This report discusses differences in how the Office of Management and Budget and the Congressional Budget Office did budgetary scoring for lease-purchase contracts at the General Services Administration. OMB's treatment produced higher outlay estimates for fiscal year 1991 than did CBO's. GAO believes that the key to resolving the issue would be for the administration and Congress to reconsider the matter in light of a common set of assumptions about the contracts' financing and the required scoring rule. GAO understands that the administration will be initiating discussions with Congress to develop a mutually acceptable

way of resolving the issue. GAO believes that this is an appropriate course of action.

**Budget Issues:
Effects of the Fiscal Year 1990 Sequester**

GAO/AFMD-91-21, Jan. 18 (20 pages).

This report examines the effects of the fiscal year 1990 sequester on five federal agencies: the Department of Health and Human Services, IRS, the Department of Education, the Environmental Protection Agency, and the Department of Housing and Urban Development. GAO found that the 1990 sequester had only a minimal effect on the five agencies. The five agencies actually lost less than 1.4 percent of their final budget authority because (1) growth in agency appropriations offset sequester reductions and (2) appropriations enacted after the sequestration were partially exempt from that process. As a result, agencies absorbed the sequester reductions by postponing program expansions and improvements rather than by cutting core services. Final 1990 figures peg the deficit at \$220.4 billion, or \$120.4 billion over the target level. Had OMB predicted the need for a \$120 billion sequester in its earlier sequestration reports, GAO believes that meaningful nonsequester deficit reduction might have been achieved in the face of massive, across-the-board cuts. GAO continues to believe that sequestration alone will not eliminate the deficit. Instead, a combination of good faith negotiations, political leadership, and compromise on difficult policy matters is needed.

**Economic
Development**

**Community Development:
Oversight of Block Grant Monitoring Needs Improvement**

GAO/RCED-91-23, Jan. 30 (14 pages).

Local governments rely on the Community Development Block Grant program to help meet locally defined community development needs, including the creation of decent housing and the expansion of economic opportunities. However, the Office of Inspector General found that many problems plagued the administration of grantees' programs. GAO reviewed three Department of Housing and Urban Development field offices (Baltimore, Maryland; Columbus, Ohio; and Detroit, Michigan) to determine how they monitored entitlement grantees of Community Development Block Grants. GAO found that weaknesses in HUD's guidance for monitoring entitlement grantees may have contributed to

inadequate supervisory and evidentiary control practices. Without adequate supervisory and evidentiary controls over its monitoring program, HUD cannot ensure that management problems are detected or that staff do not duplicate previous work. In addition, without using information found in Office of Inspector General reports when planning their monitoring, field offices may not be using their limited resources most effectively.

Education

Stafford Student Loans: Millions of Dollars in Loans Awarded to Ineligible Borrowers

GAO/IMTEC-91-7, Dec. 12 (32 pages).

Due to internal control weaknesses, GAO has cited the Stafford Student Loan Program, the largest government program for student loans, as one of 14 areas at high-risk for mismanagement, fraud, and abuse. A main problem at the Stafford Student Loan Program is the lack of an information system to protect the government's interests; in fiscal year 1990, more than half the program's funds—\$2.4 billion—were used to repay defaulted loans. Today the Department is running a multi-million-dollar, commercial-type loan operations with a data system containing incomplete, inaccurate, and unreliable information. Consequently, the Department has no way of knowing whether (1) student loan defaulters are trying to obtain new loans or (2) borrowers have exceeded legal loan limits. GAO found that loan defaulters may have obtained about \$109 million in new loans, and that students have received million of dollars in loans over the legal limits. While the total impact of such abuses is unclear because the data are so poor, GAO believes that a significant problem exists—one that is costing the federal government millions of dollars in interest subsidies and additional defaulted loans. The Department of Education plans to install a new data base in 1993. Until then GAO believes that the Department needs to do much more to (1) improve the accuracy and completeness of the current data base and (2) make this information available to guaranty agencies. GAO concludes that much is at stake. If the abuses go unchecked, they will continue to corrode the financial aid system and ultimately deprive eligible students of the money they need to finance their education.

Employment

Employee Benefits: Improvements Needed in Enforcing Health Insurance Continuation Requirements

GAO/HRD-91-37, Dec. 18 (12 pages).

GAO reviewed the Department of Labor's and the Internal Revenue Service's enforcement of the health insurance continuation requirements of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). This legislation requires firms employing 20 or more employees and offering a group health insurance plan to provide employees and their families the option of continued coverage in cases of job loss, death, or divorce. This report discusses (1) Labor and IRS efforts to help private individuals who bring cases of alleged noncompliance by employers to their attention, (2) procedures for investigating these allegations, and (3) enforcement history. Both IRS and Labor provide information about COBRA to those who inquire, and Labor will contact employers to help employees obtain benefits. However, if employers refuse to provide benefits, IRS cannot and Labor generally does not try to force employers to provide benefits. Further, the extent of COBRA violations is unknown. IRS' method of dealing with potential COBRA beneficiaries, in GAO's view, discourages the reporting of violations. GAO believes that Labor and IRS should do more to ensure that IRS is made aware of potential COBRA violations. The knowledge that excise taxes may be assessed for these violations could deter such violations. Also, people referred by IRS to Labor could get help quicker if they were given Labor's phone number along with its address.

Job Training Partnership Act: Review of Audit Findings Related to the Downriver Community Conference Program

GAO/HRD-90-105, Jan. 4 (22 pages).

GAO initially looked at four expenditures made by the Downriver Community Conference—an organization that provides employment training to residents in the Detroit area—under the Job Training Partnership Act: (1) \$151,824 for contractual services to create a data base to be used to identify potential program participants, (2) \$47,740 for a sole-source contract with a computer consultant, (3) \$100,226 for the purchase of an air-conditioning system, and (4) a \$4,725 payment to a terminated employee. While GAO concluded that these expenditures represented an allowable use of funds, concerns were raised that GAO had

not fully developed and considered the evidence of wrongdoing or misuse of funds in connection with these expenditures. In a supplement addressing these concerns, GAO notes that it did find evidence that some local Downriver rules were violated, and that available evidence provides a basis to question the wisdom and prudence of some of Downriver's actions. However, GAO did not find sufficient evidence of fraud or other improprieties to warrant further inquiry or referral to the Department of Justice.

**National Labor Relations Board:
Action Needed to Improve Case-Processing Time at Headquarters**

GAO/HRD-91-29, Jan. 7 (72 pages).

The National Labor Relations Board generally considers cases involving either allegations of unfair labor practices or disagreements about elections on union representation. In response to concerns about the length of time it has taken to decide some cases appealed to the headquarters Board from the regional offices, GAO looked at the Board's system for deciding cases. This report (1) describes how long the Board had taken to decide cases, particularly since 1984, and determines whether there were any excessive delays; (2) identifies factors that contributed to such delays; and (3) determines if additional administrative or legislative action might be warranted.

**Labor-Management Relations:
Strikes and the Use of Strike Replacements in the 1970s and 1980s**

GAO/HRD-91-2, Jan. 18 (24 pages).

The 1980s experienced about half as many strikes as did the 1970s. Among strikes reported to the Federal Mediation and Conciliation Service in 1985 and 1989, GAO estimates that employers announced an intention of hiring permanent replacements about one-third of the time and actually hired them in 17 percent of the strikes. GAO found little difference in the use of permanent strike replacements by employers in larger versus small strikes. Many employers and union representatives involved in strikes in 1985 and 1989 believe that permanent strike replacements were more common in the late 1980s than in the late 1970s. However, GAO estimates that—had it surveyed all employers and union representatives—about one-third of employers and 13 percent of union representatives would have said that they had no basis for providing an opinion on trends in the hiring of permanent replacements.

Energy

Oil Reserve: Some Concerns Remain About SPR Drawdown and Distribution

GAO/RCED-91-16, Nov. 28 (40 pages).

The crisis in the Persian Gulf has renewed interest in the ability of the Department of Energy's Strategic Petroleum Reserve to counter disruptions in the supply of oil to the United States. To provide this protection, DOE must be able to offset the supplies lost by quickly drawing down reserve oil from its storage sites and distributing it to purchasers. This report (1) reviews DOE's current and planned capability for removing oil from reserve sites and getting it to users via oil distribution networks, (2) examines the Strategic Petroleum Reserve's compliance with pipeline safety requirements, and (3) discusses DOE's efforts to correct problems that GAO previously reported. GAO concludes that a major distribution could be hampered because buyers of Strategic Petroleum Reserve oil are required to use U.S.-flag tankers to ship the oil between U.S. ports. DOE and industry officials doubt whether enough U.S.-flag vessels are available to do the job, and questions remain about the efficiency of procedures to authorize the use of foreign vessels.

Energy Management: DOE Needs to Better Implement Conflict-of-Interest Controls

GAO/RCED-91-15, Dec. 26 (34 pages).

DOE has 22 federally funded research and development centers that are managed and run by private corporations and universities under contracts with DOE. In fiscal year 1989, DOE paid these contractors almost \$8 billion; these contractors, in turn, awarded about \$3.2 billion to subcontractors. In response to concerns about subcontractor conflicts of interest, GAO looked into the situation and found that while DOE's written policies and procedures provide guidance on how to spot and avoid conflicts of interest among subcontractors, DOE field offices have not been implementing these internal management controls. Contrary to DOE regulation, the DOE Albuquerque field office abdicated responsibility and allowed the research centers to make conflict-of-interest determinations themselves. Although GAO was unable to determine whether DOE's policies and procedures were, in practice, effective, GAO noted two management control problems. First, Albuquerque has relied extensively on subcontractor self-certification in making conflict-of-interest decisions even though certifications may not always be accurate. Second, Albuquerque's documentation of conflict-of-interest decisions is limited. GAO

also found that neither Albuquerque nor DOE headquarters exercised effective oversight to ensure that conflicts of interest were avoided in the subcontracts awarded by the Los Alamos and Sandia National Laboratories.

Financial Institutions

Obligations Limitation: Resolution Trust Corporation's Compliance as of June 30, 1990

GAO/AFMD-91-41, Dec. 21 (20 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 conservatorship or receivership. On the basis of its review of RTC's September 28, 1990, report and schedule and its financial records, GAO concludes that none of the categories for the formula were omitted from RTC's calculation and that there is little risk that RTC exceeded the limitation. However, RTC is facing a funding crisis. Without enough money to absorb the losses and to buy the assets of failed institutions, RTC will have to slow down its resolution efforts. As a result, failing institutions will continue to incur operating losses, thereby increasing resolution costs. GAO believes that only quick action to identify a long-term solution to RTC's funding needs will ensure the Corporation's continued ability to respond to the thrift crisis. GAO also followed up on recommendations it made to RTC in its first quarter report and found that RTC is, in all instances, making progress on the recommendations, although none have been fully implemented yet.

Resolution Trust Corporation: Unnecessary Loan Servicing Costs Due to Inadequate Contract Oversight

GAO/GGD-91-19, Jan. 17 (eight pages).

GAO found that from January to July 1990, the Resolution Trust Corporation might have avoided as much as \$1 million in loan processing costs resulting from continued operations at a large loan processing center in Orlando, Florida. These unnecessary costs arose from inadequate RTC oversight, insufficient RTC and North Carolina National Bank of Florida initiatives to plan for a large reduction in the number of loans processed

at the center, insufficient cost information on center operations, and RTC's failure to take early action to market the center. Given the thousands of assets in RTC's current real estate inventory, GAO believes that the Florida situation highlights the urgent need for timely and adequate contractor monitoring efforts.

Financial Management

Financial Audit: Financial Reporting and Internal Controls at the Air Force Systems Command

GAO/AFMD-91-22, Jan. 23 (59 pages).

This report presents the results of GAO's review of the Air Force Systems Command's financial management operations. Systems Command managers are responsible for billions of dollars in appropriations and accountable assets. However, GAO found that the Command's internal controls and financial reporting are not providing adequate and reliable financial information for effective management and reporting of these resources. GAO discusses these problems and recommends corrective actions.

Financial Audit: Air Force's Base-Level Financial Systems Do Not Provide Reliable Information

GAO/AFMD-91-26, Jan. 31 (24 pages).

This report presents the results of GAO's review of the Air Force's base-level financial management operations for fiscal years 1988 and 1989. Base-level managers are responsible for million of dollars in appropriations and accountable assets. However, accounting errors and inaccurate financial reports pervaded the base-level accounting systems at the 17 bases where GAO conducted its tests. For fiscal years 1988 and 1989 combined, GAO identified over \$2.7 billion in adjustments needed to correct errors in year-end, base-level trial balances. This inaccurate information had already found its way into financial reports delivered to the Department of Defense, the Office of Management and Budget, the Department of the Treasury, and Congress. Real property account balances were misstated because transactions were recorded in an inaccurate and timely manner. Unauthorized and excessive issues of inventory and equipment diminished accountability for those items, and the

failure to match personnel and inventory payroll records created an opportunity for unauthorized payroll transactions.

**Financial Management:
INS Lacks Accountability and Controls Over Its Resources**

GAO/AFMD-91-20, Jan. 24 (34 pages).

Over 40 years ago, Congress required each federal agency to establish and maintain adequate systems of accounting and internal control. However, GAO found that because of an outmoded accounting system, poor internal controls, and lack of management emphasis on financial management—weaknesses that have gone uncorrected for years—the Immigration and Naturalization Service continues to lack fiscal accountability over its resources. INS could lose millions of dollars in revenue because accurate and reliable financial information is unavailable to effectively bill, collect, or litigate amounts owed the government. Further, INS' primary accounting system contains incomplete and inaccurate financial data. GAO concludes that solving INS' financial management problems will take strong management commitment and leadership that must be sustained across succeeding administrations.

**Inspectors General:
Work Performed by the Department of Labor Inspector General in 1988 and 1989**

GAO/AFMD-91-24, Jan. 31 (15 pages).

The Office of Inspector General audits and investigates program agencies at the Department of Labor. It also investigates allegations of racketeering. During fiscal years 1988 and 1989, both the Office of Audit and the Office of Investigations spent a majority of their time and resources investigating projects at the Employment and Training Administration and at the Employment Standards Administration. Most of the investigations done by the Office of Investigations centered on alleged criminal activity in Labor programs. The Office of Labor Racketeering classified more than half of the racketeering cases open during fiscal years 1988 and 1989 as involving employee benefit plans. GAO was told that all of the Office's cases investigated during the past two years involved alleged racketeering or related criminal activity. The Office pursued all of its cases under criminal statutes except for two cases pursued under the civil provisions of the Racketeer Influenced and Corrupt Organization Act.

Government Operations

Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems

GAO/GGD-91-28, Jan. 23 (111 pages).

The Immigration and Naturalization Service is faced with balancing the demanding roles of enforcement and service. On the one hand, INS enforces laws meant to prevent the illegal entry of millions of poverty-stricken, often repressed people naturally drawn to a better life in the United States. On the other hand, INS facilitates legal immigration by processing millions of requests relating to citizenship and asylum and by inspecting hundreds of millions of people at ports of entry. This report, one in a series of general management reviews of major federal departments and agencies, concludes that over the past decade weak management systems and inconsistent leadership at INS have allowed serious problems to go unresolved. As a result, the agency has degenerated into a group of segmented autonomous programs, each trying to handle its own set of problems with little attention to their interrelatedness. Compounding this lack of overall direction is a chaotic budget development process that has produced budgets that are simply compilations of program submissions with little accountability for funds or attention to agencywide priorities. The current INS organizational structure, marked by complicated lines of authority and communication, adds to and perpetuates the agency's segmented management. Although INS' problems did not happen overnight, the agency needs to take immediate action to improve both enforcement and service operations. In the long run, the Department of Justice and INS must articulate a vision of how INS is to effectively implement the nation's immigration policy.

Postal Service: Contractor Performance—Express and Priority Mail Transportation

GAO/GGD-91-13, Dec. 27 (four pages).

GAO reviewed the Postal Service's award of an express and priority mail transportation contract to Air Train, Inc. (later renamed Emery Worldwide Airline, Inc.) and the contractor's performance under that contract. The contract says that the minimum acceptable performance for meeting express and priority mail delivery times at destination cities is 98 percent of the time. GAO found that after the initial start-up week, the

on-time performance requirement was met for 54 of 57 weeks. In addition to the on-time requirement, the contractor is expected to deliver all express and priority mail to destination cities without leaving any mail behind, either at the originating city or at the hub (where the mail is sorted). GAO found that Air Train failed to meet these standards 10 out of 57 weeks.

**District of Columbia:
Information on Court Ordered Tenant Evictions**

GAO/GGD-91-29, Dec. 28 (20 pages).

This report provides information on court ordered tenant evictions in the District of Columbia, almost 3,000 of which took place in fiscal year 1990. GAO discusses (1) the time that elapsed between the landlord's filing of an eviction request, the court issuance of the eviction order, and the actual eviction by U.S. deputy marshals for evictions carried out in fiscal year 1990; (2) reasons for the elapsed times; and (3) whether using contractors to carry out the evictions, instead of deputy marshals, would be legal and appropriate.

**Regulatory Flexibility Act:
Inherent Weaknesses May Limit Its Usefulness for Small
Governments**

GAO/HRD-91-16, Jan. 11 (23 pages).

Have federal agencies been sufficiently analyzing the effect of their proposed regulations on small governments (towns with less than 50,000 inhabitants)? Further, has the goal of the Regulatory Flexibility Act of 1980—to reduce regulatory burdens on small businesses, small governments, and nonprofit organizations—been met for small governments? GAO found that federal agencies are not doing as many analyses for small governments as they might, largely because of weaknesses in the act. First, the Small Business Administration may be unable to monitor compliance with the act because it lacks expertise in small government issues. Second, that act has no provisions for ensuring federal agency compliance. Third, neither the act nor SBA has provided criteria or definitions for determining whether federal rule-making agencies are conducting sufficient analyses of regulations affecting small governments and how these analyses should be done. GAO is concerned that proposed legislation—S. 1758, the Small Governments Regulatory Partnership Act—would not address these weaknesses. GAO believes that SBA should

develop the expertise needed to better implement provisions relating to small governments. GAO also believes that Congress may wish to consider amending the Regulatory Flexibility Act to require SBA, in consultation with OMB, to develop criteria on whether and how federal agencies should conduct analyses for small governments. It should also consider expanding SBA's existing authority to review and comment on proposed agency regulations affecting small governments. This expansion should direct SBA to work with OMB to ensure agency compliance with the provisions of the act.

Testimony

Major Issues Facing the 102nd Congress, by Charles A. Bowsher, Comptroller General of the United States, before the Senate Committee on Governmental Affairs. GAO/T-OCG-91-1, Jan. 23 (19 Pages).

GAO's 1988 transition series sought to alert the President-elect and the new Congress to the many challenges facing the nation. This testimony updates the status of the issues GAO cited in 1988. The Comptroller General first reviews the overall state of the economy and the budget, cautioning that a protracted war in the Middle East, the recession at home, and further increases in the cost of deposit insurance could trigger another explosive rise in the deficit over the next several years; the general fund deficit—excluding the surpluses in the Social Security and other trust funds—already appears likely to top \$400 billion in 1991. He then discusses critical policy problems in the following program areas: defense, the financial sector, health, transportation, agriculture, energy, the environment, financial management, and the public service. In some cases GAO reports significant progress, but that is the exception. Many of the problems, including some of the most important ones like the thrift crisis, have become more severe. Given the rapid developments in international affairs—as evidenced by changes in the Warsaw Pact countries and by the economic and political integration of Western Europe—the Comptroller General believes that it is time to revisit the question, What is required of our government? If the United States is to succeed in this new world order, the Comptroller General believes that several prerequisites must be satisfied. First, we must have a government that works, one that operates efficiently and effectively, both in its internal functions and in its delivery of services to the American people. To reach that goal, investment in government, its people, its facilities, and its technology is needed. Second, we must have a government whose financial performance relates properly to the national and world economy. For that to be achieved, the United States must move toward a long-term fiscal policy that recognizes the need for a much higher level of

national savings. Third, we must have a financial system in whose safety and soundness the American people can have complete confidence, so that our market economy can effectively allocate capital to the most productive uses. To accomplish that, we must resolve the thrift crisis, restore the soundness of the banking industry, and ensure an efficient and effectively regulated structure of capital markets.

Health

Medicaid: Legislation Needed to Improve Collections From Private Insurers

GAO/HRD-91-25, Nov. 30 (32 pages).

As a public assistance program, Medicaid was expected to pay for health care only after Medicaid recipients had used all their other health care resources. GAO found that two major problems hinder states from collecting from private insurers for recipients' covered health care costs. First, states cannot prohibit some out-of-state insurers from trying to avoid paying state Medicaid agencies for such costs. States now lack jurisdiction over insurers that operate only incidentally in the state. Second, states' limited authority over plans covered under the Employee Retirement Income Security Act of 1974 (ERISA) does not allow them to prohibit these plans from trying to avoid payments for recipients' covered costs. Further, many states have not exercised the authority they do have to mandate that no ERISA plan include any contract provision that might limit or exclude payments for Medicaid recipients' health care costs. While state officials found it hard to pinpoint losses resulting from their payment systems, examples of state Medicaid losses obtained by GAO suggest that the problem may be substantial—perhaps millions of dollars in losses each year—and growing. To minimize future losses, federal legislation is needed to clarify Medicaid's role as a payer of last resort and to enhance the ability of states to collect from out-of-state insurers and ERISA plans.

Medical Malpractice: Few Claims Resolved Through Michigan's Voluntary Arbitration Program

GAO/HRD-91-38, Dec. 27 (31 pages).

The current ways of resolving medical malpractice claims in this country are neither efficient nor equitable. Claims take a long time to be resolved, awards and settlements are unpredictable, and legal costs are

steep. Concern about the existing system has inspired alternative proposals for claims resolution, including fault-based and no-fault based approaches. This report looks at one of the fault-based alternatives—the Michigan Medical Malpractice Arbitration Program. GAO assessed (1) the extent of hospital, health care provider, and patient participation under the Michigan plan; (2) the arbitration alternative's effect on medical malpractice claims resolution; and (3) whether arbitration contributed to reducing medical malpractice insurance costs. GAO's conclusions about the program are limited because program participation has been low. GAO does not foresee significant increases in program participation because of the voluntary nature of the program and because of the lack of incentives for patient participation.

**Medicare:
Millions in Potential Recoveries Not Being Sought by Maryland Contractor**

GAO/HRD-91-32, Jan. 25 (nine pages).

As part of a broader GAO effort to evaluate the adequacy of the Medicare contractor budget for claims-processing and program safeguard activities, GAO discovered a situation that it believes warrants congressional attention. GAO found that Blue Cross and Blue Shield of Maryland—a Medicare claims-processing contractor—has paid at least \$8.8 million in claims for which it has identified other health insurers that may have primary payment responsibility under the Medicare secondary payer provisions. In this case, the contractor—through its investigative efforts—has identified other parties that may owe Medicare sizable sums. However, the contractor lacks the resources to recover these amounts. GAO concludes that any additional funding of the contractor's activities to recover these payments may yield considerably more than each dollar so expended.

Income Security

**Social Security:
Analysis of a Proposal to Privatize Trust Fund Reserves**

GAO/HRD-91-22, Dec. 12 (40 pages).

This report analyzes a proposal by a Member of Congress to create a new system of Individual Social Security Accounts. Under this proposal, the accumulating reserves of the Social Security Trust Fund would be returned to workers and invested in individual accounts in the private

sector, where they would be held until the workers' retirement. In effect, the proposal would partially and temporarily privatize Social Security. GAO found that the proposal could be integrated with the existing progressive benefit structure and, given favorable financial market conditions, could improve retirement incomes. If implemented, the Individual Social Security Account may change the mix of public and private saving but not necessarily the magnitude of national saving. The proposal also raises many administrative difficulties and policy issues that need to be addressed before Individual Social Security Accounts could be considered a fully working alternative to the use of trust fund reserves.

**Social Security:
Production Initiatives in OHA's Region V Comply With Law and Guidelines**

GAO/HRD-91-36BR, Dec. 21 (24 pages).

Persons denied Medicare and Social Security benefits may appeal such decisions to Administrative Law Judges in 132 hearing offices around the country. The Social Security Administration's Office of Hearings and Appeals (OHA) is responsible for managing these judges. GAO reviewed productivity initiatives underway in OHA's Chicago Regional Office and found that they complied with Administrative Procedure Act and OHA guidelines. GAO also found that by including dispositions of regional chiefs and retired judges in hearing office statistics, average production figures for the Chicago region and some hearing offices were slightly overstated. However, in terms of distribution of monetary awards, the only apparent gain from the overstatement was that one hearing office received an additional \$3,529 for awards and bonuses to support staff for which it would not have been otherwise eligible. As OHA studies and redesigns its system of productivity measures for its Administrative Law Judges, it should ensure that whatever measurement system it designs fairly recognizes the work done by individuals and by offices. In the interim, GAO believes that when calculating the productivity of its hearing offices, OHA should count regional chiefs and any retired judges as resources for those hearing offices that received credit for their dispositions.

Information Management

Tax System Modernization: Status of IRS' Input Processing Initiative

GAO/IMTEC-91-9, Dec. 12 (34 pages).

Through its input processing initiative, IRS is attempting to drastically reduce manual handling of paper income tax returns, tax payments, and other tax information. The initiative—part of IRS' overall effort to modernize its tax processing system—is intended to speed the way tax information is fed into computers for processing. This report describes the status of the three major components designed to automate the labor intensive aspects of entering tax return and other information into IRS' computers. GAO identifies each component's anticipated costs, expected benefits, and progress toward implementation, as well as issues requiring further attention by IRS.

ADP Budget: Potential Reductions to the Department of Defense's Budget Request

GAO/IMTEC-91-17BR, Dec. 27 (26 pages).

To assist Congress in its continuing oversight responsibilities, GAO reviewed the Department of Defense's fiscal year 1991 budget request for information technology resources. GAO identified potential reductions of \$460.1 million—\$72 million from the Army, \$74.1 million from the Air Force, \$14 million from the Defense Logistics Agency, and another \$300 million from DOD's operation and maintenance request. These potential reductions are based on GAO's assessment of budget justifications, schedule slippages, and program changes. This report also provides information on DOD's Corporate Information Management initiative.

Command and Control: Defense's Use of Engineering Contractors for Acquiring Automated Systems

GAO/IMTEC-91-19, Dec. 27 (17 pages).

The Department of Defense relies on both in-house and outside technical expertise to design and develop highly complex command, control, communications, and intelligence systems. This report examines the extent to which DOD uses engineering support contracts for advice and direction

in acquiring automated data processing systems. DOD data show that from fiscal years 1985 through 1989 show that DOD spent about \$3.4 billion for engineering and technical support of system acquisitions. The Air Force was by far the largest user, accounting for over \$2 billion of the \$3.4 billion spent. DOD's annual expenditures went from \$494.5 million in fiscal year 1985 to \$891.7 million in fiscal year 1989, an 80-percent increase.

**Mainframe Procurements:
Statistics Showing How and What the Government Is Acquiring**

GAO/IMTEC-91-13, Dec. 27 (32 pages).

GAO has previously issued a series of 10 reports on compatible computer procurements. Those reports looked at those agencies that obligated \$50 million or more for mainframe computers and mainframe peripheral acquisitions. This capping report provides consolidated statistics on mainframe computer and mainframe peripheral procurements by 35 federal agencies. In particular, GAO looked at the extent to which the 35 agencies required compatibility with IBM or other equipment manufacturer. GAO found that during the 3-1/2 fiscal years ending in March 1989, the agencies obligated \$1.9 billion for mainframe and mainframe peripheral procurements. Eighty-two percent (\$1,587.8 million) of all the procurements required compatibility with existing systems. IBM-compatible procurements comprised 64 percent of the compatibility-limited procurements and 52 percent of all procurements. With a 47 percent share of the total federal market, IBM was the largest vendor; Unisys, with a 20-percent share, was the next largest. Almost 60 percent of the total value of all procurements involved only one vendor. When GAO used the number of procurements—rather than dollars—for comparison, it found that the agencies had 3,225 procurements for mainframe and mainframe peripherals and over 90 percent required some kind of compatibility. The agencies required IBM compatibility 60 percent of the time. When IBM compatibility was required, IBM equipment was supplied 68 percent of the time.

International Affairs

International Banking: Implementation of Risk-Based Capital Adequacy Standards

GAO/NSIAD-91-80, Jan. 25 (41 pages).

Concerned that banks may not be holding enough capital to ensure their safety and soundness, Congress passed legislation in 1983 encouraging other countries to maintain or improve banks' capital bases. In 1988 the Basle Committee on Banking supervision, which included representatives from 12 nations, adopted a framework to measure capital adequacy and to establish minimum capital standards for banks operating internationally. Included in the framework are minimum capital adequacy standards that are to be fully achieved by the end of 1992. This report looks at (1) steps regulators and financial institutions are taking to implement the framework, (2) progress made toward meeting the framework's objectives, and (3) issues that remain unresolved in implementing the framework. GAO reviews implementation in the United States, France, Germany, Switzerland, the United Kingdom, and Japan.

Foreign Assistance: Resettlement of Panama's Displaced El Chorillo Residents

GAO/NSIAD-91-63BR, Dec. 20 (20 pages).

The Panama Defense Force headquarters, located in the El Chorillo District in Panama City, was a major target during the December 1989 U.S. invasion of Panama. During the fighting, about 2,200 households in the El Chorillo district were uprooted. This briefing report (1) assesses the living conditions at the Albrook facility, the largest of the seven displaced persons camps; (2) determines the status of the program to find permanent replacement housing for the displaced El Chorillo residents; and (3) identifies factors that may impede further progress in providing permanent homes.

U.S. Food Exports: Five Countries' Standards and Procedures for Testing Pesticide Residues

GAO/NSIAD-91-90, Dec. 20 (26 pages).

The 1989 controversy over Alar, a substance applied to apples, intensified public fears about the use of pesticides and chemicals on produce. Concern about food residues has also spread overseas and has led to

losses in U.S. agricultural exports. This report discusses (1) U.S. government efforts to prevent or resolve trade disputes arising over pesticide use; (2) specific procedures used by foreign governments in selected Pacific Rim countries and Australia to set tolerances and test for pesticides on U.S. produce exports; and (3) the technical capabilities of these foreign governments to conduct pesticide testing. To evaluate testing and technical capabilities, GAO visited Australia, Japan, South Korea, Taiwan, and Thailand. GAO found that the five countries lack information about which pesticides and other chemicals are being used on U.S. produce. Further, while the five countries have the necessary testing capabilities, they use a variety of standards in testing for pesticides.

**Cambodia:
Multilateral Relief Efforts in Border Camps**

GAO/NSIAD-91-99FS, Jan. 22 (nine pages).

Waves of Cambodians first fled the Khmer Rouge regime and later the Vietnamese invasion of Cambodia. As a result, an estimated 350,000 refugees and displaced persons now live in Thai border camps. This fact sheet discusses (1) the events leading up to the current situation in the camps, (2) the amount of money being spent to support the camps, (3) how the money is being put to use, and (4) the control and accountability systems in place to manage the funds.

**U.S. Embassy, Moscow:
Alternatives for Reconstruction and Their Costs**

GAO/NSIAD-91-43FS, Dec. 28 (three pages).

Using Soviet construction workers, the United States began building a new embassy in Moscow in 1979. By the mid-1980s, it was discovered that the building was riddled with Soviet eavesdropping devices, and construction was halted. This unclassified version of a classified report looks at the State Department's proposal to demolish the unfinished embassy and to rebuild atop the old foundation. GAO discusses (1) the basis for the current cost estimate of \$270 million for demolition and reconstruction and (2) the alternatives considered by the State Department for a new embassy in Moscow and their costs. GAO is concerned that the State Department's estimates for demolition and rebuilding may be too low. Regardless of which option is eventually funded, GAO notes that construction agreements with the Soviets are still pending for the new office building and for other land and buildings in adjacent sites.

Further delays in concluding these agreements could affect construction costs and schedules. In addition, State has not prepared cost estimates on the additional property and facility needs for the Moscow complex.

Justice and Law Enforcement

Drug Interdiction: Funding Continues to Increase But Program Effectiveness Is Unknown

GAO/GGD-91-10, Dec. 11 (23 pages).

Drug interdiction programs established by the Coast Guard, Customs Service, and Border Patrol, with support provided by the Department of Defense, are designed to stop smugglers and/or their shipments by focusing on the mode of transportation. These efforts are thus referred to as land, marine, air, and commercial cargo interdiction programs. GAO examines (1) the available measures of drug interdiction program performance and whether performance can be compared between different programs, (2) funding for the interdiction programs, (3) quantities of drugs seized through the interdiction programs, and (4) the relationship between drug seizures and the use of advance information (prior intelligence) on the drug shipments.

National Defense, Security, and Military Procurement

Acquisition Reform: Defense Management Report Savings Initiatives

GAO/NSIAD-91-11, Dec. 4 (18 pages).

The 1986 Packard Commission made many recommendations for improving operations at the Department of Defense. In response, DOD developed the Defense Management Report, which outlines steps to improve DOD management. GAO found that DOD has implemented several Defense Management Report savings initiatives and has begun to realize some savings, but the larger, more complex initiatives are still in the planning stages. To fully implement the initiatives and achieve DOD's savings goal, GAO believes that continued management support is necessary. Although the initiatives were estimated to save about \$39 billion over fiscal years 1991-95, these estimates did not always rely on cost analyses supported by historical facts or empirical cost data. GAO's review of \$24.5 billion in estimated savings showed that about 82 percent of these savings were based primarily on management judgment, suggesting that the reliability of the estimates may vary. DOD officials

said that current budget negotiations and international security developments—including Operation Desert Shield—will not delay the implementation of the efficiencies to generate these savings. As of June 1990, none of the Packard Commission's recommendations to streamline and reduce the acquisition work force had been made; in fact, the number of acquisition personnel increased slightly. DOD estimates that over fiscal years 1991-95, Defense Management Report initiatives will eliminate almost 2,400 civilian and almost 2,000 military positions from the acquisition work force. The fiscal year 1991 National Defense Authorization Act, however, requires much deeper cuts in acquisition and headquarters personnel.

**Defense Management:
Efforts to Streamline Acquisition Management Structure**

GAO/NSIAD-91-15, Dec. 5 (16 pages).

GAO reviewed the military services' efforts to streamline their acquisition management structure in accordance with DOD's 1989 Defense Management Report, which was issued in response to the Packard Commission's 1986 recommendations. The Packard Commission concluded that DOD acquisition management had become so encumbered and unproductive that weapons systems frequently cost more than planned and took too long to develop and deliver. GAO found that—as prescribed in the Defense Management Report—each military service has revised (1) its three-tier structure and (2) the roles of its materiel and systems command. GAO believes that these revisions, if fully implemented as intended will more clearly separate the streamlined acquisition structure from the service's existing structure by (1) appointing Service Acquisition Executives and Program Executive Officers who are devoted full-time to acquisition matters, (2) giving three-tier officials more control over acquisition matters, and (3) removing unnecessary review layers from the acquisition process. Until DOD issues guidance on implementing the Defense Management Report changes and the services update their policies and procedures, GAO cannot determine whether or not DOD's management accountability goal will be fully achieved.

**Army Acquisition:
Air Defense Antitank System Did Not Meet Operational Test
Objectives**

GAO/NSIAD-91-51, Dec. 10 (19 pages).

The Army selected its current line-of-sight forward heavy air defense system—known as the “Air Defense Antitank System”—in November 1987 to provide needed air defense to the maneuver force. However, GAO found that operational testing did not demonstrate that the system was operationally suitable. The system fell far short of its availability requirements, in large part because many system components were unreliable, and many effectiveness requirements were not met. While the Army acknowledges the system’s problems, it believes that the system has demonstrated sufficient operational effectiveness to warrant continuation of the program. In August 1990, the Army opted to defer production of the system for two years in hopes of resolving the system’s problems. Because the system has not proven that it can meet established requirements, by law the Army cannot obligate any procurement funding after fiscal year 1989 until the system meets or exceeds the Army’s operational test performance criteria.

**Military Exports:
Implementation of Recent Offset Legislation**

GAO/NSIAD-91-13, Dec. 17 (eight pages).

Offsets are a range of industrial and commercial compensation practices required by foreign governments and firms as conditions for the purchase of military exports. There is a growing perception that offset arrangements erode the U.S. industrial base as technology and component production is transferred to foreign sources to satisfy offset commitments. This report looks at steps taken by the executive branch to (1) establish a comprehensive U.S. policy on offsets addressing technology transfer, U.S. financing of offset arrangements, and the effects of offsets on specific subsectors of the U.S. industrial base; (2) negotiate with foreign governments to limit the adverse effects of offsets; and (3) require U.S. industry to notify DOD of offset arrangements exceeding \$50 million.

**Weapons Production:
Impacts of Production Rate Changes on Aircraft Unit Costs**

GAO/NSIAD-91-12, Dec. 18 (10 pages).

GAO reviewed the sensitivity of estimated procurement costs of selected military aircraft programs to reductions in numbers of aircraft purchased each year. Aircraft procurement unit costs generally increase as their procurement rates decrease. However, some mature Air Force and Navy procurement programs, including those for the KC-135R engine modification, F/A-18, F-16, AV-B, and F-15 would not show as significant a unit cost increase as other aircraft programs if their procurement rates were cut. According to contractors, the procurement unit cost of some mature aircraft is less sensitive to procurement rate reductions when at least one of the following factors is present: (1) contractors have a chance to manage overhead and other costs in anticipation of production rate changes, (2) foreign customers' requirements can offset reductions in the U.S. procurement quantities, and (3) multiyear procurement can be used to stabilize prices over a longer production period. Contractors also said that unit cost is especially sensitive to sudden unanticipated changes in production rates. In GAO's view, these circumstances underscore the importance of program stability. When procurement rate decreases are necessary, contractors should be given enough advance notice so they can eliminate unnecessary facility, overhead, and other costs before the production rate decreases begin.

**Test and Evaluation:
The Director, Operational Test and Evaluation's Controls Over Contractors**

GAO/NSIAD-91-60, Dec. 21 (17 pages).

The Director, Operational Test and Evaluation, uses contractors to assist with the operational test and evaluation of major weapon systems. Concerns have arisen that some of these contractors may have a conflict of interest; that is, they could be assessing the operational testing of the very weapon systems that they had helped to develop. This report (1) describes the nature and extent of the Director's management controls over contractor support, including measures to address possible conflicts of interest under omnibus contracts; (2) provides GAO's views on the Director's use of Federally Funded Research and Development Centers, particularly the Institute for Defense Analyses; and (3) determines the Director's use of the Institute during fiscal years 1987 through 1989

and identifies any possible conflicts of interest and the Institute's controls to avoid such conflicts. While the Director's policies and procedures for managing contractors comply with existing guidelines, GAO is concerned that the Institute is not now required to disclose to the Director possible conflicts of interest arising either from its work for DOD organizations responsible for system acquisitions and development and testing or from its use of consultants.

**DOD Procurement:
Changes to Military Specifications for Testing Industrial Fasteners**

GAO/NSIAD-91-84, Dec. 21 (eight pages).

Concluding that several military aircraft accidents were caused by poor quality fasteners, the Air Force made the testing specifications for class 3 threaded fasteners more stringent. GAO found that the Air Force followed applicable DOD guidance in making the change. To implement the more stringent testing specifications, the Air Force and the Navy procured a specific gage—called an indicating gage—that analyzes deviations in fastener threads. When procuring these gages, the Air Force and the Navy followed competitive procurement practices specified in DOD regulations and the Competition in Contracting Act.

**Biological Warfare:
Better Controls in DOD's Research Could Prevent Unneeded Expenditures**

GAO/NSIAD-91-68, Dec. 27 (20 pages).

The Biological and Toxin Weapons Convention of 1972, which prohibits development, production, and stockpiling of biological and toxin weapons, counts over 100 nations among its signatories. Yet the number of countries having or suspected of having biological programs has more than doubled since then. Starting in fiscal year 1984, Congress began appropriating funds—\$370 million so far—for the development of countermeasures to defend against a biological weapons attack. However, GAO found that the Army, lacking adequate internal controls in its medical research program, unnecessarily spent funds on research and development efforts that did not address validated threats and may have duplicated the research efforts of other federal agencies.

**Military Bases:
Relocating the Naval Air Station Agana's Operations**

GAO/NSIAD-91-83, Dec. 31 (58 pages).

To accommodate a growing tourist industry and to promote economic development, Guam wants to expand its international airport onto property occupied by the U.S. Naval Air Station Agana. The government of Guam has asked the United States many times to transfer the station facilities and land to its control. This report looks at (1) the feasibility of relocating Agana operations to Andersen Air Force Base, Guam; (2) the estimated costs of such a relocation; (3) the potential costs of making enough Navy land available at the Air Station to expand the international airport and related facilities without relocating all of the Navy's operations. GAO concludes that while it is possible to consolidate Navy and Air Force operations at Andersen Air Force Base, it would take over 100 years to recover the costs of relocating the Navy's operations. Although not endorsing any approach, GAO outlines four options that would allow the airport to expand without requiring the Navy to relocate. Navy and Guam officials, however, have expressed concerns about each of these options and have said that none would fully satisfy their needs.

**Military Bases:
Process Used by Services for January 1990 Base Closure and
Realignment Purposes**

GAO/NSIAD-91-109, Jan. 7 (13 pages).

The fiscal year 1991 National Defense Authorization Act established a new, independent commission to evaluate DOD's base closure and realignment proposals, and DOD must reevaluate its January 1990 candidate bases against criteria yet to be established. This report provides information on DOD's processes before passage of the act. GAO discusses (1) how DOD had selected the domestic military bases announced as candidates for disclosure and realignment by the Secretary of Defense in January 1990 and (2) whether the military services had developed realistic cost estimates for closing and realigning the forces at those bases. GAO found that DOD did not provide specific written guidance to the services on how to choose bases for closure and realignment. Instead, the Secretary of Defense spoke to the services in general terms, instructing them to consider anticipated force structure and budget reductions in

selecting candidate bases. In selecting candidate bases, none of the services used a process as comprehensive and well documented as the one followed by the 1988 Commission on Base Realignment and Closure. Further, the processes used by the services in selecting bases for closure varied. The Navy did not develop cost and savings estimates prior to the Secretary's January 1990 announcement, and the Army and Air Force cost and savings estimates were only preliminary; efforts to refine these estimates were suspended with passage of the fiscal year 1991 Defense Authorization Act.

**Antisubmarine Warfare:
Tactical Surveillance Sonobuoy and Related Software Need to Be Tested Together**

GAO/NSIAD-91-41, Jan. 9 (13 pages).

Sonobuoys, which are dropped into the ocean from antisubmarine aircraft, can pick up noises from enemy submarines and transmit this information by radio to the plane; this data can then be used to identify, locate, and attack the submarines. GAO found that the Navy's revised acquisition strategy adds risk to the Tactical Surveillance Sonobuoy Program because the sonobuoys may need to be modified if deficiencies are revealed during operational testing in fiscal year 1993. Also, if the development of the aircraft software is further delayed, the Navy will be unable to use the sonobuoys for some time after they are delivered. Finally, the revised strategy contradicts Navy guidance, which generally requires operational test and evaluation of an entire system before production is authorized. The Tactical Surveillance Sonobuoy Program is not an exception to this rule. Consequently, GAO recommends that the Navy not authorize further production of the sonobuoy until testing proves that it will work when it is integrated with the new aircraft software.

**Over-the-Horizon Radar:
Better Justification Needed for DOD Systems' Expansion**

GAO/NSIAD-91-61, Jan. 16 (25 pages).

The Air Force's Over-the-Horizon Backscatter radar, which can detect and track bomber-size aircraft, was originally developed to provide the North American Aerospace Defense Command's continental air defenses with early warnings of an attack. The Navy's Relocatable Over-the-Horizon Radar was designed to provide air surveillance and warnings of

bomber attacks on Navy battle groups and other U.S. and allied tactical forces. This report (1) examines DOD's plans to use the Air Force radar for counterdrug purposes and (2) provides information on the cost, design, acquisition and deployment, missions, and inoperability of both the Air Force and Navy radar programs. GAO concludes that DOD needs to clarify the primary purposes of the central radar system. If the main purpose is for air defense, rather than the counterdrug mission, future budget requests should be justified on that basis, describing what threat the system is expected to detect. Before providing funds for any additional Over-the-Horizon Backscatter radar sectors, Congress may wish to have in hand satisfactory operational test results on the east coast radar system.

**Navy Budget:
Potential Reductions in Aircraft Procurement Budget**

GAO/NSIAD-91-65, Jan. 16 (16 pages).

GAO reviewed the Navy's aircraft procurement budget request for fiscal year 1991 and appropriations for the preceding two years to identify potential budget reductions and rescissions, including amounts that are not being used for the purposes appropriated. GAO identified \$972.1 million in potential reductions and rescissions for congressional consideration. If the proposed procurement of certain aircraft is reduced or deferred, \$658.8 million would be available from the fiscal year 1991 budget request. An additional \$313.3 million in fiscal years 1989 and 1990 appropriated funds could be rescinded since they are not being used for the original purposes identified in the budget requests.

**Navy Budget:
Potential Reductions in Weapons Procurement**

GAO/NSIAD-91-22BR, Jan. 18 (30 pages).

This briefing report looks at the Navy's justification for its fiscal year 1991 Weapons Procurement budget request and prior year appropriations. GAO found potential reduction in the following six weapon and ordnance systems: Trident II (D-5) missile, Tomahawk cruise missile, High Speed Anti-Radiation Missile (HARM), MK-48 advanced capability torpedo, MK-50 advanced lightweight torpedo, and 16-inch gun ammunition. Although no reductions are involved, GAO also reviewed the following five weapon systems to report on timely programmatic issues: Phoenix missile, Standard Missile, Rolling Airframe Missile, Penguin

missile, and Vertical Launched Antisubmarine rocket. GAO also identified prior year funds that were no longer needed for purposes specified in the selected weapon system procurement programs.

**Navy Budget:
Status of Flying Hour and Steaming Day Performance Indicators**

GAO/NSIAD-91-62, Jan. 29 (five pages).

In 1988 Congress asked that the Navy provide budget justifications for its aircraft flying hour and ship steaming day programs. These justifications were to include measurable mission-related goals and the resources need to meet them, a method for measuring the degree to which the goals have been met, and an explanation of any differences between the goals and the actual results. GAO found that the Navy added three performance indicators in its fiscal year 1990 steaming day budget justifications. The Navy has not yet developed performance indicators for its flying hour budget justifications but expects that indicators will be incorporated into the fiscal year 1992 budget justifications. In addition, the Navy has made an effort to quantify the relationship of flying hours and steaming days to proficiency and mission readiness. However, because factors other than the number and frequency of flying hours and steaming days—such as personnel, equipment, materiel, and maintenance—affect proficiency and mission readiness, quantifying the relationship between budget requests and accomplishment of program goals is difficult. The increased operational requirements of Operation Desert Shield will further complicate the process. Thus, the Navy cannot relate actual versus planned program performance in terms of program expenditures.

**Defense Inventory:
DOD's Humanitarian Assistance Program**

GAO/NSIAD-91-87FS, Jan. 18 (16 pages).

GAO reviewed DOD's Humanitarian Assistance Program and its effect on the utilization and donation programs run by the General Services Administration. Under the Humanitarian Assistance Program, DOD can make available for humanitarian relief any nonlethal excess supplies in its system. In the mid 1980s, the program was used to donate excess property to help refugee and resistance groups in Afghanistan and to fly wounded Afghans to the United States and Europe for medical treatment. Since then, DOD has transferred excess property to an increasing

number of other countries. This fact sheet provides information on (1) the quantity and category of excess material and equipment donated through the program on an annual basis; (2) the value of these items, based on the acquisition cost or other valuation; (3) a list of countries and organizations within those countries that have received excess property; (4) the annual costs for transporting excess property; and (5) an assessment of how well excess property has been used.

**Enlisted Force Management:
Past Practices and Future Challenges**

GAO/NSIAD-91-48, Jan. 22 (61 pages).

Direct costs for enlisted personnel, who comprise over 85 percent of the total U.S. active-duty military force, account for one-sixth of the annual defense budget. The high cost of maintaining a balanced and ready enlisted force underscores the need for efficient and effective management of these resources, particularly as the services move toward smaller forces. This report examines how the services (1) manage the size and composition of their enlisted forces, (2) are planning for enlisted force reductions, and (3) comply with DOD requirements for enlisted force management. Because the Navy and the Marine Corps do not keep records on key enlisted force management data submitted to DOD, GAO only reviewed the Air Force and the Army.

**Battleships:
Issues Arising From the Explosion Aboard the U.S.S. Iowa**

GAO/NSIAD-91-4, Jan. 29 (64 pages).

In the April 1989 explosion aboard the U.S.S. Iowa, 47 sailors died when bags of gun powder ignited in one of the battleship's gun turrets. GAO asked the Department of Energy's Sandia National Laboratories to review the Navy's technical analysis of the incident; the Navy had concluded that the explosion was caused by a deliberate act and not by a defect in the gun or propellant. While Sandia could neither confirm nor deny the Navy's conclusion, it did identify a plausible alternative explanation—that due to its impact sensitivity, the gun powder could have exploded as it was being rammed against the base of a shell. As a result of Sandia's findings, the Navy halted all firings of the 16-inch guns. With Sandia's help, it is doing more testing. On the basis of that testing, and because of the battleships' role in Operation Desert Shield, the Navy has lifted the firing suspension for the U.S.S. Missouri and the U.S.S.

Wisconsin. GAO found no evidence of any systemic safety or serviceability problems aboard the battleships. GAO did discover problems with the adequacy of supervisory personnel levels, including the personnel for operating the turrets, and with training for 16-inch gun operations. GAO recommends that, unless current Middle East operations convincingly demonstrate the utility of the battleships to support an amphibious assault, the Navy decommission the Missouri and the Wisconsin.

**Defense Procurement:
Not Providing Technical Data May Limit Defense Logistics Agency
Competition**

GAO/NSIAD-91-53, Jan. 30 (nine pages).

Full and open competition involves allowing all sources capable of meeting the government's needs to compete. Of the 1,047 contracts valued at over \$25,000 awarded by the Defense General Supply Center in Richmond, Virginia, during the third quarter of fiscal year 1988, less than two percent were classified as based on other than full and open competition; the rest were considered fully competitive. However, GAO found that almost half of these contracts were actually based on solicitations giving only part numbers as item descriptions. In general, GAO believes that these purchase descriptions were inconsistent with full and open competition. Although the Defense Logistics Agency has recently stopped classifying and processing solicitations as fully competitive on the basis of part numbers, other problems remain that may be causing opportunities for competition to be missed. This report discusses actions needed to ensure that Defense Logistics Agency supply centers award future contracts on the basis of full and open competition.

Testimony

Cost and Financing of Operation Desert Shield, by Charles A. Bowsher, Comptroller General of the United States, Before the House Committee on Budget. GAO/T-NSIAD-91-3, Jan. 4 (15 Pages).

The Comptroller General testified that the total U.S. cost of Operation Desert Shield could exceed \$130 billion in fiscal year 1991. This estimate consists of three components: the baseline cost of the U.S. forces committed to Desert Shield (\$100 billion); the incremental cost of mounting the operation, including troop deployment, calling up the reserves, and providing required additional support for the forces (\$30 billion); and related costs like debt forgiveness for Egypt and humanitarian assistance (\$7 billion). The first component involves funds that would be

spent whether the troops were in the Middle East or elsewhere. To date, 35 countries have furnished troops and equipment. Yet contributions to defray U.S. expenses are small relative to the total U.S. cost of the operation; DOD has reported receipt of cash contributions of about \$4.3 billion and in-kind contributions of about \$379 million. As a result of Operation Desert Shield, DOD is obligating its fiscal year 1991 appropriations at a rapid pace and will exhaust some of these funds by spring. A supplemental appropriation to cover the costs of Operation Desert Shield seems inevitable, the Comptroller General testified. Because of many uncertainties in the cost estimates, however, GAO believes that it would be inappropriate to provide a lump sum supplemental now. Instead, Congress should provide periodic appropriations during the fiscal year, as actual costs become clearer. Some of the uncertainties are (1) the unknown value of offsets like assistance in kind, including fuel and water; (2) inadequate DOD guidance on what constitutes Desert Shield costs (an important factor in any emergency appropriations under the Budget Enforcement Act); and (3) other factors like a decision to implement a rotation policy.

Natural Resources

Rangeland Management: BLM Efforts to Prevent Unauthorized Livestock Grazing Need Strengthening

GAO/RCED-91-17, Dec. 7 (16 pages).

Unauthorized livestock grazing on public rangelands—known as grazing trespass—can take several forms, including grazing more livestock than allowed by permit, grazing in areas that are closed to livestock, or grazing during unauthorized times of the year. An effective trespass program must reasonably ensure that offenders, especially willful ones, (1) will be detected and (2) when detected, will be assessed a penalty that will not only penalize them but serve as a deterrent to others. However, GAO found that the Bureau of Land Management's trespass enforcement efforts do not meet either of these requirements. Because many grazing areas are inspected infrequently or not at all, offenders are unlikely to be detected. Even when offenders are detected, BLM often exacts no penalties and—for the more serious violations—seldom assesses the minimum penalties its own regulations require. BLM staff attribute the shortfalls in trespass detection and deterrence primarily to insufficient staff levels. While more staff would undoubtedly improve performance, GAO believes that more effective and aggressive detection and deterrence are possible with existing staffing levels.

**Mineral Revenues:
Funding for the Idaho Initiative Project**

GAO/RCED-91-50, Dec. 19 (four pages).

The U.S. Geological Survey's Office of Mineral Resources seeks to identify areas having significant mineral potential. One such effort is the Idaho Initiative, a \$4.5 million, three-year study of roadless and undeveloped federal lands in Idaho. This report traces \$1 million in fiscal year 1989 expenditures for that project.

**Oregon Dunes Recreation Area:
Patenting of Mining Claims Complies With Law**

GAO/RCED-91-8, Dec. 26 (39 pages).

Under the Mining Law of 1872, U.S. citizens and businesses are allowed to locate mining claims on most federal lands and then to obtain full title to them. In 1959 mining claims were filed for silica sand along the Oregon coast—a site which in 1972 became the Oregon National Dunes Recreation Area. In October 1989, at the request of the claim holder, the federal government transferred title through the patent process to 780 acres of mining claims in this scenic area. GAO found that the federal government acted properly when it concluded that the claims contained an uncommon variety of sand and, therefore, the claims were subject to the patent provision of the Mining Law of 1872. In addition, the claim holder and the federal government complied with the legal and administrative requirements for patenting. GAO notes, however, that this situation does raise questions about the consistency of the mining law's patent provision with more recent national natural resource policies that call for the federal government to maintain ownership of federal lands and to obtain fair market value for public resources.

**Parks and Recreation:
Resource Limitations Affect Condition of Forest Service Recreation Sites**

GAO/RCED-91-48, Jan. 15 (64 pages).

The Forest Service runs the largest inventory of outdoor recreation sites in the country. About 13,000 of these sites are developed, featuring

campgrounds, picnic areas, and boating and interpretive sites. GAO estimates that the Forest Service had a \$449 million backlog of unmet maintenance and reconstruction needs at these sites, more than double the amount the agency reported in 1986. GAO developed its own estimate of the backlog because the Forest Service lacks a reliable system for monitoring or reporting on the nationwide condition and maintenance needs of its developed recreation sites. Forest Service officials attributed the backlog to a lack of personnel and funds. GAO found that little of the agency's overall recreation budget is devoted to making the needed repair, and factors like aging facilities and increased usage are compounding the problem. GAO is concerned that deferred maintenance could ultimately result in the loss of many sites. Resource limitations were only one of several factors affecting changes in the size and type and to a lesser extent the number and length of season of developed recreation sites. However, resource limitations have reduced and eliminated services like garbage collection and site cleaning. The Forest Service is now relying on volunteer and a public/private cost-share program to help compensate for limited resources. GAO believes that this strategy—while helpful—faces constraints that will limit its effectiveness in reducing the backlog.

Social Services

Refugee Resettlement: Federal Support to the States Has Declined

GAO/HRD-91-51, Dec. 21 (40 pages).

The Refugee Act of 1980 authorized federal assistance to resettle refugees in the United States on a uniform basis, regardless of their country of origin. Upwards of 900,000 refugees have entered this country over the past decade. Although funds have been appropriated since the expiration of the act in 1988, the amounts involved have declined, shifting refugee resettlement costs to state and local governments. As a result of this and diminished funds to states for job training and other services, Department of Health and Human Services assistance per refugee fell 48 percent in 1989 constant dollars—from \$6,921 to \$3,600. This report provides (1) estimates of the costs transferred from the federal government to states as a result of recent cuts in federal refugee assistance, (2) information from and views of public and private sector officials on whether recent reductions have resulted in service cutbacks to refugees, and (3) data on changes in the percentage of refugees receiving cash assistance and changes in other indicators of refugee self-sufficiency.

**Low-Income Home Energy Assistance:
States Cushioned Funding Cuts but Also Scaled Back Program
Benefits**

GAO/HRD-91-13, Jan. 24 (52 pages).

The Low Income Home Energy Assistance Program provides eligible households with assistance for home energy costs. Assistance is available to (1) help families with cooling costs, (2) prevent energy cutoffs in crisis situations, and (3) help families make their homes more energy efficient. GAO found that between fiscal years 1986 and 1989, the states—while offsetting about one-fourth of the cuts in federal funding for the program, mainly with oil overcharge funds resulting from legal settlements with major oil producers—scaled back energy assistance benefits. In addition, most states served fewer households, although 43 percent attributed the decrease to factors other than federal funding cuts, such as improved economic conditions that reduced the need for assistance. States generally complied with key program requirements by assuring the Department of Health and Human Services that they were (1) doing outreach activities, especially for the elderly and handicapped, and (2) targeting benefits to households most in need. Also, the four states GAO visited had incorporated fiscal controls to prevent erroneous payments. GAO found that in nearly all states, other government and private sector programs provide home energy assistance to low-income households. In fiscal year 1989, this assistance amounted to about \$200 million.

**Tax Policy and
Administration**

**Tax Administration:
Effectiveness of IRS' Return Preparer Penalty Program Is
Questionable**

GAO/GGD-91-12, Jan. 7 (73 pages).

Almost half the individual income tax returns filed in 1989 were done by paid return preparers. The Internal Revenue Service has had problems with what it characterizes as incompetent and unscrupulous tax return preparers who understate their clients' tax liabilities. GAO found that IRS needs to better ensure that preparers engaged in negligent or abusive tax practices are penalized. Although IRS generally assesses the right penalty once it decides to penalize a preparer, penalty cases are often not opened when potential preparer misconduct was evident on returns with at least \$5,000 in taxes owed. This limits IRS' ability to

penalize preparers who are guilty of misconduct and may weaken the agency's ability to deter preparer misconduct for the large number of returns not reviewed in IRS' examination program. IRS examiners and their supervisors said that they were reluctant to pursue the penalties because of the low dollar amounts involved. Even though preparer penalties may not yield significant revenues, GAO believes that their potential long-term effect in encouraging voluntary compliance by preparers and their clients should also be considered. GAO also found that IRS district offices sometimes assess different penalties and penalty amounts for similar misconduct. IRS referral of taxpayer preparers for disciplinary action can provide further incentives for compliance. However, the effectiveness of this process is limited because referrals are often not made when required.

Transportation

International Aviation: Implications of Ratifying Montreal Aviation Protocol No. 3

GAO/RCED-91-45, Dec. 3 (18 pages).

The U.S. government has long been dissatisfied with the low level of compensation allowed under international law for injuries or deaths resulting from international aviation accidents. Under current agreements to which the United States is a party, an airline is liable for a maximum of only \$75,000 per passenger. A new agreement—Montreal Aviation Protocol No. 3—is now before the U.S. Senate for ratification, accompanied by a plan to provide supplemental compensation for victims of international aviation disasters. Overall, GAO concludes that American victims of international aviation accidents and their families would be better compensated under Protocol No. 3 than under existing internal agreements. Claimants would no longer have to prove that the airline was at fault before they received compensation, and incentives would be provided for airlines to settle claims quickly. Claimants' costs would be reduced because in many cases a trial would be avoided. In addition, the Protocol would raise the airlines' liability limit, provide funds for additional compensation of victims, and decrease the proportion of the damage awards that go to paying claimants' legal costs. The Protocol and the plan would also increase the likelihood that Americans' lawsuits would be tried in U.S. courts if compensation offers are unsatisfactory, resulting in U.S. standards of compensation being used in determining damage awards. Finally, GAO concludes that Protocol No. 3 is

unlikely to harm airline safety. Adverse economic impacts due to aviation accidents and government safety regulations—not fear of litigation—are the primary incentives for airlines to operate safely.

**Truck Safety:
Improvements Needed in FHWA's Motor Carrier Safety Program**

GAO/RCED-91-30, Jan. 9 (28 pages).

To promote the safe operation of commercial motor vehicles, the Federal Highway Administration is required to develop a way to ensure the safety fitness of owners and operators. In October 1986, FHWA began a safety review program to educate motor carriers—persons or companies that transport goods or passengers as a business—about federal safety regulations and to rate the safety management controls that carriers have in place to comply with these regulations. GAO found that FHWA had rated about 40 percent of the interstate motor carriers in business as of May 1990. While the agency has accomplished a great deal, about 129,000 carriers still need to be rated before FHWA's established deadline of September 30, 1992. GAO believes that FHWA is unlikely to meet this deadline because (1) the universe of carriers is constantly changing (due to the entry of new carriers and carriers that merge and go out of business) and (2) FHWA has assigned a limited number of safety investigators to this task. Although 70 percent of the motor carriers assessed under the safety review program received a less than satisfactory rating, FHWA has not adequately implemented its two follow-up procedures for ensuring that carriers correct deficiencies in safety management controls—certification letters from carriers and compliance reviews. Until FHWA knows whether carriers have improved their controls, it cannot be sure that its safety review program is promoting the safe operation of commercial vehicles.

**Air Traffic Control:
Efforts to Modernize Oceanic System Delayed**

GAO/IMTEC-91-2, Jan. 16 (13 pages).

Air traffic control services in non-radar oceanic areas remain essentially unchanged from the 1950s, with oceanic air traffic controllers still manually updating flight progress on the basis of periodic radio reports received from pilots. This labor-intensive and time-consuming process results in large separation distances between aircraft, long flights, and lost opportunities for fuel savings. While FAA has started to provide

oceanic controllers with automation support, the agency's primary modernization effort—the Oceanic Display and Planning System—is still not fully operational, is over three years behind schedule, and is now more than three times the original contract cost. FAA's long-term strategy is to use satellites to provide accurate, near real-time control information on oceanic flights; however, because this strategy now relies on the successful deployment of the Oceanic Display and Planning System, the outcome of this approach is unknown.



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