

GAO

Report to the Chairman, Committee on  
Government Operations, House of  
Representatives

September 1994

# OMB'S HIGH-RISK PROGRAM

## Comments on the Status Reported in the President's Fiscal Year 1995 Budget



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United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Information  
Management Division

B-249317

September 20, 1994

The Honorable John Conyers  
Chairman, Committee on  
Government Operations  
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we examine the Office of Management and Budget's (OMB) update of its high-risk program, as presented in the President's fiscal year 1995 budget submission.<sup>1</sup> You specifically asked whether we agree with OMB's

- decision to delete 26 areas from the program and
- progress assessments on the 84 areas in the program at the beginning of 1994.

Appendix I contains background information on OMB's high-risk program and our scope and methodology for this review.

The President's fiscal year 1995 budget submission discussed 26 areas OMB deleted from its high-risk program and 84 active areas. For the 26 deleted areas, we agree with OMB's deletion decision in 8 areas, disagree in 3 areas, and have no basis for evaluating the deletion decision for 15 areas. Appendix II identifies those areas with which we agree, disagree, or have no basis to agree or disagree with OMB's deletion decision.

Of the 84 active areas on OMB's high-risk list, we agree with OMB's progress assessment for 64 areas, disagree for 3 areas, and have no basis for evaluating the assessment for 17 areas.

The following sections discuss the six areas where we disagree with OMB's deletion decision or its assessment. We obtained the information presented under the "High-Risk Area" and "Progress Reported" captions from the President's fiscal year 1995 budget submission. The "GAO Evaluation" section provides the rationale and support for our disagreement with OMB's deletion decision or assessment.

<sup>1</sup>An earlier GAO review of OMB's high-risk program, which was also conducted at your request, resulted in a report entitled *OMB's High Risk Program: Benefits Found But Greater Oversight Needed* (GAO/AFMD-92-63, August 6, 1992).

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## Areas in Which GAO Disagrees With OMB's Deletion Decision

For 3 of the 26 areas OMB deleted from its high-risk list, the corrective actions to date do not warrant OMB's deletion decision. The results of GAO, inspector general, and/or agency reviews have shown that significant problems remain in each of these areas and, until OMB and the agencies can demonstrate that efforts to address these problems have been effective, the areas should remain part of OMB's high-risk program.

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### Department of Defense— Contract Administration Controls

High-Risk Area: Contract administration controls over Department of Defense (DOD) property in the possession of private contractors are inadequate.

Progress Reported: In the budget submission, OMB reported that DOD has made significant progress in strengthening control and accountability over its contractors. Corrective actions cited include increasing control over contractor access to the DOD property management system, which, according to the budget, resulted in better monitoring of contractor reutilization and disposal of property. Also, the budget submission stated that DOD has implemented new regulations, guidance, and training programs to increase its administrative control over contractor use of DOD property.

GAO Evaluation: While DOD has taken some actions, inadequate controls over DOD property in the possession of private contractors is a long-standing problem that has not been corrected to the point that it should be deleted from OMB's high-risk program.

In July 1993, we testified<sup>2</sup> that our financial audit of the Department of the Army, conducted in response to the Chief Financial Officers Act of 1990, showed that the Army had not established property accountability and controls over \$7.4 billion in government material and equipment furnished to contractors. Similarly, our financial audit of the Department of the Air Force showed that the Air Force had paid over \$630 million for communications satellites stored by contractors that were not on the Air Force's financial or property management records.

The Secretary of Defense's most recent Federal Managers' Financial Integrity Act report, issued in March 1994, acknowledged material property accountability and financial control deficiencies concerning government equipment and material furnished to contractors. The report

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<sup>2</sup>Financial Management: DOD Has Not Responded Effectively to Serious, Long-standing Problems (GAO/T-AIMD-93-1, July 1, 1993).

stated that these and other problems "... adversely impact the ability of the Department to maintain physical control over real and personal property."

Most recently, in June 1994, the Army Audit Agency reported<sup>3</sup> that the Army had made little progress in improving financial accountability for government furnished property. The audit agency reported that the Army relied upon contractor-reported balances as the source for financial reporting, but that these balances were not segregated between the Army General Fund and the Defense Business Operations Fund. Also in June 1994, regarding this same issue, the DOD Inspector General reported<sup>4</sup> that the Army could not account for the difference between the \$16.7 billion contractors reported as government material furnished to them and the combined amount of \$10.7 billion for government furnished material shown in the Army's General Fund and Defense Business Operations Fund financial statements. The Inspector General's report concluded that such laxity in controls can subject the assets to loss.

The Inspector General also found that the Air Force reported \$112 million in loaned assets and \$848 million in assets at contractor repair facilities. Those assets, however, were not recorded correctly in the general ledger accounts and could not be reconciled to the accountable records. For example, one loan agreement showed 44 assets valued at \$24 million; however, the loan officers' accounting records indicated 24 loaned assets valued at about \$13 million, and the loan agreement folder had documentation supporting 22 loaned assets valued at \$12 million.

The corrective actions cited by OMB in the President's fiscal year 1995 budget submission, including the establishment of regulations and guidance, may be necessary first steps in strengthening controls in this area, but it is premature to delete the area from the high-risk list. All too often, our work has shown that DOD's well-intentioned regulations and guidelines simply are not followed. For example, 2 years ago we reported<sup>5</sup> that, while, according to DOD, procedures were in place for contractors to report any excess materials, at least five contractors had held excess

<sup>3</sup>Audit of the Army's FY 93 Financial Statements: Audit Opinion, U.S. Army Audit Agency, Audit Report HQ 94-450, June 30, 1994.

<sup>4</sup>Consolidated Statement of Financial Position of the Defense Business Operations Fund for FY 1993, Department of Defense, Office of Inspector General, Audit Report No. 94-161, June 30, 1994.

<sup>5</sup>Financial Management: Army Conventional Ammunition Production Not Effectively Accounted For or Controlled (GAO/AFMD-92-57, August 31, 1992).

material for several years and DOD's lack of knowledge of items held by one contractor caused a \$500,000 loss to the government.

Department of Energy—  
Weapons Complex  
Reconfiguration

High-Risk Area: The Department of Energy's (DOE) weapons complex must be reconfigured as policy decisions are made on reducing the nuclear weapons arsenal.

Progress Reported: In the budget submission, OMB reported that, since DOE does not have a current requirement to produce nuclear weapons, it now has sufficient time to reconfigure the weapons complex to meet future national security requirements. According to the budget, DOE has acted to ensure that it can produce tritium if needed. Further, it states that DOE has implemented the Capability Assurance Program to ensure that DOE maintains the necessary research, development, testing, and production technologies essential to maintaining the current stockpile, providing safety and reliability to the stockpile, and designing and producing new warheads should national security requirements so dictate.

GAO Evaluation: Weapons complex reconfiguration is a costly and continuing problem for DOE. The progress cited by OMB does not provide a basis for removing the area from its high-risk program. The magnitude of efforts needed in this area is demonstrated in DOE's fiscal year 1995 budget request which includes \$5.2 billion for National Security—almost 30 percent of DOE's budget request.

In the tritium supply area, for example, OMB stated, in commenting on a draft of this report, that "There are several options (including some that could be accomplished in less than five years) for producing additional tritium when it is needed." However, DOE's tritium supply strategy is currently focused on 4 long-range tritium production alternatives, each of which will take 12 to 15 years to complete. Further, preliminary design and construction cost estimates for two of these alternatives, the heavy-water reactor and the high-temperature reactor, are \$4.8 billion and \$5.3 billion, respectively. While DOE states that, in the event of a national emergency, a tritium producing target could be placed in an existing light-water reactor within 5 years, the Department currently has no plan for implementing

such a contingency operation nor does it have an agreement with any utility for the use of a reactor.<sup>6</sup>

Further, OMB does not address several additional major elements of this high-risk area including DOE's lack of capabilities for dismantling retired weapons and for storing weapons grade materials such as plutonium. For example, although DOE has scheduled a number of disassemblies at its Pantex facility, which is located in Texas, over the next 10 years, it faces several problems, including a shortage of disassembly technicians and problems with the adequacy of facilities for, and the environmental impact of, storing large amounts of plutonium at that facility. These problems could reduce its capability to disassemble nuclear weapons. According to DOE officials, because of these problems, the numbers and types of weapons planned for disassembly will continue to change and the prospect for meeting the disassembly schedule over the next several years is not good.<sup>7</sup>

Until DOE can demonstrate that it has adequately addressed the significant problems within this high-risk area, including not only the future tritium supply, but dismantling of nuclear weapons, disposal of excess plutonium, and decisions on what nuclear defense facilities and/or operations should be restarted, OMB should continue to report on the status of this area as part of its high-risk program.

#### Department of Justice— Bureau of Prisons Staffing

High-Risk Area: The Bureau of Prisons (BOP) has inadequate staff to operate and manage prisons.

Progress Reported: The budget submission reported that BOP's efforts to recruit, develop, and retain sufficient staff have been successful, as evidenced by the fact that the ratio of BOP staff to inmates was reduced from 1:3.9 in 1990 to 1:3.2 in 1993. It also stated that BOP is addressing medical staff recruitment and retention, which continue to present some difficulty, and that forecasts for 1995 through 1997 indicate that there are sufficient numbers of qualified candidates for most of BOP's present and future needs.

<sup>6</sup>See Nuclear Materials: Nuclear Arsenal Reductions Allow Consideration of Tritium Production Options (GAO/RCED-93-189, August 17, 1993); Nuclear Weapons Complex: Major Safety, Environmental and Reconfiguration Issues Facing DOE (GAO/T-RCED-92-31, February 25, 1992); Nuclear Weapons Complex: Issues Surrounding Consolidating Los Alamos and Lawrence Livermore National Laboratories (GAO/T-RCED-92-98, September 24, 1992); and Nuclear Weapons Complex: GAO's Views on Reconfiguring the Complex (GAO/T-RCED-92-49, April 1, 1992).

<sup>7</sup>See Nuclear Weapons: Safety, Technical, and Manpower Issues Slow DOE's Disassembly Efforts (GAO/RCED-94-9, October 20, 1993).

**GAO Evaluation:** While improvements have been made in the recruitment and retention of prison operating personnel, BOP continues to struggle with the recruitment and retention of qualified health care staff. Our work has shown that significant shortages of nurses, physician assistants, and psychiatrists in several locations have often led to quality of care problems.

In a recent study, we found that inmates with special needs, including women, psychiatric patients, and patients with chronic illnesses, were not receiving all of the health care they needed at the medical referral centers we visited. This situation existed because there were insufficient numbers of physician and nursing staff to perform required clinical and other related tasks. This understaffing resulted in physicians not always having enough time to supervise physician assistants, who provided the bulk of the primary care given to inmates, and nurses not having sufficient time to provide individual and group counseling to psychiatric patients. This in turn has resulted in some patients' conditions not improving and in other patients being left at risk of serious deterioration.<sup>8</sup>

As BOP proceeds with its plans to acquire additional medical facilities, at locations such as Carswell Air Force Base, and as it continues adding prisons to house the expanding inmate population, its medical staffing problems are likely to worsen.

BOP's continuing problems in recruiting and retaining medical staff is recognized by OMB in the budget submission. Because of the seriousness of these problems and the uncertainty of BOP's ability to fully address them in the future, we believe that this issue should remain on OMB's high-risk list.

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## Areas Where Progress Is Overstated

For three of OMB's active high-risk areas, we disagree with its progress rating of "1," which indicates that the agency made significant progress in correcting the high-risk problems. Because of the magnitude of continuing problems in each of these areas, we believe that rating is too high.

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### Office of Personnel Management— Federal Employees Health Benefits Program

**High-Risk Area:** The Federal Employees Health Benefits Program (FEHBP) has inadequate internal control standards and oversight of insurance carrier operations.

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<sup>8</sup>See Bureau of Prisons Health Care: Inmates' Access to Health Care Is Limited by Lack of Clinical Staff (GAO/HEHS-94-36, February 10, 1994).



**Progress Reported:** The budget submission reported that FEHBP management control standards and the oversight of insurance carriers' performance require strengthening. It identified problems in six areas (insurance contract administration, enrollment and premium reconciliation, administrative sanctions, audit resolution, defective pricing of community rated plans, and insurance audit cycles), and stated that progress is evident in each area. The progress reported generally includes actions such as the implementation of regulations, institution of a pilot program, and development of performance standards.

**GAO Evaluation:** Implementing regulations, conducting pilot programs, and developing performance standards can all represent valuable steps toward the resolution of the problems in this high-risk area. However, until implementation results have been tested and shown to be successful, an unacceptable degree of uncertainty about the resolution of the problems will remain.

A related issue is the problems that persist in one key area—lengthy insurance audit cycles—which have a significant effect on OPM's ability to fully resolve this high-risk area. Office of Inspector General (OIG) insurance audits generally focus on the allowability of contract charges and the recovery of appropriate credits, the effectiveness of carriers' claims adjudication systems, and the adequacy of internal controls to ensure proper contract charges and benefit payments. Because of long cycles

- audit reports are not being made available to program officials for use in identifying major internal control weaknesses and other problem areas that need to be corrected programwide;
- OPM's ability to negotiate the most favorable contract terms is inhibited because audit information available to negotiators is outdated; and
- OPM cannot make timely reviews of the costs charged to FEHBP in order to determine unallowable costs for recovery.

GAO has recommended that the insurance audit cycle be reduced to a 3 to 5-year time frame, and the OIG developed a plan to do so. As an initial step toward this goal, the OIG added two staff members to the "fee-for-service" plan audit teams by the beginning of fiscal year 1993. The OIG projected that this would reduce the average audit cycle to about 11 years in the short term and to about 9 years after the new staff gain experience. However, the OIG has subsequently reported that "With additional staffing increments not available in fiscal year 1994 and not expected in fiscal year

1995, we do not anticipate being able to reduce the cycle to what we consider an acceptable level.”

Reallocation of OIG resources to this area was another possible way to reduce the audit cycle. However, the OIG’s semiannual report to the Congress for the period ending September 30, 1993, stated that “. . . reallocation of our resources from other audit activities to insurance audits is not an option available. . . .”

Because of the importance of the audit function to FEHBP operations, OMB should not assess progress in this high-risk area as significant until the OIG further reduces the insurance audit cycle.

**Environmental Protection Agency—  
Superfund Program  
Controls**

**High-Risk Area:** The Superfund program lacks adequate controls to ensure timely cleanup of National Priorities List (NPL) sites and consistent management of the Alternative Remedial Contracting Strategy (ARCS) contracts.

**Progress Reported:** The budget submission showed that EPA reported significant improvement in accelerating cleanup of Superfund NPL sites—cleanups increased from 63 in 1991 to a total of over 200 by September 1993. It stated that EPA has standardized the remedy selection process with the use of presumptive remedial guidance and the implementation of the Superfund Accelerated Cleanup Model. The budget also cited progress in ARCS contract management, with Regional Management Teams overseeing implementation of the Administrator’s Task Force Report recommendations.

**GAO Evaluation:** EPA still faces an enormous site cleanup task. On average, it takes about a decade to clean up a site. In the 14-year history of the Superfund program, construction of the selected cleanup remedy has been completed at 224 NPL sites. The NPL currently consists of over 1,300 sites and an additional inventory of about 5,500 sites need to be evaluated to determine if they should be added to the NPL.

Because many of the efforts cited in the budget to strengthen EPA’s contract management weaknesses and speed up the Superfund cleanup process are relatively current, it is premature for OMB to conclude that they have been effective in correcting the cited problems.

We continue to have concerns with the criteria used in evaluating sites and in starting cleanups. While the timely cleanup of areas on the NPL is important, other factors (such as cleaning up the most dangerous sites first) are also important, and EPA does not adequately consider them. For example, our recent reports<sup>9</sup> noted that, in 1989, EPA established a policy and subsequently issued guidance to its regions on addressing the worst sites first. However, EPA's regions appear to have done little to implement the policy. Considerations such as the level of effort required to evaluate sites—not the risk posed to human health and the environment—determine which sites the regions evaluate first for inclusion on the NPL and which sites they begin cleaning up first.

Although EPA's actions to date and next steps, as reported by OMB, represent steps in the right direction, for reasons discussed above, they do not currently warrant a "significant progress" assessment.

Department of the  
Treasury—  
Financial Management

**High-Risk Area:** At Customs, the Operations and Maintenance (O&M) Account of the Air and Marine Interdiction Programs lacks adequate internal controls.

**Progress Reported:** In the budget submission, OMB reported that a review of the account balances of the Air and Marine program for Customs resulted in recommendations for corrective action, including improved tracking of obligations and expenditures associated with interagency agreements and related contracts. It also stated that these recommendations, as well as others from a joint Treasury/Customs task force for improving accounting policies and procedures, were incorporated into a Customs corrective action plan and implemented, and that Treasury's Office of Inspector General is verifying the implementation of the recommendations.

**GAO Evaluation:** While Customs took several significant steps to improve its internal control structure and its ability to report more reliable financial information for fiscal year 1993, our recent attempt to audit Customs' fiscal year 1993 financial statements<sup>10</sup> revealed that internal control

<sup>9</sup>Superfund: Reauthorization and Risk Prioritization Issues (GAO/T-RCED-94-250, June 24, 1994) and Relative Risk in Superfund (GAO/RCED-94-233R, June 17, 1994).

<sup>10</sup>Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994) and Financial Audits: CFO Implementation at IRS and Customs (GAO/T-AIMD-94-164, July 28, 1994).

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weaknesses relating to O&M account activity still existed during fiscal year 1993.

In one area, for example, Customs has established a system for reviewing obligations pertaining to open interagency agreements, including some relating to O&M account activity. However, as of April 1994, the agency was still reviewing open agreements for 1989. Those for 1990 to the present remain to be reviewed. Further, we found that Customs could not support \$54 million of amounts recorded as due from other agencies under interagency agreements because it did not follow the procedures it had developed to monitor detailed accounts receivable activity. For example, Customs did not reconcile its interagency agreement register—which was established to provide a detailed listing of outstanding interagency agreements and track receivable activity—to the central accounting records.

In another area, we found that Customs continued to lack adequate oversight over the contractor that manages its aircraft parts inventory. Customs minimal involvement in the acquisition, receipt, issuance, and inventorying of aircraft parts increases the potential for inventory to be stolen, destroyed, or temporarily diverted without detection. Also, Customs' reimbursements of more than \$42 million to the contractor could include O&M account costs for services that were never actually rendered because the responsible Customs official approved payments without *verifying the validity of the charges by comparing them to the goods or services received.*

Until Customs' corrective actions result in the development of more meaningful and reliable financial management information and the establishment a stronger internal control structure, an assessment that indicates that Customs has made significant progress will overstate actual conditions.

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## Agency Comments

OMB commented on a draft of this report. (See appendix III.) In that draft, we disagreed with OMB's deletion decisions and assessments for seven areas. After considering its comments, we continue to disagree with OMB's decisions in six areas because the risks remain unacceptably high and/or not enough time has passed to permit an evaluation of the effectiveness of the corrective actions taken.

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Based on OMB's comments, we dropped our disagreement with its decision to delete health care facilities construction planning process problems at the Department of Veterans Affairs (VA). However, we continue to believe that VA should develop a strategic approach to its acquisition of health delivery capacity because of its potential entry as a major managed care provider in a reformed health care system. If VA facilities are to compete as managed care plans under a national program, they would likely need to develop the capability to service women veterans and veterans' dependents, either in their own facilities or through contracts with community facilities or sharing agreements with military facilities.

If you have any questions on the above information or would like to discuss any of the areas further, please contact me at (202) 512-3406.

Sincerely yours,



George H. Stalcup  
Associate Director, Financial  
Integrity Issues

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**Abbreviations**

ARCS	Alternative Remedial Contracting Strategy
BOP	Bureau of Prisons
DOD	Department of Defense
DOE	Department of Energy
EPA	Environmental Protection Agency
FEHBP	Federal Employees Health Benefits Program
FHA	Federal Housing Administration
GAO	General Accounting Office
GNMA	Government National Mortgage Association
NPL	National Priorities List
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
O&M	Operations and Maintenance
VA	Department of Veterans Affairs

# Background, Scope, and Methodology

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## Background

OMB began its high-risk program in 1989 as part of the administration's ongoing effort to improve the management of federal agencies and programs. The program's intent is to focus attention and resources on eliminating major risks that warrant top-level agency and congressional attention. For the past 5 years, the President's budget submission has included a report on the progress made in addressing problems in high-risk areas and has identified high-risk areas being added to and deleted from the program. Inclusion of the updated list in the budget helps ensure attention to these matters and provides a tool for public accountability.

OMB's annual assessment of each area is based on its evaluations of agency-reported efforts to correct the problems. The President's fiscal year 1995 budget submission showed that OMB deleted ("D" rating) 25 areas from its high-risk list, stating that the agencies had made sufficient progress in correcting the problems. OMB also dropped one additional area (Single Audit Issues) from the list "... because unilateral action by the agency [the Department of Labor] to correct the problem is not feasible."

For the 84 active areas, the budget submission showed

- 22 areas rated "1," which indicates that the agency has made significant progress in correcting the problems, as evidenced by concrete, measurable accomplishments;
- 47 areas rated "2," which means that the agency has undertaken a serious effort to eliminate or reduce the risk to an acceptable level but cannot prove that the risk has been reduced or the problem solved;
- 8 areas rated "3," which indicates that OMB has reservations about the adequacy of agency progress and/or plans; and
- 7 areas added to the program and identified with an "A" in the budget's assessment column.

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## Scope and Methodology

To evaluate the appropriateness of OMB's decision to delete 26 areas from the high-risk program and its assessment of the 84 active high-risk areas, we compared the progress reported in the budget with the results of our prior and current audit work. As requested by your office, we did not initiate any new audits to evaluate OMB's deletion decisions or assessments.



Based on the results of the above, we either

- agreed that the assessment and progress cited reasonably represented the status of agency actions to correct the problems;
- disagreed because the assessment and progress cited overstated agency progress in correcting the problems; or
- concluded that our audit work in the specific high-risk area, if any, is not sufficient or current enough to permit an evaluation of the reasonableness of OMB's assessment or progress discussion.

Our work was performed in accordance with generally accepted government auditing standards from March through June 1994.

# GAO's Evaluation of OMB's Assessments of Areas It Deleted From the High-Risk Program

We reviewed the information presented in the President's fiscal year 1995 budget submission for each of the 26 areas OMB deleted from its high-risk program. This table shows where we agree, disagree, or have no basis to agree or disagree with OMB's deletion decision.

**Table II.1: GAO Positions on OMB's Deletion Decisions**

OMB's high-risk area	Agree	Disagree	No basis
Commerce: Computer site security is weak.			X
Defense: Contract administration controls over DOD property in private contractor possession is inadequate.		X	
Defense: Management, reporting, and budgetary controls over contracted advisory and assistance services need strengthening.			X
Education: Security of computer systems is inadequately reviewed.			X
Energy: The weapons complex must be reconfigured as policy decisions are made on reducing the nuclear weapons arsenal.		X	
Energy: Reimbursable work controls need improvement.	X		
Health and Human Services: Medicaid management systems are inadequate to estimate Medicaid costs accurately.	X		
Health and Human Services: Insufficient financial controls and inattention to management led to weaknesses in the Indian Health Service program.			X
Housing and Urban Development: Manufactured housing loans made by the Federal Housing Administration (FHA) have excessive claims against the Government National Mortgage Association's (GNMA) mortgage-backed securities program. GNMA has suffered losses due to poor underwriting practices, collateral depreciation, and limited FHA indemnification.			X
Interior: Insular governments lack adequate financial management.	X		
Interior: Long-standing deficiencies exist in the management of Bureau of Indian Affairs school facilities and dam safety.	X		
Justice: Not all prisons comply with fire and/or hazardous waste disposal codes.			X
Justice: Inadequate staff exist to operate and manage prisons.		X	

(continued)

**Appendix II  
GAO's Evaluation of OMB's Assessments of  
Areas It Deleted From the High-Risk  
Program**

<b>OMB's high-risk area</b>	<b>Agree</b>	<b>Disagree</b>	<b>No basis</b>
Labor: Federal equity in real property held by State Employment Security Agencies is at risk due to inadequate federal oversight and guidance on the acquisition, use, and disposition of real property.			X
Labor: Financial systems and operations are inadequate.			X
Labor: The Single Audit Act is not effective in safeguarding Job Training Partnership Act federal funds.	X		
State: Rehabilitation and maintenance of real property overseas is inadequate.	X		
State: Management of the overseas security program is inadequate.			X
Veterans Affairs: Veterans Benefits Administration compensation and pension benefit overpayments exist.			X
Veterans Affairs: The health care facilities construction planning process lacks design and performance standards.	X		
Veterans Affairs: The internal management controls program is weak.	X		
Agency for International Development: Automated systems which contain sensitive information are not adequately protected from disasters.			X
Federal Emergency Management Agency: The internal control program is not fully developed and implemented.			X
National Labor Relations Board: The accounting system is poor.			X
Securities and Exchange Commission: The Commission lacks a long-term disaster recovery plan for computer operations.			X
United States Soldiers' and Airmens' Home: Financial management controls are weak and financial management data are poor.			X

# Comments From the Office of Management and Budget



OFFICE OF FEDERAL  
FINANCIAL MANAGEMENT

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D. C. 20503

1994

Mr. George H. Stalcup  
Associate Director  
Financial Integrity Issues  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear George:

I appreciate the opportunity to comment on your draft report on the Office of Management and Budget's High Risk Progress Report, as presented in the President's FY1995 Budget.

The enclosure discusses OMB's views on the seven areas on which GAO disagreed with OMB's assessment of agency progress. It probably comes as no surprise that we remain comfortable with our decisions on these seven items (deleting four of the areas from the High Risk List, and giving three areas a rating of "1 -- significant progress"). While specific actions may remain outstanding for some of these high risk areas, we do not agree with GAO's view that progress in correcting these areas is overstated.

On a small issue relating to the format of the report: since Enclosure I describes the seven areas on which GAO disagrees with OMB, and Enclosure II identifies 13 areas for which GAO has no basis to evaluate OMB's decision for deletion, it would seem appropriate to include a third enclosure, listing the eight areas on which GAO agrees with OMB's deletion decision.

Thank you for considering our comments.

Sincerely,

Hal Steinberg  
Deputy Controller

Enclosure

**Appendix III  
Comments From the Office of Management  
and Budget**

**OMB Response: GAO Disagreement with OMB Deletion Decision on Four Areas**

- Defense: Contract administration controls over DOD property in private contractor possession inadequate.

As reported in the budget, DOD has made sufficient progress in strengthening control and accountability over its contractors to warrant deletion of this item from the High Risk List. DOD has issued new regulations and guidance, such as the DOD Manual for the Performance of Contract Property Administration, and implemented education and training courses. In addition, contract administration was centralized under the Defense Contract Management Command. As a result, the following progress has been made:

- increased control over contractor access to the DOD property management system and better monitoring of contractor reutilization and disposal of DOD property; and
- increased control over contractor use of DOD property.

DOD will continue its management oversight of contract administration controls without the high risk designation. However, OMB recognizes there are continuing problems associated with this area and will work with DOD on corrective measures.

- Energy: Weapons complex must be reconfigured as policy decisions are made on reducing the nuclear weapons arsenal.

Since the U.S. is no longer producing nuclear weapons, weapons activities are not a "huge part of DOE's budget" as GAO claims in the draft report. Activities related to support of the weapons stockpile (excluding R & D and environmental cleanup) account for less than nine percent of DOE's discretionary budget. Many of the issues raised by GAO can be examined within the high risk area on environmental management.

Further, tritium production is not considered a high risk issue, because there is enough tritium for all the weapons in the projected stockpile through 2014. There are several options (including some that could be accomplished in less than five years) for producing additional tritium when it is needed. DOE is proceeding apace to consider those options.

- Justice -- Bureau of Prisons: Inadequate staff to operate and manage prisons.

While staffing concerns continue to exist in specific areas such as medical services, the overall problem that was identified as a high risk area -- "inadequate staff to operate and manage prisons" -- is less of a concern than in years past. While continued vigilance by the Department of Justice in monitoring staffing as an area of significant concern is appropriate, personnel issues in selected specialty areas within

Appendix III  
Comments From the Office of Management  
and Budget

the Bureau of Prisons does not warrant overall monitoring as one of the top management problems at Justice.

- Veterans Affairs: Health care facilities construction planning process lacks design and performance standards.

OMB's decision to delete this high risk area was based on the progress report provided by the Department, in which all corrective actions were reported completed. OMB concurred with the Department's determination that further refinements to the planning model would not be cost effective, since the collection of the proposed new demographic data might not materially affect decision making. Further, the independent evaluation conducted by the VA determined that the planning model was workable. The VA Office of Inspector General concurred in this assessment.

Issues raised by GAO concerning the potential impact of health care reform and potential changes to the demand for VA-provided health care go beyond the focus of this high risk area. OMB agrees that application of the planning model in specific instances at this time might not be prudent in light of proposed changes to the entire system. This, however, does not obviate the fact that VA completed the agreed-upon corrective actions to the current construction planning process (which was first identified as a high risk area in 1989). Whether this model ought to be used to plan improvements to or construct new facilities now, when, as GAO asserts, other alternatives exist, is a different issue.

**OMB Response: GAO Disagreement with OMB Assessment of Three Active High Risk Areas**

- Office of Personnel Management -- Federal Employee Health Benefits Program: Inadequate internal control standards and oversight of insurance carrier operations. [OMB assessment: 1 -- significant progress].

OMB's assessment of OPM's efforts to improve management controls in the FEHB program, covering six distinct problem areas, concluded that OPM has many implementation actions well underway (some will be completed in 1994). This assessment was based on the written progress report provided by OPM, briefings and discussions with OPM staff, and consultation with the OIG.

GAO appears to be basing its disagreement with this assessment on one of the six problem areas: reducing audit cycles on insurance carriers. (As the high risk description states, this component of the entire FEHB high risk area was added in 1993, after agreement by OPM management, the OIG and OMB that this issue needed additional attention.) GAO notes the OIG's assertion that "reallocation of audit resources from other audit activities to insurance audits is not an available option." OMB, however, is concerned that past increases in staffing for the OIG for the purpose of enhancing insurance audits and reducing the audit cycle may not have been applied in the manner intended. Recent data show that between 1990 and 1995 the

Appendix III  
Comments From the Office of Management  
and Budget

OIG received 52 additional FTE, of which 15 (29 percent) were to be allocated to reducing the audit cycle. Yet data provided by the OIG related to on-board staff in 1990 and 1994 show that only 6 of those FTE had actually been utilized in this manner.

OMB does not believe that the OIG staffing issue is a fair basis for GAO's disagreement with an assessment that significant progress to correct the overall high risk has been made.

- Environmental Protection Agency -- Superfund: Program lacks adequate controls to ensure timely cleanup of National Priorities List sites and consistent management of the Alternative Remedial Contracting Strategy contracts. [OMB assessment: 1 -- significant progress].

GAO's disagreement with OMB's assessment appears to be due to an unrealistically high standard. EPA will never be able to prove to a certainty that its corrective actions will succeed years into the future. In addition, GAO appears to define the risk involved as far broader than inadequate controls. OMB's high risk area does not include statutory problems that have hindered timely cleanup of NPL sites. GAO's position, which admits that EPA has made progress but dismisses it as not "significant," is like calling a glass half empty instead of half full.

- Treasury -- Customs: Operations and Maintenance Account, Air and Marine Interdiction Programs lack adequate internal controls. [OMB assessment: 1 -- significant progress].

OMB, Treasury, and the OIG believe that Customs has made significant progress in improving its accounting system and reducing risk. The corrective actions, both planned as well as implemented, will reduce risk to an acceptable level. Therefore, sufficient progress has been made in this area to warrant a rating of "1."

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